ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

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Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-10; ASU 2017-14, Amendments to SEC Paragraphs in Topic 2020, Topic 605 and Topic 606 (Attachment One-C10)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-11; ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842) (Attachment One-C11)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-25; Working Capital Finance Notes (Attachment One-C12)
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Statutory Accounting Principles (E) Working Group, May 5, 2020, E-Vote Minutes (Attachment One-D)
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Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-12; Reference Rate Reform (Attachment One-F2)
Interpretation of the Statutory Accounting Principles (E) Working Group; INT 20-01: ASU 2020-04 – Reference Rate Reform (Attachment One-F3)


Interpretation of the Statutory Accounting Principles (E) Working Group; INT 20-03: Troubled Debt Restructuring Due to COVID-19 (Attachment One-F5)

Interpretation of the Statutory Accounting Principles (E) Working Group; INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19 (Attachment One-F6)

Statutory Accounting Principles (E) Working Group, March 26, 2020, Minutes (Attachment One-G)

Statutory Accounting Principles (E) Working Group, March 18, 2020, Minutes (Attachment One-H)

Statutory Accounting Principles (E) Working Group, January 8, 2020, Minutes (Attachment One-H1)

NAIC Accounting Practices and Procedures Manual Editorial and Maintenance Update; Ref #2019-44EP (Attachment One-H1a)

Comment Letter Dated October 11, 2019, to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, from Interested Parties Regarding Exposure Draft Ref #2019-21; SSAP No. 43R – Equity Instruments Released for Comment (Attachment One-H1b)

Comments Received on Previously Exposed Items (Attachment One-H2)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2018-26; SCA Loss Tracking – Accounting Guidance (Attachment One-H3)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2018-38; Prepayments to Service and Claims Adjusting Providers (Attachment One-H4)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-32; Look-Through with Multiple Holding Companies (Attachment One-H5)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-35; Update Withdrawal Disclosures (Attachment One-H6)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-43; ASU 2017-11, Financial Instruments with Down Round Features (Attachment One-H7)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-45; ASU 2013-11, Presentation of an Unrecognized Tax Benefit (Attachment One-H8)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-48; Disclosure Update for Reciprocal Jurisdiction Reinsurers (Attachment One-H9)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-46; ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Attachment One-H10)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-08; Update Reporting Deposit-Type Contracts (Attachment One-H11)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-40; Reporting of Installment Fees and Expenses (Attachment One-H12)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-33; SSAP No. 25—Affiliates and Other Related Parties – Disclosures (Attachment One-H13)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-39; Acceptable Collateral – Counterparty Exposure for Derivative Instruments (Attachment One-H14)

Comments Received on Previously Exposed Items for Discussion at the Statutory Accounting Principles (E) Working Group March 18, 2020, Meeting (Attachment One-I)

Comments Received on Previously Exposed Items (Attachment One-J)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-38; Financing Derivatives (Attachment One-K)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-01; Update/Remove References to SVO Listings (Attachment One-L)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-04; Commissioner Discretion in the Valuation Manual (Attachment One-M)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-05; Repeal of Affordable Care Act Section 9010 Assessment (Attachment One-N)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-13; Health Industry Request on 2020 Health Insurance Assessment (Attachment One-O)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-16EP; Accounting Practices and Principles Manual Editorial and Maintenance Update (Attachment One-P)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2019-04; SSAP No. 32—Preferred Stock – Investment Classification Project (Attachment One-Q)

Statutory Issue Paper No. 164—Preferred Stock (Attachment One-R)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-02; Accounting for Bond Tender Offers (Attachment One-S)
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2020-03; Enhanced Goodwill Disclosures (Attachment One-T)
Interpretation of the Statutory Accounting Principles (E) Working Group, INT 20-09: Basis Swaps as a Result of the LIBOR Transition (Attachment One-U)
Memorandum to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, From Kevin Fry, Chair of the Valuation of Securities (E) Task Force, Dated May 29, 2020, Regarding Referral to the Statutory Accounting Principles (E) Working Group Requesting Affirmation that Non-Conforming Credit Tennant Loan (CTL) Transactions that Relied Upon Credit Ratings are Included in SSAP No. 43R—Loan-Backed and Structured Securities and Have the Characteristics of a Bond if Assigned an NAIC Designation by SVO Staff. (Attachment One-V)
Memorandum to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, From Commissioner Scott A. White (VA), Chair of the Financial Condition (E) Committee, Dated June 12, 2020, Regarding Referral Regarding Reporting of “Basis” Swaps (Attachment One-W)
Accounting Practices and Procedures (E) Task Force 2021 Proposed Charges (Attachment Two)
Accounting Practices and Procedures (E) Task Force July 22, 2020, Minutes (Attachment Three)
Comments Received on Previously Exposed Items (Attachment Three-A)
Accounting Practices and Procedures (E) Task Force June 22, 2020, Minutes (Attachment Four)
Blanks (E) Working Group May 28, 2020, Minutes (Attachment Four-A)
  Blanks (E) Working Group Agenda Item Submission Form 2019-27BWG; Effective Annual 2020; Remove Alphabetic Index from Inclusion at Back of Annual Statement Blank, Instructions and Blanks (E) Working Group Web page (Attachment Four-A1b)
  Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the December 17, 2019, Meeting (Attachment Four-A1c)
  Blanks (E) Working Group Agenda Item Submission Form 2019-25BWG Modified; Effective Annual 2020; Modify Instruction for Column 10 (Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-Out Supplement) to Remove Instruction to Exclude Adjusting and Other Reserves from the Column and Add Instruction Include Along with the Defense and Cost Containment Reserves; Add New Instruction for Column 12 for Same Schedules; Add Crosschecks to Schedule P, Part 1 (Attachment Four-A2)
  Blanks (E) Working Group Agenda Item Submission Form 2019-28BWG; Effective Annual 2020; Modify the Instruction for Supplemental Investment Risk Interrogatories Lines 13.02 through 13.11 Clarifying When to Identify the Actual Equity Interests Within a Fund and Aggregate those Equity Interests for Determination of the Ten Largest Equity Interests (Attachment Four-A3)
  Blanks (E) Working Group Agenda Item Submission Form 2019-29BWG; Effective Annual 2020; Modify the Instruction and Blank for Supplemental Investment Risk Interrogatories Question 14.01 (Attachment Four-A4)
  Blanks (E) Working Group Agenda Item Submission Form 2019-30BWG Modified; Effective Annual 2020; Consider Revisions to the Appropriate Reinsurance Schedules and Instructions to Collect Relevant Information Regarding Reinsurance Transactions Following Adopted Revisions to the Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) (Attachment Four-A5)
  Blanks (E) Working Group Agenda Item Submission Form 2020-01BWG; Effective Annual 2020; Add Crosschecks to Lines 13 and 14 of the State Page to Lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1; Add Crosschecks to Lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, Line 61 (Attachment Four-A6)
  Blanks (E) Working Group Agenda Item Submission Form 2020-03BWG Modified; Effective Annual 2020; Modify the Instruction and Illustration for 13(11) to the Notes to Financial Statement; Change the Numbering from 1 through 13 to A through M (Attachment Four-A7)
  Blanks (E) Working Group Agenda Item Submission Form 2020-04BWG; Effective Annual 2020; Modify the Instruction and Illustration for Note 23A – Unsecured Reinsurance Recoverables (Attachment Four-A8)
Blanks (E) Working Group Agenda Item Submission Form 2020-05BWG Modified; Effective Annual 2020; Modify the Instruction and Illustration for Note 2 – Accounting Changes and Correction of Errors (Attachment Four-A9)

Blanks (E) Working Group Agenda Item Submission Form 2020-07BWG; Effective Annual 2020; Add New Disclosure Note 23 – Reinsurance for Reinsurance Credit (23H – Life/Fraternal, 23E Health and 23K Property) (Attachment Four-A10)

Blanks (E) Working Group Agenda Item Submission Form 2020-08BWG Modified; Effective Annual 2020; Add Disclosure Instruction for 10C to Notes to Financial Statement for Related Party Transactions not Captured on Schedule Y; Combine Existing 10C into 1B Instructions and Illustration Narrative (Attachment Four-A11)

Blanks (E) Working Group Agenda Item Submission Form 2020-09BWG; Effective Annual 2020; Modify the Annual Statement Instructions for Schedule F, Part 3 to Reflect the Factors for all Uncollateralized Reinsurance Recoverable from Unrated Reinsurers be the Same for Authorized, Unauthorized, Certified and Reciprocal Reinsurance (Attachment Four-A12)

Blanks (E) Working Group Agenda Item Submission Form 2020-10BWG; Effective Annual 2020; Variable Annuities Supplement Blank: Changing Header for Column 10; Changing Lines 1-3 and Adding Line 4; Variable Annuities Supplement Instructions: Adjusting Instructions to Correspond with Changes Made to the Blanks and the 2020 Valuation Manual for the New VA Framework (Attachment Four-A13)

Blanks (E) Working Group Agenda Item Submission Form 2020-11BWG; Effective Annual 2020; Changes to VM-20 Reserves Supplement Blanks and VM-20 Reserves Supplement Instructions (Attachment Four-A14)

Blanks (E) Working Group Agenda Item Submission Form 2020-12BWG; Effective Annual 2020; The Proposal will Require Appointed Actuaries to Attest to Meeting Continuing Education (CE) Requirements and Participate in CAS/SoA CE Review Procedures, if Requested (Attachment Four-A15)

Blanks (E) Working Group Agenda Item Submission Form 2020-13BWG Modified; Effective Annual 2020; Remove Line 24.04 from General Interrogatories, Part 1 and Renumber Remaining Lines for Interrogatory Question 24. Modify Lines 24.05 and 24.06 to Require Reporting Amounts for Conforming and Non-Conforming Collateral Programs (Attachment Four-A16)

Blanks (E) Working Group Agenda Item Submission Form 2020-14BWG Modified; Effective Annual 2020; Modify Columns and Rows on the Blank Pages for Long-Term Care Experience Reporting Forms 1 through 5 and Make Appropriate Changes to the Instructions (Attachment Four-A17)

Blanks (E) Working Group Agenda Item Submission Form 2020-15BWG Modified; Effective Annual 2020; New Private Flood Insurance Supplement Collecting Residential and Commercial Private Flood Insurance Data and Revisions to the Credit Insurance Experience Exhibit (CIEE) to Collect Lender-Placed Flood Coverages (Attachment Four-A18)

Blanks (E) Working Group Agenda Item Submission Form 2020-16BWG Modified; Effective Annual 2020; Modify Questions 3.1 and 3.2 of General Interrogatories Part 2 and Provide Instructions for Questions (Attachment Four-A19)

Blanks (E) Working Group Agenda Item Submission Form 2020-17BWG; Effective Annual 2020; Adjust the AVR Presentation to Include Separate Lines for Each of the Expanded Bond Designation Categories (Attachment Four-A20)

Blanks (E) Working Group Agenda Item Submission Form 2020-18BWG Modified; Effective Annual 2020; Clarify the Instructions for What Funds Reported on Schedule D, Part 2, Section 2 (Annual Filing) and Schedules D, Part 3 and 4 (quarterly filing) must have NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol; Modify References to the Purposes and Procedures Manual of the NAIC Investment Analysis Office Found in the Investment Instructions in the Annual and Quarterly Statement Instructions (Attachment Four-A21)

Blanks (E) Working Group Agenda Item Submission Form 2020-19BWG Modified; Effective Annual 2020; Add a Code of “%” to the Code Column for all Investments Which have been Reported in Schedule DA, Part 1 and Schedule E, Part 2 for More than One Consecutive Year; Add Certification to the General Interrogatories, Part 1 Inclusion of These Investments on Schedule DA, Part 1 and Schedule E, Part 2; (Attachment Four-A22)

Blanks (E) Working Group Agenda Item Submission Form 2020-20BWG Modified; Effective Annual 2020; For Schedule D, Part 1, add Code “10” to Column 26 – Collateral Type for Ground Lease Financing; Renumber “Other” Code to 11 (Attachment Four-A23)

Blanks (E) Working Group Agenda Item Submission Form 2020-21BWG Modified; Effective Annual 2020; Add New Line 4.05 for Valuation Allowance for Mortgage Loans to the Summary Investment Schedule and Renumber Existing Line 4.05 to 4.06; Modify the Instructions to Include a Crosscheck for New Line 4.05 Back to Schedule B – Verification Between Years; Clarify the Instructions for 4.01- 4.04 to Explicitly Show Crosschecking to Column 8 of Schedule B, Part 1 (Attachment Four-A24)
Blanks (E) Working Group Agenda Item Submission Form 2020-23BWG Modified; Effective Annual 2020; Add Footnote to Exhibit 5 (Life/Fraternal & Health – Life Supplement) and Exhibit 3 Separate Accounts (Attachment Four-A25)
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the May 28, 2020, Meeting (Attachment Four-A26)
The Accounting Practices and Procedures (E) Task Force met via conference call Aug. 3, 2020. The following Task Force members participated: Kent Sullivan, 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 Mel Anderson (AR); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by Kathy Belfi (CT); Karima M. Woods represented by N. Kevin Brown (DC); David Altmaier represented by Virginia Christy and Carolyn Morgan (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Nathan Faragher (ID); Stephen W. Robertson and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither and Bill Clark (KY); James J. Donelon represented by Stewart Guerin (LA); Gary Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Causey represented by Monique Smith (NC); Jon Godfread represented by Matt Fischer (ND); Bruce R. Ramge represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Doug Bartlett (NH); Marlene Caride represented by Diana Sherman (NJ); Russell Toal represented by Robert Doucette (NM); Linda A. Lacewell represented by Robert Kasinow (NY); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Jessica K. Altman represented by Kimberlyn Rankin (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. Deiter represented by Johanna Nickelson (SD); Hodgen Mainda represented by Troy Hancock (TN); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and David Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark Afable represented by Amy Malm (WI); James A. Dodrill represented by Jamie Taylor (WV); and Jeff Rude represented by Linda Johnson (WY).

1. **Adopted its July 22, June 22, and 2019 Fall National Meeting Minutes**

Ms. Walker directed the members to the Task Force’s July 22, June 22 and 2019 Fall National Meeting minutes. During the July 22 meeting, the Task Force adopted revisions to Interpretation (INT) 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends. These revisions were requested by the Financial Condition (E) Committee to add flexibility, which allows a limited-time exception to apply other underwriting expense treatment for certain policies.

During its June 22 meeting, the Task Force took the following action: 1) adopted the report of the Statutory Accounting Principles (E) Working Group for its actions on June 15, May 20, April 15 and March 18; 2) adopted INT 20-08 as adopted by the Statutory Accounting Principles (E) Working Group on June 15 by a separate vote of the Task Force; and 3) adopted the May 28 report of the Blanks (E) Working Group.

Mr. Doucette made a motion, seconded by Mr. Kasinow, to adopt the Task Force’s July 22 (Attachment Three), June 22 (Attachment Four), and Dec. 8, 2019, (see NAIC Proceedings – Fall 2019, Accounting Practices and Procedures (E) Task Force) minutes. The motion passed unanimously.

2. **Adopted its 2021 Proposed Charges**

Ms. Walker directed the Task Force to the Task Force’s 2021 proposed charges. Robin Marcotte (NAIC) stated that the Task Force oversees the activities of the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group. She stated that the 2021 proposed charges of the working groups reflect the ongoing nature of their work, and they are the same as 2020 except for one revised charge for each working group.

Ms. Marcotte stated that for the Blanks (E) Working Group, the proposed revision is to update the charge to review requests to the investment schedules and instructions. She noted that the charge is the same, just the name of the referenced group is proposed to be updated from the Investment Risk Based Capital (E) Working Group to the Capital Adequacy (E) Task Force and its working groups. She stated that this is because all of the risk-based capital (RBC) working groups could potentially propose revisions.
Ms. Marcotte stated that for the Statutory Accounting Principles (E) Working Group, the charge related to updating the reinsurance Schedule F and related revisions to reflect the changes to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) has been addressed. She said the updates were initiated by the Statutory Accounting Principles (E) Working Group and adopted by the Blanks (E) Working Group, along with a very minor edit to the statutory accounting. She noted that statutory accounting includes impairment guidance, so no revisions were drafted regarding doubtful accounts. She stated that the charge is proposed for deletion, as the revisions to address the model changes are complete.

Ms. Malm made a motion, seconded by Ms. Nickelson, to adopt the Task Force’s 2021 proposed charges (Attachment Two).


Mr. Bruggeman provided the July 30 report of the Statutory Accounting Principles (E) Working Group. He said the Working Group adopted its July 15, June 15, May 20, May 5, April 17, April 15, March 26 and March 18 minutes.

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

a. *Statement of Statutory Accounting Principles (SSAP) No. 32R—Preferred Stock:* Adopted substantively revised SSAP No. 32R and corresponding Issue Paper No. 164—Preferred Stock, which updates the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project. Revised SSAP No. 32R is effective Jan. 1, 2021. (Ref #2019-04)

b. *SSAP No. 106—Affordable Care Act Section 9010 Assessment:* Revisions supersede SSAP No. 106 and nullify INT 18-02: ACA Section 9010 Assessment Moratoriums. With this adoption, a blanks proposal will be sponsored to incorporate reporting changes for 2021 reporting and recommend guidance for 2020 year-end reporting. (Ref #2020-05)

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

a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:* Revisions update the reporting line for qualifying cash pools and make clarifying edits. (Ref #2020-16EP)

b. *SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock:* Revisions eliminate references to the NAIC Bond Fund List (Bond List) in SSAP No. 26R and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R. (Ref #2020-01)

c. *SSAP No. 26R:* Revisions clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a called bond or a tender offer, shall be similarly applied. This adoption has a Jan. 1, 2021, effective date with early adoption permitted. (Ref #2020-02)

d. *SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 54R—Individual and Group Accident and Health Contracts:* Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the Valuation Manual, shall be reported as a change in valuation basis. (Ref #2020-04)

e. *SSAP No. 68—Business Combinations and Goodwill:* Revisions add disclosure elements for reported goodwill. The additional disclosures will improve the validity and accuracy of the financial statements, and they will assist with state insurance regulators’ review of reported assets that are not readily available for policyholder claims. These disclosure revisions will be effective for the 2021 reporting year to correspond with blanks changes. (Ref #2020-03)

f. *SSAP No. 86—Derivatives:* Revisions ensure reporting consistency in that derivatives are reported “gross”; i.e., without the inclusion of financing components. Additionally, amounts owed to/from the reporting entity from the acquisition or writing of derivatives shall be separately reflected. The concepts are consistent with existing statutory
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accounting guidelines, but the revisions clarify the guidance and improve uniform application. The revisions have an effective date of Jan. 1, 2021. (Ref #2019-38)

g. Appendix B—Interpretations of Statutory Accounting Principles: INT 20-09: Basis Swaps as a Result of the LIBOR Transition basis swaps are compulsory derivatives issued by central clearing parties (CCPs) in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR). The interpretation directs that the basis swaps be reported as "hedging - other" and at fair value, thus qualifying for admittance. To be considered or reported as an "effective" hedging, the instrument must qualify as a highly effective hedge under SSAP No. 86.

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

a. SSAP No. 2R: Revisions require the identification/disclosure of cash equivalents, or substantially similar investments, that remain on the same reporting schedule for more than one consecutive reporting period. This is an expansion of the current disclosure requirements that only referenced short-term investments and a clarification that the disclosure is satisfied through the use of the code on the investment schedules. (Ref #2020-20)

b. SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements and SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities: Revisions update the amortization guidance for leasehold improvements. The updated language will allow leasehold improvements to have lives that match the associated lease term, which agrees with U.S. Generally Accepted Accounting Principles (GAAP). (Ref #2020-23)

c. SSAP No. 25—Affiliates and Other Related Parties: Revisions clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation, a disclaimer of control does not eliminate the classification as a related party, and disclosure of material transactions are required under SSAP No. 25. The revisions also propose rejection of several U.S. GAAP standards addressing variable interest entities, and update the related party disclosures. (Ref #2019-34)

d. SSAP No. 26R: Revisions clarify that perpetual bonds shall be reported at fair value, not to exceed any currently effective call price, with a proposed effective date of Jan. 1, 2021, with early application permitted. (Ref #2020-22)

e. SSAP No. 37—Mortgage Loans: Revisions clarify that a participant’s financial rights in a mortgage participation agreement may include the right to take legal action against the borrower or participate in the determination of legal action, but they do not require that the participant has the right to solely initiate legal action; foreclosure; or under normal circumstances, require the ability to communicate directly with the borrower. (Ref #2020-19)

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


2. Exposed agenda item to solicit comments on two options for the accounting of credit tenant loans (CTLs). The Valuation of Securities (E) Task Force will be notified of this exposure with a request for further confirmation that a Securities Valuation Office (SVO)-Listing could be developed to capture the CTLs that meet the SVO’s structural and legal analysis and possess bond characteristics. (Ref #2020-24)

g. SSAP No. 53—Property and Casualty Contracts—Premiums, SSAP No. 54R, and SSAP No. 66—Retrospectively Rated Contracts: Exposed agenda item with a request for comments on the development of authoritative guidance for policyholder refunds and other premium adjustments for accident and health and property and casualty lines of business. Assistance from industry was requested in developing principles-based guidance, particularly for the varieties of data-telematics policies. (Ref #2020-30)

h. SSAP No. 71—Policy Acquisition Costs and Commissions: Exposed revisions clarify existing levelized commissions guidance, which requires full recognition of the funding liabilities incurred to date for commission expenses prepaid on behalf of an insurer. The revisions also clarify that the recognition of commission expense is based on experience
to date. The exposed revisions are consistent with the 2019 Fall National Meeting exposure, with the inclusion of guidance to clarify that reporting entities that have not complied with the original intent shall reflect the change as a correction of an error, in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors, in the year-end 2020 financial statements. (Ref #2019-24)

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

1. Revisions update the subsidiary, controlled and affiliated entities (SCA) review process descriptive language and the procedures for availability and delivery of completed SCA reviews for domestic regulators and financial statement filers. (Ref #2020-17)

2. Revisions remove the statement that guarantees or commitments from the insurance reporting entity to the SCA can result in a negative equity valuation of the SCA. (Ref #2020-18)

j. Appendix B—Interpretations of Statutory Accounting Principles: Exposed revisions to extend the following interpretations issued in response to COVID-19 to the third quarter 2020 financial statements. With these revisions, these interpretations will expire Dec. 30; therefore, they will not be applicable for year-end 2020. The exposure has a shortened comment period ending Aug. 14. Adoption of these extensions may be considered by an e-vote if there are no concerns with the extensions received during the exposure period:

2. INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19
3. INT 20-05: Investment Income Due and Accrued

k. Appendix D—Nonapplicable GAAP Pronouncements: The following U.S. GAAP standards were rejected as not applicable to statutory accounting:

1. ASU 2015-10, Technical Corrections and Improvements. (Ref #2020-26)
2. ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date. (Ref #2020-27)
3. ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. (Ref #2020-28)
4. ASU 2020-05—Effective Dates for Certain Entities. (Ref #2020-29)

l. Exposed the following editorial revisions to statutory accounting: (Ref #2020-25EP)

1. SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets: Removed redundant paragraph references.
2. SSAP No. 62R—Property and Casualty Reinsurance: Added a table that lists the questions addressed in Exhibit A - Implementation Questions and Answers.

Mr. Bruggeman noted that the Working Group rejected agenda item 2020-13: Health Industry Request on 2020 Health Insurance Assessment without statutory revisions. (Note that the sponsor requested withdrawal). (Ref #2020-13)

Mr. Bruggeman stated that the Working Group received an update and determined that the following two interpretations, issued in response to COVID-19, are specifically tied to the timeframes described in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As such, an extension was not deemed necessary at this time.

a. INT 20-03: Troubled Debt Restructuring Due to COVID-19
b. **INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19**

Mr. Bruggeman noted that the Working Group received an update that the issue paper to consider substantive revisions to SSAP No. 43R was exposed through July 31, and a subsequent conference call will be scheduled to consider comments and continue the discussion. It was also noted that NAIC staff have had ongoing conversations with industry representatives and investment providers to discuss differing structures during the exposure period. (Ref #2019-21)

Mr. Bruggeman stated that the Working Group deferred discussion of the following agenda items for a subsequent call or meeting:

a. Ref #2018-07: Surplus Note Accounting – Referral from the Reinsurance (E) Task Force

b. Ref #2019-12: *ASU 2014-17, Business Combinations, Pushdown Accounting*

c. Ref #2019-49: Retroactive Reinsurance Exception

Mr. Bruggeman stated that the Working Group received an update on two referrals:

a. Referral from the Valuation of Securities (E) Task Force regarding the accounting and reporting treatment of CTLs is being addressed in agenda item Ref #2020-24.

b. Referral from the Financial Condition (E) Committee regarding an American Council of Life Insurers’ (ACLI) request relative to the accounting treatment of certain “basis swaps” permitted under state law, as a result of the transition away from LIBOR. This referral was addressed with the adoption of INT 20-09.

Mr. Bruggeman stated that the Working Group received an update on current U.S. GAAP exposures/invitations to comment.

Mr. Bruggeman noted that, with the exception of INT 20-02, INT 20-04 and INT 20-05, which have a comment deadline of Aug. 14, the comment deadline for all exposed agenda items is Sept. 18.

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

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call July 30, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair, and Kevin Clark (IA); Sheila Travis (AL); Kim Hudson (CA); Kathy Belfi and William Arfanis (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Tom Dudek (NY); Joe DiMemmo (PA); Shawn Frederick (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating was: Eli Snowbarger (OK).

1. Adopted its July 15, June 15, May 20, May 5, April 17, April 15, March 26 and March 18 Minutes

Ms. Malm made a motion, seconded by Mr. Moser, to adopt the Working Group’s July 15 (Attachment One-A), June 15 (Attachment One-B), May 20 (Attachment One-C), May 5 (Attachment One-D), April 17 (Attachment One-E), April 15 (Attachment One-F), March 26 (Attachment One-G) and March 18 (Attachment One-H) minutes. The motion passed unanimously.

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

The Working Group held a public hearing to review comments (Attachments One-I and One-J) on previously exposed items.

Mr. Hudson made a motion, seconded by Ms. Mears, to adopt the statutory accounting revisions detailed below as non-contested statutory accounting revisions. This motion also included the rejection, without statutory revisions, of agenda item 2020-13. The motion passed unanimously.

a. Agenda Item 2019-38

Mr. Bruggeman directed the Working Group to agenda item 2019-38: Financing Derivatives (Attachment One-K). Julie Gann (NAIC) stated that this nonsubstantive agenda item requires the gross reporting of derivatives, without the impact of financing premiums. The agenda item also requires that premiums payable or premiums receivable be separately reported. The revisions to Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives have corresponding annual statement revisions to capture derivative financing components in the calculation of net derivative exposure. Ms. Gann stated that this inclusion will affect the risk-based capital (RBC) for life entities. The revisions have a Jan. 1, 2021, effective date to correspond with the annual statement revisions.

b. Agenda Item 2020-01

Mr. Bruggeman directed the Working Group to agenda item 2020-01: Update/Remove References to SVO Listings (Attachment One-L). Jim Pinegar (NAIC) stated that this nonsubstantive agenda item reflects a Valuation of Securities (E) Task Force notice regarding two adopted revisions to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). He stated that the Task Force renamed the “U.S. Direct Obligations/Full Faith and Credit Exempt List” to the “NAIC U.S. Government Money Market Fund List.” He noted that no revisions to the statutory accounting principles (SAPs) would be required for this revision, as this list is not specifically identified in the Accounting Practices and Procedures Manual (AP&P Manual). He stated that the second revision was to discontinue the “NAIC Bond Fund List.” He noted that items on this list would be eligible for consideration in the “NAIC Fixed Income-Like SEC Registered Funds List.” The discontinuance of the “NAIC Bond Fund List” required updates to eliminate references to it in SSAP No. 26R—Bonds while adding reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R—Unaffiliated Common Stock.

c. Agenda Item 2020-04

Mr. Bruggeman directed the Working Group to agenda item 2020-04: Commissioner Discretion in the Valuation Manual (Attachment One-M). Robin Marcotte (NAIC) stated that this agenda item incorporates a disclosure on the use of commissioner discretion when choosing between acceptable methods permitted in the Valuation Manual. She stated that the nonsubstantive
Disclosure revisions are reflected in SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 54R—Individual and Group Accident and Health Contracts. Pursuant to commissioner approval, a reporting entity has the ability to choose one allowable reserving methodology over another; accordingly, the revisions require that any modifications be disclosed as a change in valuation basis.

d. Agenda Item 2020-05

Mr. Bruggeman directed the Working Group to agenda item 2020-05: Repeal of the Affordable Care Act Section 9010 Assessment (Attachment One–N). Ms. Marcotte stated that the federal Affordable Care Act (ACA) Section 9010 assessment has had more than one deferral or moratorium, as addressed in Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratorium. She stated that in December 2019, the U.S. House of Representatives (House) and U.S. Senate (Senate) passed bills repealing Section 9010 assessments for calendar years beginning Jan. 1, 2021. She stated that the agenda item addresses the substantive impacts of the Section 9010 assessment repeal for calendar years beginning on Jan. 1, 2021, by superseding SSAP No. 106—Affordable Care Act Section 9010 Assessment and nullifying INT 18-02. With these actions, both SSAP No. 106 and INT 18-02 would be moved to Appendix H - Superseded Statements of Statutory Accounting Principles and Nullified Interpretations for the 2021 publication of the AP&P Manual. Ms. Marcotte stated that in response to interested parties’ comments, it is too late in the year to change the Section 9010 disclosures in the 2020 financial statements; however, instructional guidance for completing the disclosure will be developed and posted on the Blanks (E) Working Group webpage. The SSAP No. 106 disclosures will be eliminated from the 2021 financial statements.

e. Agenda Item 2020-13

Mr. Bruggeman directed the Working Group to agenda item 2020-13: Health Industry Request on 2020 Health Insurance Assessment (Attachment One-O). Ms. Marcotte stated that the Working Group received a request from America’s Health Insurance Plans (AHIP) to consider altering the recognition of the “insurer provider fee” required in SSAP No. 106. She stated that an agenda item was exposed with a recommendation to reject the proposed AHIP revisions. She stated that subsequently, AHIP requested to withdraw this agenda item from further consideration. Mr. Bruggeman stated that in accordance with the Working Group’s procedural process, despite the withdrawal request, this agenda item will be moved to the rejected listing, without statutory revisions.

f. Agenda Item 2020-16EP

Mr. Bruggeman directed the Working Group to agenda item 2020-06EP: Editorial Maintenance Update (Attachment One-P). Mr. Pinegar stated that this item provides nonsubstantive editorial updates in accordance with the maintenance process, updates a reporting line reference for qualified cash pools, and corrects sentence structure for guidance in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments.

3. Adopted Revisions to Statutory Accounting with Minimal Discussion

The Working Group held a public hearing to review comments (Attachments One-I and One-J) on previously exposed items.

Mr. Smith made a motion, seconded by Mr. Bartlett, to adopt the issue paper and substantially revised SSAP No. 32R—Preferred Stock to include the proposed edits from interested parties, with an effective date of Jan. 1, 2021. This motion also included adopting nonsubstantive revisions to SSAP No. 26R, with the effective date language as proposed by NAIC staff. The motion passed unanimously.

a. Agenda Item 2019-04

Mr. Bruggeman directed the Working Group to agenda item 2019-04: SSAP No. 32 — Investment Classification Project (Attachments One-Q and One-R). Mr. Pinegar stated that the intent of the agenda item was to substantively revise SSAP No. 32—Preferred Stock pursuant to the investment classification project. The revisions include updated definitions, measurement and impairment guidance for preferred stock held as an investment. Mr. Pinegar stated that comments received during a prior exposure regarding the proposed definitions (e.g., whether redemption is within control of the holder) have been fully resolved, and the comments received during this most recent exposure are very minor. He stated that NAIC staff recommend adoption of Issue Paper No. 164—Preferred Stock and the substantively revised SSAP No. 32R, with the proposed edits from interested parties with an effective date of Jan. 1, 2021.
b. **Agenda Item 2020-02**

Mr. Bruggeman directed the Working Group to agenda item 2020-02: Accounting for Bond Tender Offers (Attachment One-S). Mr. Pinegar stated that a bond tender offer is like a called bond, except a tender offer is contingent on acceptance of the offer by the holder. He stated that specific guidance for the reporting and allocation of investment income and/or capital gain/loss associated with callable bonds is noted in SSAP No. 26R; however, guidance is not reflected when a bond is retired early through a tender offer. He stated that the nonsubstantive revisions clarify that the accounting and reporting of investment income and capital gain/loss due to the early liquidation, either through a call or a tender offer, shall be similarly applied. He stated that comments received indicated support for the accounting treatment however, requested a Jan. 1, 2021, effective date. He stated that NAIC staff are supportive of adding effective date guidance, noting that while the accounting guidance is effective immediately, reporting entities may wait until Jan. 1, 2021, if: 1) the reporting entity has not historically followed the accounting and reporting of investment income and capital gain/loss from a tender bond as proposed in this agenda item; and 2) the reporting entity requires internal financial accounting system updates.

4. **Reviewed Previously Adopted Interpretations for Possible Extension**

Mr. Bruggeman directed the Working Group to receive an update and consider possible extensions on several accounting interpretations. Ms. Gann stated that the interpretations have been grouped to facilitate discussion based on periods in which they are effective.

Interpretations that are effective through the second quarter 2020 reporting include:

- **INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19**: This interpretation provides an optional extension of the 90-day rule before nonadmitting premium receivables and receivables from non-government uninsured plans in response to COVID-19. (INT 20-02)

- **INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19**: This interpretation provides limited-time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. (INT 20-04)

- **INT 20-05: Investment Income Due and Accrued**: This interpretation provides limited-time collectibility assessments and admittance exceptions for SSAP No. 34—Investment Income Due and Accrued. This interpretation allows an exception to the collectibility assessment for investments that have had a forbearance or modifications in response to COVID-19 that were both current as of Dec. 31, 2019, and not experiencing financial difficulties at the time of the modification. For these items, further evaluation of collectibility would not be required for the first and second quarter financial statements unless other indicators of interest would not be collected were known. (INT 20-05)

Ms. Gann stated that as these interpretations are only effective through the second quarter, NAIC staff recommend a short exposure, seeking industry and state insurance regulator feedback on whether the interpretations should be extended to include third quarter reporting. If no objections are noted, the Working Group may consider adoption via an e-vote. If extended, INT 20-02, INT 20-04 and INT 20-05 would expire on Dec. 30, which would preclude their usage for year-end financial reporting. Ms. Gann stated that informal inquiries have been received on possible year-end application for these interpretations. However, she stated that there are potential concerns with another extension, particularly for INT 20-04, that provides exceptions for certain impairment assessments if impairment is not shown in the year-end financial statements. She stated that the current consideration is only for the third-quarter financial statements, but she wanted to bring these inquiries and comments to the attention of the Working Group. Mr. Bruggeman stated that subsequent consideration could occur for year-end reporting, but INT 20-04 would likely need to be modified, as an extension could further delay recognition of impairment.

Interpretations that are effective for 60 days after the termination of the national emergency, or Dec. 31, whichever occurs first, include:

- **INT 20-03: Troubled Debt Restructuring Due to COVID-19**: This interpretation clarifies that a modification of mortgage loan or bank loan terms, in response to COVID-19, shall follow the provisions detailed in the April 7 “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers
Affected by the Coronavirus, “and the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in determining whether the modification shall be reported as a troubled debt restructuring. (INT 20-03)

• **INT 20-07: Troubled Debt Restructuring of Certain Debt Instruments Due to COVID-19.** This interpretation proposes limited-time practical expedients in determining whether a restructuring reflects a “concession” under paragraph 10 of SSAP No. 36—Troubled Debt Restructuring. Under existing statutory accounting guidance, a restructuring that is insignificant is not a concession; therefore, it is not a troubled debt restructuring. The interpretation provides practical expedients in determining what is an insignificant debt modification. (INT 20-07)

Ms. Gann stated that the effective dates for INT 20-03 and INT 20-07 are tied to the CARES Act, and unless the national emergency is declared over by Aug. 1, the interpretations will be in effect for third-quarter financial reporting; thus, an exposure to consider possible extension is not necessary at this time. Mr. Bruggeman agreed that with the current effective dates, INT 20-03 and INT 20-07 would not need to be considered for extension at this time.

John Waldeck (Pacific Life Insurance) requested clarification regarding the discussion on an e-vote for adoption. Ms. Gann stated that while the Working Group has not previously held an e-vote to adopt statutory accounting revisions, this option would only occur if there were not any comments that were contrary to supporting extension. However, if the comments received indicate the need for a public meeting, a conference call will occur to facilitate the review and discussion.

Mr. Hudson made a motion, seconded by Ms. Malm, to expose INT 20-02, INT 20-04 and INT 20-05 for public comment regarding possible extension for third-quarter reporting. The motion passed unanimously.

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

The Working Group held a public hearing to review comments (Attachments One-I and One-J) on previously exposed items.

a. **Agenda Item 2019-34**

Mr. Bruggeman directed the Working Group to agenda item 2019-34: Related Parties, Disclaimer of Affiliation and Variable Interest Entities. Jake Stultz (NAIC) stated that the intent of this nonsubstantive agenda item is to clarify identification of related parties and affiliates in SSAP No. 25—Affiliates and Other Related Parties to incorporate new disclosures to ensure that state insurance regulators have a full picture of complicated business structures. He stated that this agenda item has been drafted to clarify the identification of related parties and ensure that any related party identified under U.S. generally accepted accounting principles (GAAP) or within U.S. Securities and Exchange Commission (SEC) reporting requirements would be considered a related party for statutory accounting. Additionally, any non-controlling ownership over 10% would result in related party classification, regardless of any disclaimer of control or affiliation. Mr. Stultz stated that this agenda item also proposes the rejection of several U.S. GAAP standards addressing variable interest entities. He stated that interested parties’ comment letters expressed concern regarding the reference to U.S. GAAP or SEC guidance as mutual filers do not prepare U.S. GAAP financials and do not file with the SEC. As such, inclusion by reference would result in overly complicated guidance. Mr. Stultz stated that as a result of these comments, direct references have been removed while certain descriptive language has been retained. Additionally, he stated that this agenda item does not change the reporting of related party transactions that currently occur in the financial statements.

Mr. Stultz stated that comments were received from the Group Solvency Issues (E) Working Group, requesting an additional disclosure that would provide information on minority ownership as well as other significant relationships between minority owners and other U.S. domestic insurers. He stated that NAIC staff recommend exposure of this agenda item, seeking industry and state insurance regulator feedback on the proposed modifications and inclusion of an additional related party disclosure.

Mr. Hudson made a motion, seconded by Ms. Travis, to expose agenda item 2019-34, which proposes nonsubstantive changes to SSAP No. 25, for a public comment period. The motion passed unanimously.

b. **Agenda Item 2020-03**

Mr. Bruggeman directed the Working Group to agenda item 2020-03: Enhanced Goodwill Disclosures. Fatima Sediqzad (NAIC) stated that this agenda item proposes to capture additional goodwill information and clarify reporting on Schedule D, Part 6, Section 1—Valuation of Shares of Subsidiary, Controlled and Affiliated Companies. She stated that this agenda item
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adds the original amounts of goodwill to existing disclosure requirements, thus assisting in the review and validation of a subsidiary, controlled and affiliated entity’s (SCA’s) admitted goodwill. Mr. Pinegar stated that this agenda item also updates this schedule to identify goodwill, instead of intangible assets, to reflect current reporting practices. He stated that the main focus of this agenda item is to add a new footnote disclosure, detailing the intangible subcomponents that are used to derive the admitted goodwill calculation. Additionally, goodwill as a percentage of capital/surplus will be disclosed, giving state insurance regulators a granular view of intangible assets. However, due to the required structural changes as a result of the new disclosure, the earliest that the new disclosures can take effect is year-end 2021.

Mr. Pinegar stated that interested parties requested the exclusion of “push down” goodwill from the disclosure requirements. He stated that NAIC staff recommend adoption of this agenda item in its current form, as the additional disclosures to not provide guidance on the determination, calculation or admissibility of goodwill; rather, they only enhance disclosure of existing goodwill. Additionally, omitting certain goodwill from the disclosures would greatly reduce the usefulness of the financial information.

Mr. Bruggeman clarified that due to the structural changes of the additional disclosure, capturing the intangible subcomponents of goodwill will not take effect until year-end 2021.

Richard Poniatowski (Travelers), representing interested parties, stated support for modifying the effective date of the disclosures to sync with the related annual statement blanks data captured proposal.

Mr. Hudson made a motion, seconded by Ms. Mears, to adopt agenda item 2020-03, incorporating additional goodwill disclosures in SSAP No. 68—Business Combinations and Goodwill, with an effective date of Dec. 31, 2021 (Attachment One-T). The motion passed unanimously.

c. Agenda Item 2019-24

Mr. Bruggeman directed the Working Group to agenda item 2019-24: Levelized and Persistency Commission. Ms. Marcotte stated that this agenda item was originally exposed in August 2019 and exposed with revisions at the 2019 Fall National Meeting. She stated that the item was deferred on the March conference call. She stated that this agenda item proposes revisions to SSAP No. 71—Policy Acquisition Costs and Commissions, providing clarifications to the long standing levelized commissions guidance and providing guidance regarding commission that is based on policy persistency. She stated that the revisions 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, persistency commission shall be accrued proportionately over the policy period in which the commission relates, and it is not deferred until fully earned. Ms. Marcotte stated that the exposed recommendations are intended to be consistent with the original intent of SSAP No. 71, which requires acquisition costs to be expensed as incurred. She noted that it is also intended to be consistent with the Statutory Statement of Concepts focusing on Recognition (noted in the Preamble, paragraphs 37 and 38), which states that liabilities require recognition as they are incurred, and accounting treatments, which tend to defer expense recognition, do not generally represent acceptable statutory accounting treatment. For instance, if a third party pays agent commission expense upfront, repayments to a third party need to be recognized as a liability for the funding agreement, even if repayment to the third party is not guaranteed. Even with the risk of non-repayment, SSAP No. 71 requires full recognition of the liability.

Ms. Marcotte stated that interested parties’ comments propose to delete most of the proposed revisions and propose new revisions redefining a funding agreement to only include instances in which repayment is guaranteed. She stated that this would conflict with the long-standing principles of SSAP No. 71, which require accrual of a liability even if repayment to the funding agent is not guaranteed.

Ms. Marcotte stated that comments received from Arcadia Capital Solutions focused on the potential negative impact of adopting the clarifying language, asserting that the proposed clarifying language is a substantive change to existing principles. She stated that in response to the comments concerning a substantive change, the proposed edits only clarify existing conceptual principles that have in effect since before the 1998 codification of SAPs. She stated that it is believed that some reporting entities have intentionally ignored long standing statutory principles that require acquisition costs to be expensed when incurred, not deferred as is permitted under U.S. GAAP.
Ms. Marcotte stated that a third comment letter was received from Greenberg Traurig on behalf of DRB Insurance Solutions proposing guidance that upfront commissions that are prepaid by a third party should not be recognized as a liability when prepaid by a third party that was not under common control of the insurance reporting entity. This would presume that if an independent party paid commissions on behalf of the reporting entity, acquisition costs would be deferred. However due to the fact pattern being nearly identical, similar accounting treatment—i.e., expensing per SSAP No. 71—remains appropriate. Additionally, the third comment letter suggests that insurance brokers who fund the upfront commission expenses have assumed lapse risk; however, Ms. Marcotte noted that NAIC staff and state insurance regulators question the ability to transfer insurance risk to a noninsurance entity. She noted that insurance risks can only be transferred through a reinsurance agreement to another insurance entity.

Ms. Marcotte stated that because the revisions proposed by the commenters were inconsistent with the existing principles in SSAP No. 71, they are not viewed by NAIC staff as viable solutions. Accordingly, she stated that NAIC staff recommend adopting the exposed agenda item, which clarifies existing guidance that would not allow the use of a third-party agent agreement to delay recognition of a liability and expense from an in-force insurance contract. Additionally, a liability and expense are both incurred when the insurance contract is written, not when the payment is due. Ms. Marcotte stated that the accounting treatment necessary to reconcile current practice with the guidance as directed in SSAP No. 71 should be reflected as a correction of an error in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. She recommended that the Working Group provide direction on an effective date and review the additional proposed language regarding the correction of an error.

Mr. Bruggeman stated that the language proposed by NAIC staff only clarifies existing principles in SSAP No. 71, and he inquired of the Working Group if it had a similar understanding. He stated that the additional language regarding referencing SSAP No. 3 will likely warrant an additional exposure; however, it would be effective for year-end 2020. Mr. Hudson stated that California agrees that the language as proposed by NAIC staff represents a clarification to existing authoritative guidance. Ms. Mears indicated support for a year-end 2020 application.

Mr. Snowbarger stated that Oklahoma notes that the revisions will potentially affect some entities. He stated that Oklahoma is supportive of an additional exposure and supports the Working Group’s consideration of such.

Lynn Kelley (Delaware Life), representing interested parties, stated that companies would need adequate time to evaluate existing contracts and communicate with external regulators and auditors regarding the potential impact of such a clarification. Due to the extent of the measures required, she stated that interested parties request an effective date of Jan. 1, 2021, rather than year-end 2020, and they maintain that this clarification will be a significant change compared to how many reporting entities are applying the guidance.

Mr. Bruggeman stated that in terms of a Jan 1. 2021, effective date, additional considerations would likely be required, including disclosures, accruals, etc. However, with a Dec. 31, 2020, effective date, reporting entities should have adequate time to address concerns with their domestic regulators.

Danny Saenz (NTG Consultants) representing Arcadia Capital Solutions, stated that the changes proposed would have a significant impact on a number of its reporting entity clients, some incurring as much as a 30% reduction in RBC. He stated that while the proposed language may be insignificant to the SAPs, the financial impact would be significant to many insurance reporting entities. Additionally, this change may affect agents, through modified commission plans, and the public through possibly reduced insurance offerings. Mr. Saenz stated that the Working Group should also consider the broader economic environment—i.e., COVID-19’s financial impact on insurers—when determining an effective date. He stated that this business practice has been in place for years, and he requested that state insurance regulators provide an exception in an effort not to disrupt current business or marketplace practices. Additionally, he stated that the current practice does not negatively affect policyholders.

Mr. Bruggeman stated that he understands that this may have a significant impact on many reporting entities. Additionally, these nonsubstantive revisions may cease a current method utilized to ensure adequate capital to continue offering additional insurance products. Mr. Bruggeman stated that alternative methods, such as reinsurance, may need to be examined to preserve capital reserves or obtain capital relief.

Mr. Stolte stated that the guidance in SSAP No. 71 existed before the codification. He stated that the use of these finance agreements is a method to generate illusory surplus and circumvent the SAP of expensing acquisition costs as incurred. He
noted that he finds this as problematic. He stated that Virginia would support adoption by Dec. 31. Policyholders are potentially affected by artificial surplus, and appropriate accounting is required for solvency regulation.

Mr. Saenz indicated that as a former regulator, this is not the first time regulators have seen insurance entities reporting transactions based on changes in how the market has developed or companies deviating from guidance based on marketplace interpretations. He said there are other regulatory tools to address this topic without causing some entities to face hazardous financial consequences. He noted that the reserves for policyholders are intact and unaffected by the commission agreements. Mr. Stolte noted that policyholders are affected by potentially illusory surplus.

Julie Mix McPeak (Greenberg Traurig), on behalf of DRB Insurance Solutions, stated that she understands the Working Group’s concern with deferring expense recognition; however, the proposed language captures all third-party financing arrangements, even those that are not affiliated. She stated that true independent, third-party financing should be excluded, as the reporting entity may not know the method or frequency in which the sub-agents are paid on behalf of the reporting entity. She stated that there are many, varying commission arrangements, all of which would be affected by the modification to SSAP No. 71. She stated that levelized commission arrangements have existed since about 10 years prior to the 1998 codification, and they have continued after codification. Additionally, she stated that the proposed modifications will have a significant impact and should be considered substantive. She noted support for an additional exposure.

Mr. Bruggeman stated that his understanding is that the insurance reporting entity knows the individual agents who placed business on its behalf, as they are appointed by the insurance company. He requested clarification from Ms. McPeak on her comments regarding the insurer not knowing the agent’s compensation. She stated that it is the master agent/producer who is responsible for paying the sub-agents, and there are a number of ways the master agent has assumed the liability to compensate the sub-agents. She stated that the direct insurer may be unaware of the compensation agreement details between the master agent and the sub-agent. She stated that the payment examples include a bonus arrangement, immediate payment or trailing commission.

Mr. Bruggeman noted that there is a distinction between initial sales commission (acquisition cost) for a new policy and renewal commission, which is payable on the subsequent policy anniversary. He said requiring liability recognition of funding agreements, which attempt to delay the recognition of initial sales commission, is the intent of the clarifications. He noted that subsequent minor policy renewal commissions are not the focus of the agenda item. He stated that the naming conventions, which are being used in different ways, are clouding the issue. He noted that the principle is that the policy acquisition costs cannot be made the responsibility of a non-insurance entity. He noted that it is important that all parties are using terms consistently. Ms. McPeak stated that the language defining levelized commission in paragraph 4 is so broad that it encompasses all types of commission arrangements between a master producer and a sub-agent; i.e., sales commission, trailing commission, heaped commission, partially heaped and trailing. She indicated that the obligation to pay the sub-agent has been transferred. She noted that the current language is broad enough that it captures if the agents are paid in cash or “ham sandwiches.” She indicated that if the master agent is affiliated with the insurer, DRB Insurance Solutions agrees that the risk has not been transferred. She stated that only the contract and repayment terms between the master agent and the insurance reporting entity should be considered when referring to acquisition costs. Mr. Bruggeman reiterated that the intent is that acquisition costs are expensed up front. He indicated that insurance companies should know and understand how their appointed agents are compensated in the marketplace. He said that commenters should focus on specific paragraphs and sentence references when relaying to the Working Group why certain practices are not within scope of the intent of SSAP No. 71, and those comments should be specific regarding the types of commission under discussion. Accordingly, first year commissions cannot be deferred or transferred, absent of a reinsurance contract. All first-year acquisition costs are to be expensed, not deferred or capitalized.

Brendan Bridgeland (Center for Insurance Research—CIR), NAIC consumer representative, stated that he shares the concerns expressed by a few state insurance regulators, including Mr. Stolte, with the deferral of certain acquisition costs thus creating illusory surplus. He stated his support for the clarifying language for SSAP No. 71.

Mr. Smith stated that per the AP&P Manual, substantive revisions introduce or modify accounting principles, while nonsubstantive revisions are characterized as language clarifications that do not modify the original intent of an SSAP. He stated that Virginia believes the clarifications proposed are nonsubstantive in nature, and the fact that this may have a material impact on a few insurers should not have bearing on being classified as nonsubstantive.

Martin Carus (Martin Carus Consulting) stated that as a consumer, he would be concerned if any accounting or solvency practice would have adverse policy pricing implications. He recommended that a cost benefit study be performed prior to implementing regulation or accounting action.
Mr. Stolte stated that consistency among insurers, so that state insurance regulators can ensure solvency, is the focus of statutory accounting. Mr. Bruggeman stated that the benefit to the consumer is solvency and financial statement comparability. He noted that nonsubstantive changes are clarifying the original guidance, and this is not introducing new principles.

Mr. Bruggeman stated a preference for a Dec. 31 effective date in the proposed revisions to expose the correction of an error in wording proposed by NAIC staff. He asked if any Working Group members preferred a different date, and no members indicated a preference for a different date.

Mr. Hudson made a motion, seconded by Mr. Stolte, to expose agenda item 2019-24, noting an anticipated effective date of Dec. 31, and the additional language regarding the correction of an error. The motion passed unanimously.

d. Tentative INT 20-09T

Mr. Bruggeman directed the Working Group to INT 20-09: Basis Swaps as a Result of the LIBOR Transition. Mr. Pinegar stated that this interpretation is in response to a referral from the Financial Condition (E) Committee regarding an American Council of Life Insurers (ACLI) request relative to the accounting treatment of certain “basis swaps” issued as a result of the transition away from the London Interbank Offered Rate (LIBOR). INT 20-09T directs that basis swaps, received from central clearing parties (CCPs), shall be reflected as a “hedging other” transaction and shall be valued as a noneffective hedge (at fair value), unless the reporting entity can demonstrate and maintain appropriate documentation, evidencing that the basis swap derivative qualifies for effective hedge accounting per SSAP No. 86.

Mr. Hudson made a motion, seconded by Ms. Weaver, to adopt INT 20-09 for statutory accounting (Attachment One-U). The motion passed unanimously.

6. Considered Maintenance Agenda – Pending Listing – Exposures

Mr. Hudson made a motion, seconded by Ms. Malm, to move agenda items 2020-17 through 2020-30 to the active listing and expose all items for public comment. The motion passed unanimously.

a. Agenda Item 2020-17

Mr. Bruggeman directed the Working Group to agenda item 2020-17: Updating the SCA Review Process. Ms. Sediqzad stated that this agenda proposes an update to the SCA filing review process required in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities. This process change would require financial statement filers to retrieve finalized SCA review information from VISION, which will eliminate the need for NAIC staff to manually insert this information into a template to be emailed to the filer. Ms. Sediqzad stated that state insurance regulators would receive one monthly report with the details concerning all reviewed and approved SCA filings. As state insurance regulators currently receive a communication on every review, feedback is sought to ensure that going to a single, monthly email communication would not adversely affect operations.

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

b. Agenda Item 2020-18

Mr. Bruggeman directed the Working Group to agenda item 2020-18: SSAP No. 97 Update. Ms. Sediqzad stated that this agenda item provides a minor revision to corroborate previous revisions adopted in agenda item 2018-26, removing a remaining reference that guarantees or commitments can result in a negative equity value of an SCA.

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

c. Agenda Item 2020-19

Mr. Bruggeman directed the Working Group to agenda item 2020-19: Clarifying Edits – Participating in Mortgages. Mr. Pinegar stated that this agenda item proposes clarification edits to the statutory accounting guidance for participation in mortgage loans. He stated that the Working Group had previously adopted guidance detailing the requirements for a participating agreement and that the “financial rights” of the participant be on equal footing to that of the original lender. He stated that questions regarding the scope of the financial rights remain. He stated that NAIC staff believe the scope was not intended to require the participant to have the sole ability to initiate legal action; foreclosure; or under normal circumstances, require the ability to communicate directly with the borrower. He stated that through collaboration with NAIC Securities
Valuation Office (SVO) staff, state insurance regulators, and industry, it is believed that should these actions be a requirement, most participant agreements in the marketplace would no longer be in scope of SSAP No. 37—Mortgage Loans. He stated that this agenda item clarifies that the “financial rights” are to reflect cash flows, not necessarily other operational aspects that, under normal business circumstances, are reserved for the lead lender.

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

d. **Agenda Item 2020-20**

Mr. Bruggeman directed the Working Group to agenda item 2020-20: Cash Equivalent Disclosures. Mr. Pinegar stated that this agenda item adds an additional disclosure element that was intended in agenda item 2019-20: Rolling Short-Term Investments. He stated that agenda item 2019-20 adopted principle concepts restricting the classification of certain related party or affiliated investments as a cash equivalent or short-term investment. However, the agenda item only required disclosure of short-term investments, or substantially similar investments, that remain on the short-term schedule for more than one year. Mr. Pinegar stated that this agenda item would require disclosure of both cash equivalents and short-term investments, or substantially similar investments, that remain on the same reporting schedule for more than one consecutive reporting period. Additionally, the revisions clarify that the disclosure is satisfied through the use of a reporting code in the investment schedules.

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

e. **Agenda Item 2020-21**

Mr. Bruggeman directed the Working Group to agenda item 2020-21: SSAP No. 43R – Designation Categories for RMBS/CMBS Investments. Mr. Pinegar stated that this agenda item reflects revisions recently adopted by the Valuation of Securities (E) Task Force concerning the accounting and reporting of residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) investments. He stated that the current financial modeling process remains unaffected; however, the NAIC designation produced by the financial model will now be mapped to an NAIC designation category. This final NAIC designation category will then be utilized for accounting and reporting purposes. This agenda item simply updates SSAP No. 43R—Loan-Backed and Structured Securities to reflect the updated practice of the NAIC Investment Analysis Office.

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

f. **Agenda Item 2020-22**

Mr. Bruggeman directed the Working Group to agenda item 2020-22: Accounting for Perpetual Bonds. Mr. Pinegar stated that this agenda item addresses the accounting treatment for perpetual bonds held as investments within the scope of SSAP No. 26R. A perpetual bond is a fixed income security, representing a creditor relationship, with a fixed schedule of future payments; however, it does not contain a maturity date. He stated that due to the numerous payment similarities between perpetual bonds and perpetual preferred stock, this agenda item proposes that similar accounting and reporting treatment be applied for these two instruments. He stated that if adopted at the Fall National Meeting, NAIC staff would be supportive of a Jan. 1, 2021, effective date, which would correspond with the effective date of the substantially revised SSAP No. 32R, and it would require that perpetual bonds be reported at fair value, not to exceed any current effective call price.

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

g. **Agenda Item 2020-23**

Mr. Bruggeman directed the Working Group to agenda item 2020-23: Leasehold Improvements. Mr. Stultz stated that in response to the Working Group having previously adopted substantive revisions to SSAP No. 22R—Leases, this agenda item updates the guidance for the depreciable lives of leasehold improvements in SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements and SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities to reflect adopted guidance regarding the definition of lease terms in SSAP No. 22R. The updated guidance will allow leasehold improvements to have lives that match the associated lease term, including optional renewal periods, if these periods are anticipated to be exercised. Mr. Stultz stated that while this may increase the depreciable life of these nonadmitted assets, it is not expected to have an impact on a reporting entity’s capital and surplus.
In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.

h. Agenda Item 2020-24

Mr. Bruggeman directed the Working Group to agenda item 2020-24: Accounting and Reporting of Credit Tenant Loans. Ms. Gann stated that credit tenant loans (CTLs) that met certain structural requirements, as stated in the P&P Manual, have historically been captured on Schedule D-1: Bonds as if they were in scope of SSAP No. 43R. One of the primary considerations for structural analysis is the concept of residual real-estate risk. Only CTLs that have little residual real-estate risk at the maturity of the loan are deemed to be “conforming.” Ms. Gann stated the focus of this agenda item is to inquire about whether conforming CTLs should continue to be captured in the scope of SSAP No. 43R or whether these investments should be captured in SSAP No. 21R—Other Admitted Assets. If the Working Group determines that CTLs should remain in scope of SSAP No. 43R, statutory accounting revisions will be drafted to explicitly include CTLs that are on an SVO-Identified listing in the scope section of SSAP No. 43R. Ms. Gann stated that if this is the direction of the Working Group, further advisement will be necessary for the reporting of nonconforming CTLs, such as in the scope of SSAP No. 37 and reported on Schedule B, or as an “other invested asset” under SSAP No. 21R and reported on Schedule BA.

Ms. Gann stated that an additional option is to move both conforming and nonconforming CTLs to the scope of SSAP No. 21R and report all CTLs on Schedule BA. With this approach, all CTLs would be reported on the same schedule, and revisions will be proposed to allow CTLs that are reviewed and approved by the NAIC SVO to be reported with an NAIC designation. This process will be similar to the existing approach for other non-bond items reported on Schedule BA that have underlying characteristics of fixed income instruments. Ms. Gann stated that with this approach, there would not be a need for an SVO-Identified listing of qualifying CTLs. Pursuant to the P&P Manual, CTLs will not qualify as filing exempt (FE), and a CTL would need an SVO provided NAIC designation if there was a desire to obtain a more favorable RBC on Schedule BA. Ms. Gann noted that the ability for a more favorable RBC on Schedule BA, based on NAIC designation, is only permitted for life entities; however, from information obtained, these investments are predominantly held by life entities. She stated that this agenda item does not make a recommendation, but it seeks feedback from state insurance regulators on the two proposed reporting options. Additionally, she stated that NAIC staff recommends notifying the Valuation of Securities (E) Task Force of this agenda item in response to its referral. With this notification, NAIC staff will request further confirmation that an SVO listing could be developed to capture the CTLs that meet the SVO’s structural and legal analysis and possess bond characteristics.

John Garrison, representing an industry Lease-Backed Securities Working Group, stated that this agenda item overlaps with a referral received from the Valuation of Securities (E) Task Force. He noted that a third option is available, which would include reporting all conforming and nonconforming CTLs on schedule D-1, in the scope of SSAP No. 43R. Mr. Bruggeman stated that the third option that was noted in comment letters to the Valuation of Securities (E) Task Force will not be included in the exposure item at this time. However, when the Working Group considers comments, letters issued to the Valuation of Securities (E) Task Force will be reviewed in conjunction with letters received by the Working Group. Ms. Gann stated that the agenda item is in response to the referral received by the Task Force, and the reflection of the Task Force allowance to permit nonconforming CTLs to be reported on Schedule D-1 for a limited time is addressed in the agenda item. She stated that comment letters received by the Task Force regarding this topic were included in the posted materials as requested by industry.

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

i. Agenda Item 2020-25EP

Mr. Bruggeman directed the Working Group to agenda item 2020-25EP: Editorial and Maintenance Update. Ms. Marcotte stated that this agenda item provides nonsubstantive editorial corrections in accordance with the maintenance process. She stated that the proposed revisions delete a redundant paragraph in SSAP No. 3R—Liabilities, Contingencies and Impairment of Assets and add a table of contents for questions addressed in Exhibit A in SSAP No. 62R—Property and Casualty Reinsurance.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.
j. **Agenda Item 2020-26**

Mr. Bruggeman directed the Working Group to agenda item 2020-26: *ASU 2015-10, Technical Corrections & Improvements*. Ms. Sediqzad stated that the Financial Accounting Standards Board (FASB) issued ASU 2015-10 to update various FASB Accounting Standards for minor corrections or clarifications. She noted that the nonsubstantive revisions to *Appendix D—Nonapplicable GAAP Pronouncements* are to reject ASU 2015-10 as not applicable to statutory accounting.

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

k. **Agenda Item 2020-27**

Mr. Bruggeman directed the Working Group to agenda item 2020-27: *ASU 2019-09, Financial Services – Insurance; Effective Date*. Ms. Sediqzad stated that ASU 2019-09 defers the effective date of the amendments in *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*; however, ASU 2018-12 was previously rejected for statutory accounting. She noted that the nonsubstantive revisions to Appendix D reject ASU 2019-09 as not applicable to statutory accounting.

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

l. **Agenda Item 2020-28**

Mr. Bruggeman directed the Working Group to agenda item 2020-28: *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. Ms. Sediqzad stated that in January 2016, the FASB issued *ASU 2016-01, Financial Instruments, Recognition and Measurement of Financial Assets and Financial Liabilities*, which allows an entity to measure certain equity securities without a readily determinable fair value at cost, less any impairments. This alternative measurement method and ASU 2016-01 were previously rejected in their entirety for statutory accounting. Ms. Sediqzad noted that the nonsubstantive revisions reject ASU 2020-01, and they are proposed to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, SSAP No. 86, and SSAP No. 97.

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

m. **Agenda Item 2020-29**

Mr. Bruggeman directed the Working Group to agenda item 2020-29: *ASU 2020-05—Effective Dates for Certain Entities*. Mr. Stultz stated that ASU 2020-05 updates the effective dates for *ASU 2014-19, Revenue from Contracts with Customers (Topic 606)* and *ASU 2016-02, Leases (Topic 842)*, both of which were previously rejected for statutory accounting. He noted that the nonsubstantive revisions to Appendix D reject ASU 2020-05 as not applicable to statutory accounting.

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

n. **Agenda Item 2020-30**

Mr. Bruggeman directed the Working Group to agenda item 2020-30: *Premium Refunds and Other Adjustments*. Ms. Marcotte stated that this agenda item provides more explicit guidance on the return of premium and other premium adjustments. The need for enhanced guidance was noted during the discussions of *INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends*. She stated that agenda item 2020-30 was to gather conceptual feedback on guidance to address premium refunds and other policy adjustments for both property and casualty and accident and health lines of business.

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

7. **Discussed Other Matters**

a. **Agenda Item 2019-21**
Ms. Gann provided an update that the issue paper to review and consider substantive revisions to SSAP No. 43R has a comment deadline of July 31. A subsequent conference call will be scheduled to consider comments and continue discussion.

b. Deferred Items

Mr. Bruggeman stated that due to time constraints, the Working Group did not discuss the following items; however, discussions will continue on a subsequent conference call or national meeting:

- Ref #2018-07: Surplus Note Accounting – Referral from the Reinsurance (E) Task Force
- Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting
- Ref #2019-49: Retroactive Reinsurance Exception

c. Referrals

Mr. Bruggeman noted that the referral received from the Valuation of Securities (E) Task Force regarding the accounting and reporting of CTLs (Attachment One-V) is addressed in agenda item 2020-24. Additionally, the referral received from the Financial Condition (E) Committee (Attachment One-W) has been addressed with the adoption of INT 20-09.

d. Review of U.S. GAAP Exposures

Mr. Pinegar stated that the FASB has issued an exposure draft concerning possible modifications to the U.S. GAAP concepts framework for financial reporting. He stated that concepts statements are not authoritative, and they do not override authoritative standards. However, if accounting for a transaction or event is not specified in authoritative guidance, an entity will then consider accounting principles or concepts for similar transactions or events. Regarding statutory accounting, U.S. GAAP concepts are mentioned in the preamble as a level 4 in the statutory hierarchy, coming in just above other non-authoritative accounting literature.

Mr. Pinegar stated that the exposure draft proposes modifications to the historical conceptual definitions of an asset and liability; however, the changes will only be used to further develop standards for financial accounting and reporting, and any changes in terms should not result in the movement of any financial item.

Mr. Pinegar stated that the FASB is considering two changes to the conceptual definition of an asset: 1) removal of the terminology ‘past transaction or event,’ as the FASB believed the phraseology to be redundant; and 2) elimination of the term control while maintaining the notion of control. He stated that in terms of control, an asset must give the entity rights to the economic benefit, not necessarily control of the asset itself.

Mr. Pinegar stated that the FASB is also considering two changes to the conceptual definition of a liability: 1) removal of the terminology ‘past transaction or event,’ as the FASB board believed the phraseology to be redundant; and 2) removal of the term ‘probable.’ He stated that the FASB has indicated that other concepts, such as “the notion of having little or no discretion to avoid future sacrifices” or “an obligation that requires the transfer of assets or providing services,” may be elevated in the replacement of the term ‘probable.’

Mr. Pinegar stated that SSAP No. 4—Assets and Nonadmitted Assets and SSAP No. 5R are the two SSAPs that may require consideration of definitional revisions, as these both directly reference FASB accounting concepts. He noted that any possible changes should not cause any financial statement impact, and a comment letter to the FASB is likely not required; however, NAIC staff are preparing a memorandum for the Working Group, detailing the exposure draft and any potential statutory accounting impact.

Mr. Bruggeman stated that with the exception of INT 20-02, INT 20-04 and INT 20-05, which have a comment deadline of Aug. 14, the comment deadline for all exposed agenda items is Sept. 18.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded July 15, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Shelia Travis (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Joe DiMemmo (PA); David Smith (VA); and Amy Malm (WI).

1. Exposed INT 20-09

The Working Group conducted an e-vote to consider exposure of *Interpretation (INT) 20-09: Basis Swaps As a result of the LIBOR Transition* for a seven-day public comment period ending July 22. A summary of the exposed interpretation is as follows:

- INT 20-09 - This guidance proposes provisions for the accounting and reporting of certain “basis swaps.” Basis swaps are defined as compulsory derivatives issued by Central Clearing Parties, for certain cleared derivatives issued solely in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR) and toward the Secured Overnight Financing Rate (SOFR). The interpretation directs that the basis swaps shall be reported as “hedging – other” and reported at fair value, thus qualifying for admittance; however, the basis swaps cannot be considered or reported as “effective” hedging derivatives unless the instrument qualifies with the required documentation as a highly effective hedge as directed in *Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives*.

Ms. Mears made a motion, seconded by Mr. Moser, to expose INT 20-09. The motion passed unanimously.

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

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Statutory Accounting Principles (E) Working Group
Conference Call
June 15, 2020

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call June 15, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Richard Ford (AL); Kim Hudson (CA); Kathy Belfi (CT); Rylynn Brown (DE); Eric Moser and Kevin Fry (IL); Stewart Guerin (LA); Steve Mayhew (MI); Doug Bartlett (NH); Tom Dudek (NY); Joe DiMemmo (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Reviewed Comments on Exposed Items and Adopted the Consensus in INT 20-08 With Modifications

The Working Group held a public hearing to review comments (Attachment One-B1) on previously exposed items.

Julie Gann (NAIC) stated that prior to discussing any topics, the tentative interpretation (INT 20-08), per the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, must have 67% of the Working Group members voting with a super majority supporting adoption.

a. INT 20-08

Mr. Bruggeman directed the Working Group to INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends. Robin Marcotte (NAIC) stated that this interpretation was exposed to address questions related to refunds, rate reductions and policyholder dividends in response to decreased insured activity related to COVID-19 stay-at-home orders. She noted that the overall guiding principle is that the accounting shall follow existing statutory accounting principles and annual statement reporting, where feasible. The interpretation noted that accident and health (A&H) and multiple property/casualty (P/C) lines of business had offered refunds, rate reductions or policyholder dividends, all of which were performed in a variety of methods, warranting the numerous discussion issues in this interpretation.

Ms. Marcotte stated that several comment letters were received, noting that most commenters focused on Issue 1: How to account for refunds not required under policy terms.

Ms. Marcotte stated there seems to be general support for:

- Issue 2: How to account for refunds required under policy terms.
- Issue 3: How to account for rate reductions on in-force and renewal business.
- Issue 4: Requires policyholder dividends to follow existing guidance and complete the disclosures per Issue 5.
- Issue 5: Requires reporting entities to comply with statutory accounting disclosure requirements, and requires that all premium refunds, rate reductions or policyholder dividends provided because of the decreased activity due to COVID-19 be aggregated and reported in Note 21A as unusual and infrequent items. She noted that the P/C actuaries who perform rate reviews and analysis noted that transparency will assist them in evaluating 2020 activity.

Ms. Marcotte stated regarding issue 1, the refund will be an adjustment to written or earned premium with corresponding adjustments to unearned premium, as applicable. Liability recognition is required in accordance with Statement of Statutory Accounting Principles (SSAP) No. 5R—Liabilities, Contingencies and Impairments of Assets. It also states that refunds that are recognized in a different manner (e.g., as an expense) shall be considered a permitted or prescribed practice pursuant to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures. She stated Issue 2 specified that refunds required under policy terms shall be recognized as an adjustment to premium. However, discounts on future business shall be recognized during the future policy period. Issue 3 addresses rate reductions on in-force and renewal business and requires rate reductions on in-force business to be recognized as immediate adjustments to income. Additionally, rate reductions on future business shall be reflected in premium upon renewal. Issue 4 requires policyholder dividends to continue following existing guidance and to complete the disclosures described in Issue 5. She stated that the interpretation notes that premium taxation requirements vary by jurisdiction and is determined by each jurisdiction as to whether premium taxation that occurs on premium is written or returned to the policyholder. Additionally, due to the short-term nature of the items included, this interpretation will be automatically nullified on Jan. 1, 2021.

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Ms. Marcotte stated the Working Group received nine comment letters. She noted, however, that comments received were not regarding the modifications added to the May 20 exposure. She stated the primary issue for discussion is whether to allow reporting entities that filed policy endorsements, allowing the insurers to voluntarily provide a return of funds to policyholders, to report the payments as a return of premium or as an other underwriting expense. She stated that some of the current and prior comment letters were in support of treating voluntary payments or rate reductions to policyholders as an adjustment to premiums. Additionally, the comment letter provided by the Connecticut Department of Insurance (DOI) was also supportive of premium adjustments and further supported guidance in the interpretation, which also provides that if reported as an underwriting expense, it should be a prescribed or permitted practice. UnitedHealth was supportive of reporting as an adjustment to premium. Ms. Marcotte noted that UnitedHealth also provided comments specific to the health industry. UnitedHealth noted that the exposed guidance is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations. She additionally stated that UnitedHealth indicated that any associated liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.

Ms. Marcotte stated several comment letters expressed support for allowing the voluntary payments or return of funds to policyholders to be reported as an other underwriting expense, especially if the policy endorsement allows discretionary payments to the policyholder at the option of the insurer. This approach was supported by the Illinois DOI, Allstate, Cincinnati Insurance Companies, Co-operative Insurance, Grange, National Association of Mutual Insurance Companies (NAMIC) and Progressive.

Ms. Marcotte stated the Illinois DOI indicated support that if an insurer has filed and received approval for policy endorsements related to such payments, then those payments would be reported as an expense in their statement of operations. She stated that comments received from industry included that amounts returned to policyholders were not as a result of re-underwriting or analysis of loss data. However, the credits were determined on a percentage of premium, and the use of an underwriting expense classification was preferred in an effort to avoid having an impact on non-policyholder stakeholders such as agent commissions or state premium taxes; additionally rate plans were not refiled with state insurance departments. Ms. Marcotte stated that Co-operative, Grange and NAMIC provided mutual specific comments indicating that even though they were not able to provide dividends to isolated lines of business, they viewed these policyholder payments as an expense as they are akin to the treatment of a policyholder dividend. Additionally, NAMIC supported allowing the reporting entity to choose between recognizing the relief payment as an expense, a premium refund, policyholder dividend or an up-front bad debt expense. Further, NAMIC’s position supported the reporting of relief similar to a dividend, even if they were not technically policyholder dividends, so the payments are reflected in the combined ratio, not the pure loss ratio.

Ms. Marcotte stated that U.S. generally accepted accounting principles (GAAP) specific comments were received from Allstate and Progressive. Allstate indicated support for other underwriting expense treatment, although it acknowledged that expenses related to insurance contracts are those typically paid or incurred in connection with originating and servicing a contract. Allstate viewed that it is appropriate to classify the incremental amount paid to the customer as a policyholder expense for U.S. GAAP and as an other underwriting expense for statutory accounting. She stated that Progressive indicated it was not aware of a difference between statutory accounting and U.S. GAAP as it relates to the accounting for insurance premiums. However, similar to other several public company registrants, it recorded the policyholder credits and payments as an underwriting expense when filing its Form 8-K with the U.S. Securities and Exchange Commission (SEC). The GAAP accounting treatment was based on the underlying premise that the credits and payments are akin to a policyholder dividend and are in essence noncontractual discretionary returning of profits that resulted from a reduction in loss due to the shelter-in-place order. Additionally, the relief payments to policyholders was determined on an enterprise-wide level as opposed to a contract level.

Ms. Marcotte stated that NAIC staff recommended regulator discussion of the two various approaches discussed. She recommended adoption or re-exposure with two minor modifications that addressed minor health-specific comments received from UnitedHealth. She stated that the Working Group has the ability to adopt individual issues within the interpretation while continuing discussion on other topics (i.e., adopting Issues 2–5, while continuing discussions on Issue 1). She noted that NAIC staff are concerned with the comparability issues that would result from allowing different options for reporting discretionary payments to policyholders, such as reporting as reduced premium, an underwriting expense or an uncollectible bad-debt expense. She said that NAIC staff recommend that such reporting would be a prescribed or permitted practice because existing statutory accounting guidance requires the return of such monetary items to policyholders be recognized as an adjustment to premium. Ms. Marcotte stated that the principle of reversing premium in the same manner in which the premium was originally recognized continues to apply. She noted that this principle is critical to health insurers, which are subject to the medical loss ratio (MLR) calculations. She stated that while the state of domicile can provide a prescribed or permitted practice, other jurisdictions may choose not to accept the prescribed or permitted practice. The non-domiciliary state can provide other
direction and require differing financial statement reporting as it deems appropriate. She stated underwriting expense
recognition criteria related to insurance contracts are typically for those items paid or incurred in connection with originating
and servicing the contract; these discretionary payments are not for that purpose. The payment is not consistent with any of
the underwriting expense categories and is not a cost of servicing the policy, but rather a voluntary payment at the option of the
insurer, generally returning previously billed premium.

Mr. Hudson and Ms. Belfi stated support for the amendments that NAIC staff proposed, incorporating minor modifications
stating the liability for voluntary health premium refunds attributable to COVID-19 and that are not required under the policy
terms shall be recognized in aggregate write-ins for other liabilities (while also adjusting premium).

Ms. Belfi stated an important aspect regarding statutory accounting is the concept of consistency and while states have been
flexible in meeting many of the requests of industry due to COVID-19, consistent reporting would be supported by the
Connecticut DOI. Ms. Belfi noted that additionally, if certain domestic states wish to grant additional reporting flexibility, the
permitted practice procedures provide for such an avenue. Mr. Stolte stated agreement with Ms. Belfi and stated that Virginia
will associate itself with the position of consistent reporting per the statement of concepts as developed during the codification
of statutory accounting principles, unless a domestic regulator provides a permitted practice.

Mr. Moser stated that Illinois supported flexibility in reporting, noting that while consistency is important, consistent reporting
would likely not occur due to the high number of permitted practices that will likely occur if the Working Group does not
permit flexibility in the interpretation. He stated that comparability will be affected due to the wide range of insurers and wide
range of methods in which proceeds were returned to policyholders. He stated that Illinois believes that if an insurer has filed
and received approval for policy endorsements related to such payments, then those payments would be reported as an expense
in their statement of operations, as the policy endorsement allows such policyholder payments.

Kevin Spataro (Allstate) stated support of the interpretation as it relates to premium refunds, rate reductions and policyholder
dividends, but he stated the interpretation should be expanded to include accounting and reporting guidance for discretionary
payments provided to policyholders pursuant to policy endorsements that were not designed to be and are not premium refunds,
rate reductions or policyholder dividends. He stated that Allstate executed a policy endorsement because it was believed to be
in the best interest of policyholders and did not want to negatively affect other parties, such as reduced commissions to agents
or reduced premium taxes to states. Additionally, a rate filing was not elected due to the fact that at the time the funds were
disbursed to policyholders, actuarial information such as differences in crash severity, distracted driving or other vehicle uses
was not available; thus, an amended rate filing was not a viable option. Additional investment returns were also unknown,
which is a critical component of a rate filing. Mr. Spataro stated that dictating an accounting method could potentially be
penalizing to the organization, however, understanding that this is an unprecedented event requiring special attention. He stated
that upon its review of the statutory accounting principles, Allstate believes the nature of its payments to policyholders would
qualify as another underwriting expense and supports expanded comprehensive disclosures of the elective policyholder
COVID-19 relief payments. Mr. Spataro stated that the discretionary payments did not affect any reinsurance agreements as
Allstate’s agreements only cover excess losses.

Mr. Stolte asked Mr. Spataro for information on how reporting entities could be disadvantaged by a permitted or prescribed
practice, should the Working Group direct consistent reporting among all filers. He stated that state analyst would then
appropriately review footnote 1 in the statutory financial statements to assess the impact of any permitted practice. Mr. Spataro
stated he believes the disadvantage would be that the financial statements would not reflect the nature and characteristics of the
program and, thus, not reflect the substance of the transaction. That is, they would reflect a discretionary payment as an expense,
not a reduction in premium.

Birnyn Birnbaum (Center for Economic Justice—CEJ) stated the CEJ began calling for premium relief payments at the early
onset of COVID-19. He stated the relief was in correlation with the reduction in risk exposure of affected policies—i.e., a
significant reduction in automobile usage. The aggregate risk exposures for current policies reflect an overnight reduction in
risk, and the return of funds reflect the return of premium associated with the reduced insured risk. Additionally, premium relief
was only provided on in-force policies, and in many cases, the relief was calculated as a percentage of premium for a certain
number of affected months. The proposed accounting treatment is analogous to removing a vehicle off a policy, thus resulting
in a refund due as the risk transferred to the insurance company was reduced. Similarly, due to a significant number of vehicles
not driving, the risk transferred to the insurance company was greatly reduced. He stated support for the accounting treatment
as a return of premium, which would assist in the comparability of financial statements.
Rachel Underwood (Cincinnati Insurance Companies) stated support for recognizing as an expense those relief payments made in relation to nonparticipating policies without premium refund terms in response to decreased activity due to COVID-19. She stated that per SSAP No. 53—Property Casualty Contracts—Premium, premiums are defined as the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract, based on the expectation of risk, policy benefits and expenses associated with the coverage period provided by the terms of the insurance contract. Additionally, premium adjustments due to changes in the exposure level are generally determined based upon audits conducted after the policy terms. She stated her position is that the relief provided to policyholders was outside the scope of both of these statements. She noted that payments made to policyholders were made in the absence of loss data. Additionally, while the insured risk was reduced for a couple of months, premium charged for the policy covers the entire policy period, not just a short time frame, such as two months. Thus, the relief should not be solely affiliated with premium. However, the relief provided to policyholders is akin to a policyholder dividend, but that option was not available as the policies written by Cincinnati Insurance Companies are not participating policies and thus are not eligible for dividends. Ms. Underwood stated that voluntary payments were in an effort to help policyholders, similar to how a donation would be accounted for as an expense. Additionally, the impact of a premium reduction would negatively affect producers through reduced commissions and states through reduced premium taxes. She stated concerns with pursuing the permitted practice process because it is uncertain whether the state will approve the request, and for those states that do not approve the deviation, further inconsistent reporting will likely result. Additionally, if a holding company has two reporting entities in two different jurisdictions, depending upon the permitted practice granted (i.e., permitted in one state and not in another), a holding company may have to report the same transaction in differing methods (i.e., one as an expense, one as a reduction in revenue). Ms. Underwood stated that the company’s reinsurance agreements would likely be affected if the relief payments are reported as a reduction in premium.

Mr. Stolte stated that through the use of a permitted practice, and its disclosure in footnote 1 of the statutory financial statements, entities would be able to quickly identify and reconcile any differences from adopted statutory accounting guidance. He stated he would support this continued, traditional approach because allowing reporting entities with flexibility in reporting would negatively affect reporting consistency among the industry.

Ms. Belfi stated that during the financial crisis, multiple permitted practices were given to multiple companies covering a wide range of issues. However, despite this, there were not any issues with comparability due to the details that are required to be provided in footnote 1. In a similar manner, the financial crisis affected an entire industry and is analogous to the COVID-19 events of today.

Jonathan Rodgers (NAMIC) stated that this event is unprecedented and that there is great diversity of actions and preferences among NAMIC’s members. He stated that characterizing the return of funds to policyholders as a return of premium does not work for everyone. Due to the unprecedented nature of the return of funds to policyholders, without flexibility being granted by the Working Group, state regulators will see an unprecedented volume of permitted practice requests. Without flexibility, the process of obtaining a permitted practice will create an unnecessary hurdle as flexibility could be granted, thus not requiring the exercise, cost and uncertainty in requesting a permitted practice. The return of funds to policyholders was done in a sense of urgency and generally with ongoing communications with domestic regulators. Additionally, at the time the funds were given, loss data was not known and not a factor. Thus, relief payments should not be considered a return of premium. If treated as a reduction in premiums, the loss ratio, an important metric, would be improperly negatively affected. While not viewed as a return of premium, NAMIC was supportive of enhanced disclosures, detailing the impact of the COVID-19 relief payments. Mr. Rodgers stated if the Working Group elects to treat the relief payments as a reduction in revenues, the impact will be felt by agents through reduced commissions and by states through reduced premium taxes.

Mariann Marshall (Progressive) stated support for allowing reporting entities to classify the policyholder credit as an other underwriting expense. She stated Progressive filed a policy endorsement, not a rate filing, to authorize and facilitate discretionary credits and payments to policyholders in response to the COVID-19 pandemic. She stated that the process to obtain a permitted practice from every state would be problematic for insurers, especially in light of not knowing which states would permit the reporting exceptions. Additionally, if not granted by all states, holding companies would have inconsistent reporting among downstream reporting entities. She said that while Progressive is supportive of reporting flexibility, it is also supportive of enhanced disclosures so regulators could assess the impact of the COVID-19 relief payments. She stated the funds provided to policyholders were done solely in the interest of the policyholders. However, if required to be treated as a reduction of premium, agents would be negatively affected through reduced commissions, and states would be negatively impacted through reduced premium taxes. Ms. Marshall stated that if treated as a premium reduction, their reinsurance agreement would be negatively affected and would likely result in the reinsurer refunding reinsurance premiums paid by Progressive. She noted that no differentiation was made between policyholders in terms of the COVID-19 relief payments. Thus, all auto customers received some relief funds. Ms. Marshall stated that premiums received from policyholders were only...
used as a beginning basis for the determination of the amount of relief payment received. However, in the absence of loss data, Progressive viewed the payments as an expense, not a policyholder refund.

Mr. Birnbaum stated many of the comments received today reference the absence of loss data, thus the inability to amend a rate filing. However, insurers recognized the insured risk drastically dropped, and in the absence of a premium refund, the rates compared to the insured risk were excessive. He said due to this fact, these relief funds reflect a reduction in risk exposure and thus warrant accounting treatment as a reduction in premiums.

Ms. Underwood stated their belief was that a relief payment should be most appropriately reflected in an entity’s combined ratio, not the pure loss ratio, because the payments are akin to a policyholder dividend (returning excess profits). Additionally, while the insured risk was reduced for a short period of time, the insurance policy covers a significantly larger time frame, thus requiring a one-time relief payment, based on a temporary reduction of risk, to be accounted for as returned premium was not appropriate, in their view.

Mr. Spataro stated Allstate’s intention was to act in the best interest of the policyholder and did not have the actuarial data necessary to underwrite or rate the policy. Thus, the relief payments were not necessarily reflective of a reduction in risk that would be associated with a reduction in premium.

Mr. Birnbaum stated disagreement with the commenters in that the relief payment was not for the term of the policy period, but in fact was only for the short-term period, which reflects the reduced activity and lower insured risk. He stated insurance companies had real-time claims information and were aware of the significant reductions in claims. Without these premium relief payments, insurers would have experienced windfall profits. Thus, the accounting treatment as a reduction in premium is most appropriate.

Jim Braue (UnitedHealth Group—UHG) stated UHG agrees with the treatment of the relief payments as a reduction to written or earned premiums, in that this treatment reflects the substance of the transaction. He stated this treatment is consistent with the intent of the transaction (a return of premium to the policyholder) and is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations. The timing of recognition of the premium refund also corresponds with the associated coverage period affected by the premium action. In the case of premium refunds issued for current or prior coverage periods, the recognition should be in the current reporting period. However, in situations where the premium rate is being reduced over the remaining policy period, the premium reduction may need to be recognized over the policy period affected. Additionally, with respect to any liability required to be recognized in accordance with in SSAP No. 5R, UHG believes the liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability. He stated if concerns continue regarding accounting for the relief payments as a reduction of premiums, bad debt expense may be the next logical choice. However, the reduction of premiums remains the most appropriate accounting treatment.

Steve Broadie (American Property Casualty Insurance Association—APCIA) stated the APCIA has had continuing discussions with its members and supports the position that if an insurer has filed an endorsement or an amended rate filing with the state, it communicated its intent to report the relief payments as a policyholder expense and should be allowed to do so while disclosing those payments per the requirements of this interpretation. This treatment would allow insurers that have taken such actions to be allowed to continue their earlier accounting treatment and not be disadvantaged by a subsequent accounting guideline as directed by the Working Group.

Keith Bell (Travelers) stated the evaluation process that Travelers used to arrive at the conclusion that these relief payments are in fact a reduction in premium may be helpful to the Working Group. First, Travelers eliminated categories of what the relief payments were not. He stated that the relief payments are not losses, as they are not a covered loss under the terms of the policy. Additionally, they do not reflect loss adjusting expenses as they are not payments to a third-party for cost containment, adjusting, etc. Mr. Bell noted that these clearly are not investment expenses, and they do not represent bad debt expense because in many cases, the relief was provided as a reduction of future premiums due. With regard to other underwriting expenses, a current category for discretionary policyholder payments does not exist, so that generally precludes its use. He stated that after eliminating the expense categories, the Statutory Hierarchy in the Preamble was reviewed for further guidance. Revenues are generally defined as cash inflows as a result of continuing business operations, while expenses are generally defined as cash outflows as a result of continuing business operations. While the types of expenses vary by industry type, they all share a common component in that they reflect cash outflows to a third party for the payment of goods or services. Thus, payments to customers that do not involve the purchase of goods or services should not qualify as an expense. He stated the relief payments reflect the reduced exposure of risk and most logically should be reflected as a premium reduction. Additionally, he noted that
other accounting issues may need to be considered if the policy has been modified to include a discretionary, noninsurance-related payment. If such a modification has occurred, he stated some of the inflows from premium should be reclassified because they may no longer reflect premium payments associated with the transfer of risk. He also stated concern that if the accounting treatment for transactions follows the label associated with a state filing, the accounting for transactions would vary greatly and likely no longer follow the essence of the transaction. He stated that across all legal entities, Travelers reported such transactions as a reduction in premium for both policyholders and intercompany reinsurance agreements. Mr. Bell stated that notwithstanding the differences in opinion regarding accounting treatment, insurance companies did the right thing for policyholders in providing some type of relief as a result of the reduced activity resulting from COVID-19.

Mr. Bruggeman stated he is open to flexibility in reporting, noting that these payments are akin to a policyholder dividend. However, he stated he wants to consider an alternative approach, such as an aggregate write-in for miscellaneous income as a negative, used solely for the purpose of the COVID-19 relief payments. He stated he understood the relief provided was not necessarily specific to underwriting, was provided to all applicable policyholders, and was performed at an enterprise level rather than at an individual policy level. The challenge with maintaining comparability and consistency with this issue is that the formula used to determine relief payments varied greatly (i.e., a percentage of premium, a minimum payment, etc.) among all insurers. He stated he would be open to situational accounting of not necessarily requiring a reduction in premium. However, he stated he prefers an aggregate write-in for miscellaneous income as a negative, allowing for easier identification and analysis for use in future rate filings. Additionally, the aggregate write-in for miscellaneous income method would not affect many of the performance ratios used for analysis purposes. Mr. Bruggeman stated he agrees with earlier regulator comments regarding the usefulness of a permitted practice. However, he stated the diversity of acceptance could create additional comparability issues.

Mr. Hudson stated California is supportive of the comments received regarding accounting for the relief payments as a reduction of premium and appreciated comments received that detailed the many perspectives on this issue. Ms. Mears stated Iowa is also supportive of the position to account for these transactions as a reduction of premium, and any deviations should be a permitted or prescribed practice.

Mr. Hudson made a motion, seconded by Mr. Guerin, to expose this agenda item for a 30-day public comment period ending July 15. The motion passed unanimously.

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

   a. **Agenda Item 2020-16EP**

   Mr. Bruggeman directed the Working Group to agenda item 2020-06EP: Editorial and Maintenance Update. Jim Pinegar (NAIC) stated that this item provides non-substantive editorial updates in accordance with the maintenance process and updates a reporting line reference and corrects sentence structure for guidance in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments.

   Mr. Hudson made a motion, seconded by Mr. Guerin, to expose this agenda item for a 30-day public comment period ending July 15. The motion passed unanimously.

3. **Discussed Other Matters**

   a. **ACA risk Corridors – Supreme Court**

   Ms. Marcotte stated that in April, the Supreme Court of the United States issued an opinion stating insurers were entitled to pursue more than $12 billion in unpaid federal Affordable Care Act (ACA) risk corridor payments from the 2014 to 2016 program. She noted that the recent Supreme Court decision, in favor of four insurers, only provides the ability to seek payment through a damages action via the Court of Federal Claims. As such, at this time, and until resolution is reached through the damages action process, reporting entities would not have any new accruals or admission of a previously nonadmitted accrual for a risk corridor receivable. This is consistent with INT 15-01: ACA Risk Corridors Collectability. In addition, SSAP No. 5R prevents the recognition of gain contingencies until the transaction is fully completed and determinable, so it would be improper to accrue amounts at this time. Ms. Marcotte asked the Working Group if additional guidance was needed because many accounting inquiries have been received.
Mr. Bruggeman stated he believes INT 15-01 appropriately addresses the inquiries and directed NAIC staff to refer inquirers to existing guidance, noting that updates will occur as the pursuit of recoveries progresses through the Court of Federal Claims.

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

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DATE: June 5, 2020

TO: Mr. Dale Bruggeman, Chairman
    Statutory Accounting Principles (E) Working Group

FROM: Kathy Belfi, Director of Financial Regulation for Connecticut

SUBJECT: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Thank you for the opportunity to comment on INT 20-08T.

Connecticut supports the "tentative consensus" points related to reduction of premium.

Due to COVID-19, there has been changes in insured exposures resulting in lowering of premiums (causing premium refund payments). Current statutory guidance requires upon return of premium to policyholders, earned premiums should be reduced.

We agree that if a company reports the refund as an expense it should be disclosed as a permitted or prescribed practice.

Thank you for your consideration.

Kathy Belfi

cc: Julie Gann, NAIC Staff
    Robin Marcotte, NAIC Staff
    William Arfanis, Connecticut Insurance Department
    Michael Estabrook, Connecticut Insurance Department
June 1, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
Sent via email

Re: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends.

Dear Mr. Bruggeman,

The Illinois Department of Insurance (“IDOI”) has reviewed this item and would like to provide comments.

The IDOI is the lead state regulator for several large insurance groups that write auto and other lines of business addressed by INT 20-08T. It is the IDOI’s position that there should be flexibility regarding the accounting treatment for monies given back to policyholders related to the current pandemic conditions. Particularly, if an insurer has filed and received approval for policy endorsements related to such payments, then the IDOI believes those payments would be reported as an expense in their Statement of Operations if the policy endorsement would allow as such. In our opinion, the most important reporting consideration for these payments is that adequate disclosure is provided in the financial statement, and that requirement appears to already be included in the INT as written.

Please let us know if there are further questions.

Sincerely,

Eric Moser, AIAF
Assistant Deputy Director, Financial Analysis
Illinois Department of Insurance
June 5, 2020

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: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Allstate Corporation (Allstate) appreciates the opportunity to comment on the re-exposure of Statutory Accounting Principles Working Group (SAPWG) INT 20-08T, COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends (INT) which addresses the accounting for certain payments to policyholders due to reduced economic activity as a result of COVID-19.

While Allstate supports the content of the INT as it relates to premium refunds, rate reductions, and policyholder dividends we believe the scope of the INT is incomplete and should be expanded to include accounting and reporting guidance for discretionary payments provided to policyholders pursuant to policy endorsements that were not designed to be and are not premium refunds, rate reductions, or policyholder dividends. Moreover, because discretionary policyholder payments provided through policy endorsements were designed to meet the same objective (i.e., providing policyholder relief due to COVID-19 circumstances), albeit in a different manner, we believe the accounting and classification should be addressed in the same INT as opposed to a separate INT or through a separate regulatory process.

In response to the COVID-19 pandemic, insurers designed and implemented a variety of programs to provide payments to policyholders in recognition of decreased vehicle usage and claim experience due to the presence of shelter in place (SIP) orders that existed in many states throughout the country. In the case of Allstate, we designed a program to provide discretionary payments to policyholders in the most practically expedient manner and without impacting non-policyholder stakeholders; e.g., agents and states in which we conduct business.

While certain insurers designed and executed policyholder payment programs attributable to the impact of SIP orders in the form of premium refunds, rate reductions, and policyholder dividends, others, including Allstate, designed and executed programs in the form of discretionary payments to policyholders made pursuant to policy endorsements. After thoughtful consideration of the alternatives, Allstate utilized the filing of policy endorsements as opposed to a premium refund or rate reduction (policyholder dividends was not an available option) to expedite the payment process and because we did not have the ability to re-underwrite the underlying risks and re-determine the amount of premium we would have charged under SIP conditions. Specifically, we did not possess the actuarial data necessary to complete the full re-underwriting exercise we believe would have been necessary to support a premium refund or rate reduction. Moreover, while we had information about reduced miles driven, we did not possess reliable information to predict the future path of the pandemic or its impact on accident frequency which is influenced by driving habits (including speed, distracted driving, etc. for miles driven), incidence of loss, and loss severities.
Notwithstanding our inability to re-underwrite our policyholders and adjust premiums, we possessed enough information to provide relief to our policyholders in the form of discretionary payments. Our ultimate decision to make discretionary payments pursuant to policy endorsements considered both expediency of execution and our desire to not impact non-policyholder stakeholders.

By way of this letter, our intent is to clarify that while the scope of INT 20-08T is sufficient as it relates to policyholder relief programs executed in the form of policyholder refunds, rate reductions and policyholder dividends, it needs to be expanded to incorporate the accounting and reporting for policyholder relief programs executed in the form of discretionary policy payments provided pursuant to policy endorsements.

Following is a more complete description of Allstate’s policyholder benefit program followed by a description of how we believe our program should be incorporated into INT 20-08T.

I. DESCRIPTION OF ALLSTATE’S POLICYHOLDER RELIEF PROGRAM

Basis of Payments

In March 2020, Allstate recognized a decline in miles driven by policyholders and claim frequency as a result of SIP orders instituted across the country. At the same time, we observed the financial hardship experienced broadly by individuals subject to SIP orders. As a result, and despite not possessing sufficient actuarial information to re-underwrite our auto book of business and execute a premium refund or rate reduction, we relied on available anecdotal information about reduced miles driven and assumed that would result in lower realized accident frequencies in designing a program that allowed for discretionary payments to policyholders. Consistent with our underlying rationale that reduced miles would produce reduced accident frequency we moved forward with our program and began providing relief in the month of March 2020, the month in which most SIP orders began. In addition, relief was provided to auto policyholders of record in April and May of 2020 who met certain criteria. The program was further extended to policyholders of record for June of 2020. Allstate’s SIP payment program was not extended to commercial auto policyholders or motorcycle policies where a reduction in claim activity was not anticipated.

Tool Used to Permit Policyholder Payments – Policy Endorsement

Allstate considered a range of options to provide payments to policyholders and ultimately designed and executed a policy endorsement to provide for the discretionary payments to policyholders as it (a) was the most practically expedient alternative and (b) was the alternative that did not impact other key non-policyholder stakeholders (i.e., agents and the states in which we do business).

Form of Allstate Policy Endorsement

“Special Shelter-in-Place Payback Endorsement – AU14923

This endorsement authorizes a payment to you. This payment is in response to the extraordinary circumstances surrounding the Covid-19 pandemic.

Any payment is not guaranteed. We have sole discretion for determining the amount and frequency of payment, if any. We will determine the method of distributing any payment. Except as provided in this endorsement, all terms and conditions of the policy apply and remain unchanged.”
External Communications to Policyholders

“The purpose of the endorsement is to authorize and facilitate discretionary payments to policyholders. With insurance costs going down, Allstate is working to do what’s right for policyholders.

The payment recognizes the shelter orders are impacting miles driven and the number of auto accidents. Although customers are driving less and in fewer accidents, the full impact of the pandemic remains uncertain and this payment represents our best estimate of what we are seeing. We also are monitoring the impact on repair costs, premiums being received, customer retention, coverage levels and investment returns. It is too early to determine the full impact of all these factors on insurance rates. The payback is a way to get money back to consumers quickly before the full impact of the pandemic is sorted out.

The payback will equal 15% of a customer’s March and April auto premiums and will be calculated on a per policy basis, subject to a $10 minimum. We expect each monthly payment to average close to $30 per policy. There are no prorated calculations for purposes of this payback since the payback is a function of the total premium (calculated to be monthly) as of 3/31/2020 and 4/30/2020 regardless of the policy effective date or any endorsement activity. Customers with Allstate’s pay-per-mile product will be included.

Although much uncertainty remains over the full impact of the pandemic on all of our costs, we are filing the endorsement to remain in effect for 180 days to provide flexibility for future payments, if appropriate. The payments are being treated as an underwriting expense, so the company’s rating plan is not impacted and does not require modification as a result of this filing. Furthermore, this payment does not involve a projection of future premium.”

II. ACCOUNTING FOR ENDORSEMENT-BASED DISCRETIONARY POLICYHOLDER PAYMENTS

In determining the accounting for SIP payments for both statutory and GAAP, Allstate assessed whether the payments constitute and should be classified as either (1) a loss/loss adjustment expense, (2) a reduction of premium under the associated contracts or (3) a policy expense.

1) Classification as a loss/loss adjustment expense – a loss under the contract would exist only to the extent there is an indemnifiable insured event. We do not believe SIP payments represent losses or loss adjustment expenses as the payments do not relate to a specific indemnifiable loss event under the contract nor do the payments relate to a change in the level of insurance risk. Additionally, the policy endorsements do not create an indemnifiable loss event but rather a different type of policy payment that is more akin to an expense.

2) Classification as a premium adjustment – Allstate considered and rejected classification of SIP payments as a premium adjustment primarily because no changes were made to filed rate plans in place throughout the U.S. Allstate considered, but rejected, the idea of filing new rate plans because (a) it would have required a lengthy process and would not have achieved our objective of getting economic relief to our policyholders in an expedient manner, and (b) as our policies cover six months we did not believe we possessed the required visibility to file modified rate plans as we lacked sufficient clarity on how the policies will perform beyond the next one to two months once the SIP orders are lifted and a “new normal” emerges. Allstate believes premium classification is only appropriate in situations where a premium refund is required under policy terms or a rating plan change is filed. In lieu of a required premium refund under policy terms or filing a new rating plan, the appropriate classification of the newly created contract benefit is as a policy expense.
3) **Classification as an expense** – expenses related to insurance contracts are those typically paid or incurred in connection with originating and servicing the contract. Notwithstanding the preceding, Allstate views payments under the endorsement, while made to the policyholder, are fundamentally different than loss/loss adjustment expenses attributable to “indemnifiable contract losses” and as such it is appropriate to classify the incremental amount paid to the customer as a policyholder expense for GAAP and an “other underwriting expense” for Statutory.

**GAAP** - Given the unique nature of the “expense” Allstate presented SIP payments on a separate line in the GAAP income statement to distinguish the payments from both losses and typical underwriting expenses. We believe that even if presented in a separate line item, SIP payments would be included in the determination of underwriting income and would be a component of the expense ratio.

**Statutory** – Given the unique nature of the “expense” for discretionary payments authorized under modified contract terms and which do not relate to a change in the level of insurance risk, Allstate relied on the underlying tenets of SSAP 70, *Allocation of Expenses*. Under SSAP 70, allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit: loss adjustment expenses (classification assessed in 1) above), investment expenses (not applicable) or other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses.

**Conclusion**

Allstate recommends that INT 20-08T be expanded to include a classification alternative for policyholder payments that are not premium refunds, rate reductions or policyholder dividends. The basis, form, and substance of Allstate’s policyholder payments related to the reduced personal lines auto frequency due primarily to SIP orders instituted as a result of COVID-19, were designed to facilitate expeditious state approval and implementation to provide relief to policyholders in the form of discretionary policyholder payments. When designing our policyholder relief program, we considered impacts on a range of stakeholders including our agents and the states in which we do business and determined that discretionary policyholder payments would not impact agent commissions or premium tax revenues that states rely on to meet the needs of their constituents.

Comment letters submitted by other insurers to the original exposure of INT 20-08T described policyholder payment programs similar to Allstate’s and requested the INT be expanded to include a classification for discretionary policyholder payments in the form of an underwriting expense. In addition, the comment letter from Interested Parties to the initial exposure of INT 20-08T included suggested revisions to the original INT to reflect the inclusion of new Issue 4 to describe the accounting for policyholder payments which are not premium refunds, rate reductions or policyholder dividends and which result from filing memorandums and policy endorsements as an underwriting expense. Allstate supports the suggested revisions to INT 20-08T related to new Issue 4.

The Allstate Corporation filed its Q1 2020 Form 10-Q which reflects as illustrated in the attached Appendix I, a new line item in the income statement for policyholder payments created for the material, non-recurring expense related to SIP orders. The importance of the GAAP treatment is that Statutory accounting is intended to follow GAAP except in those situations where a departure from GAAP is necessary; we do not believe this is one of those areas of necessary departure. We believe the Statutory treatment should be consistent with GAAP in terms of reporting as an expense; in the case of Statutory accounting as an “other underwriting expense”. The Allstate insurance companies that computed and accrued SIP payments for March 2020, classified those
expenses in their first quarter statutory filings in line 4, Other underwriting expenses incurred in the Statement of Income (corresponding classification at year-end in the Insurance Expense Exhibit is line 24, Aggregate write-ins for miscellaneous operating expenses, column 3 General Expenses under the heading of Other Underwriting Expenses) and disclosed the nature of the SIP payments and expense classification in Note 21A – Unusual or Infrequent Items. We believe the consistency in disclosure between all methods of providing policyholder relief will allow regulators to view the impact of these programs on a consistent basis regardless of how they were executed.

Please do not hesitate to contact me to discuss the contents of this letter.

Kevin Spataro
Senior Vice President, Corporate Accounting Research
kspataro@allstate.com

Copies to:

DiAnn Behrens - Director, Corporate Accounting Research
Tom Helsdingen - Director, Statutory Reporting
Julie Gann, NAIC Staff
Robin Marcotte, NAIC Staff
### Part I. Financial Information

#### Item 1. Financial Statements

**The Allstate Corporation and Subsidiaries**

**Condensed Consolidated Statements of Operations (unaudited)**

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<tr>
<td>Net investment income</td>
<td>421</td>
</tr>
<tr>
<td>Realized capital gains (losses)</td>
<td>(482)</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>10,078</td>
</tr>
<tr>
<td><strong>Costs and expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Property and casualty insurance claims and claims expense</td>
<td>5,341</td>
</tr>
<tr>
<td>Shelter-in-Place Payback expense</td>
<td>210</td>
</tr>
<tr>
<td>Life contract benefits</td>
<td>501</td>
</tr>
<tr>
<td>Interest credited to contractholder funds</td>
<td>132</td>
</tr>
<tr>
<td>Amortization of deferred policy acquisition costs</td>
<td>1,401</td>
</tr>
<tr>
<td>Operating costs and expenses</td>
<td>1,399</td>
</tr>
<tr>
<td>Pension and other postretirement remeasurement (gains) losses</td>
<td>318</td>
</tr>
<tr>
<td>Restructuring and related charges</td>
<td>5</td>
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<tr>
<td>Amortization of purchased intangibles</td>
<td>28</td>
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<tr>
<td>Interest expense</td>
<td>81</td>
</tr>
<tr>
<td><strong>Total costs and expenses</strong></td>
<td>9,416</td>
</tr>
<tr>
<td>Gain on disposition of operations</td>
<td>1</td>
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<tr>
<td><strong>Income from operations before income tax expense</strong></td>
<td>651</td>
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<tr>
<td>Income tax expense</td>
<td>112</td>
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<tr>
<td><strong>Net income</strong></td>
<td>549</td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td>36</td>
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<tr>
<td><strong>Net income applicable to common shareholders</strong></td>
<td>$513</td>
</tr>
</tbody>
</table>

**Earnings per common share**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income applicable to common shareholders per common share - Basic</td>
<td>$1.02</td>
<td>$3.79</td>
</tr>
<tr>
<td>Weighted average common shares - Basic</td>
<td>317.4</td>
<td>332.6</td>
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<tr>
<td>Net income applicable to common shareholders per common share - Diluted</td>
<td>$1.59</td>
<td>$3.74</td>
</tr>
<tr>
<td>Weighted average common shares - Diluted</td>
<td>322.4</td>
<td>337.5</td>
</tr>
</tbody>
</table>

See notes to condensed consolidated financial statements.

First Quarter 2020 Form 10-Q 1
June 4, 2020

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: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Cincinnati Insurance Company (“Cincinnati”) appreciates the opportunity to provide comments for consideration on the Statutory Accounting Principles Working Group (“SAPWG”) re-exposed interpretation, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Cincinnati’s property casualty group is among the 25 largest groups in the United States, based upon net written premium.

Cincinnati provided comments during the original exposure period of May 5, 2020 through May 14, 2020. During this second exposure period of May 21, 2020 through June 5, 2020, our points remain relevant and we reiterate our support to modify the Tentative INT to allow relief payments to be accounted for and reported as expense where companies utilized rule filings or policy endorsements to allow these payments. Our position has also been communicated directly to the APCIA and interested parties.

Our support for recognizing as an expense, those relief payments made in relation to, at least, non-participating policies without premium refund terms, include the following points and premium refund contrasts:

- The payments were intended to provide immediate financial relief to policyholders, regardless of existing contractual obligations, on the premise of companies sharing their anticipated favorable loss experience with business segments of their policyholders.
- For participating policies, sharing favorable loss experience is accomplished through payment of policyholder dividends.
- Relief payment amounts were decided without having actual loss experience data, regarding the ultimate impact of federal and state shelter-in-place orders.
  - Cincinnati did not utilize rate filings to provide relief payments.
  - Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which is not completely available in this situation.
  - Actual loss experience data, when available, may reveal an increase in accident severity from fast driving and an increase in distracted driving accident occurrences.
  - Additionally, extended auto coverage, or waiver of policy restrictions, to allow utilization of personal automobiles for deliveries has been called for in some states.
- Even if companies expressed the relief payment amount as a percentage of premium, that does not make it a premium refund. Premiums are commonly used in calculation methodologies such as assessments, surcharges, and allocation of expenses.
- Cincinnati revised the impacted policyholder contracts through rule filings to states, explicitly stating payments are being treated as an expense, and provided company letters to all impacted policyholders, allowing this payment benefit. No state denied Cincinnati’s rule filing.
• Cincinnati’s relief payment plan, and the relief payment plan of other companies, are more characteristic of company expenses, such as policyholder dividends, policyholder benefits, assessments, surcharges, guaranty funds, and donations.

• As an expense, companies bear the majority of the financial burden for the payment.
  o As a reduction of premium, the financial burden of relief payments would be shared by further exacerbating revenue shortfalls
    § For state governments through reduced premium taxes and commission related income taxes.
    § For small businesses and individuals through commission claw-backs.
    § If states intend to include relief payment amounts in premium tax calculations or companies intend to otherwise compensate their producers, these actions would further support relief payments are an expense.

• Reporting the relief payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio, similar to policyholder dividends impacting only the policyholder dividend ratio component.
  o Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.
  o It seems counterintuitive that the relief payments should impact, negatively, the loss ratio, given that the premise of the relief payment is for companies to share their anticipated favorable loss experience.

• These payments are the result of an unusual and infrequent event that would be disclosed in financial statements and excluded from future rate filing consideration.

• Cincinnati acted with a sense of urgency in light of the pandemic, notified states of the company’s relief payment plans, and then proceeded to act, in good faith, in accordance with those plans, absent any state objections.

• In addition to these payments to our policyholders for immediate financial relief, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

In conclusion, Cincinnati supports modifying the Tentative INT, either by expanding Issue 1 or adding a new Issue, to allow relief payments to be accounted for and reported as expense in situations where companies utilized rule filings or contract endorsements to allow for these relief payments. We do not propose that expense treatment is the only answer, but rather, it is appropriate depending on the relief payment program communicated by each company in their state filings. We respect that other companies may have utilized payment methods different from ours, leading to other accounting treatment decisions. Ultimately, each company would consistently provide accounting transparency through disclosure of their handling of this unusual and infrequent event.

Sincerely,

Michael J. Sewell
Chief Financial Officer
Senior Vice President

CC: Julie Gann, NAIC Staff
Robin Marcotte, NAIC Staff
Theresa Hoffer, Senior Vice President and Treasurer
Andrew Schnell, Assistant Vice President
James Sims, Assistant Treasurer
Rachel Underwood, Technical Accounting Manager
June 3, 2020

NAIC Statutory Accounting Principles Working Group
Attn: Dale Bruggeman, Chair
Via e-mail to: Julie Gann  JGann@naic.org

Re: Proposed INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Chairman Bruggeman,

Co-operative Insurance Companies appreciates the opportunity to comment on the items exposed by the Statutory Accounting Principles Working Group (“SAPWG”) on May 5, 2020. Co-operative Insurance Companies is a mutual co-operative that was established in 1915 and is writing personal and commercial business in Vermont and New Hampshire.

Like many insurance companies, we’ve seen some initial favorable loss development on our personal auto book of business as a result of the various stay at home orders issued by the states. And like many insurance companies, we made the decision to provide some financial reprise for our personal auto policyholders and issued a one-time refund earlier this month. The Company views this refund like a policyholder dividend, with the difference being that it was not issued to all policyholders based on profits. As such, we have taken the view that the one-time refund should be treated as an expense for accounting purposes. To treat it as a reduction in premiums, as INT 20-08T suggests given our fact pattern, places an undue burden on our agents and the state as our intent was not to impact agent commissions or state premium tax liabilities.

Furthermore, in reading comment letters from other parties, Co-operative Insurance Companies agrees with the perspective that The Cincinnati Insurance Companies laid out in their letter dated May 20, 2020. Some states mandated refunds and most strongly encouraged it, so why wouldn’t companies account for this like a state assessment which would be recorded as an expense. As Andrew Schnell of The Cincinnati Insurance Companies stated, “If treated as premium, all aspects of the combined ratio, including the loss ratio, are impacted, which does not seem appropriate. Given that the premise of the payment request is for companies to share their anticipated favorable loss experience, it seems counterintuitive that loss experience ratios be negatively impacted by the payment.”

We hope that the SAPWG will take our perspective into account before adopting the proposed interpretation and revise it to allow for accounting of this unusual circumstance as an expense without individual companies having to seek approval for a permitted practice from their state of domicile.

Best Regards,

Tamaron Loger, CFE, CPA, MAFM
VP – Finance
Co-operative Insurance Companies
June 5, 2020

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

Re: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Grange Insurance Company (“Grange”) appreciates the opportunity to provide comments for consideration on the exposure drafts released for comment by the Statutory Accounting Principles Working Group (“SAPWG”) on interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Grange’s property & casualty group is among the 75 largest insurance groups in the United States of America, based upon our approximately $1.3 billion in net written premium.

The Tentative INT contemplates classifying policyholder relief payments in reaction to the current COVID-19 pandemic either as a reduction to premiums written or as policyholder dividends and provides proposed statutory accounting and reporting guidance accordingly. Grange’s comments will primarily focus on rationale to revise the Tentative INT to allow reporting these payments as other underwriting expenses due to other fact patterns that were not contemplated by the original policy exposure. Grange’s position is based on the following logic:

- The payments were intended to provide immediate financial relief to our policyholders regardless of our contractual obligations.
- The payments were made voluntarily in our operating states.
- Grange revised the impacted policyholder contracts through filing policy endorsements with certain states and provided company letters to all impacted policyholders to provide the contractual language needed to allow such payments.
- Grange did not file for premium rate changes in any state as a result of issuing these payments to our policyholders. These payments are the result of an unusual and infrequent event that will be excluded from future rate filing considerations.
- Loss experience data was mostly unknown at the time of announcing and issuing the relief payments during the 2nd week of April, regarding the ultimate impact of federal and state shelter-in-place orders. Loss experience improvements were estimated for the personal auto book in total based on the expectation of lower miles being driven during April and May.
Formal policyholder dividends were not a viable option for Grange as dividends must be paid to all policyholders, not just the lines of business expected to be favorably impacted by the shelter-in-place orders. Also, due to required approvals, dividends would not be the most immediate payment option.

These payments are more in line with a one-time company expense, such as a policyholder dividend.

When we looked for relative consistency in reporting treatment for payments made outside of contractual premium refunds, categorizing these payments as an expense was the closest option to policyholder dividend reporting.

Classification as a premium refund will have unintended ancillary financial consequences, such as reducing premium taxes to state agencies. Like many of our competitors, we assured our independent agent partners, many of which are small businesses, that their commissions would not be impacted by these payments. Accordingly, commission ratios will be inflated for this calendar year if reporting as a premium refund is required.

Reporting the payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio.

Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.

Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which was not completely available in this situation.

In addition to these payments to our policyholders for immediate financial relief, which we view as a one-time expense, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

Insurance companies acted with a sense of urgency in light of the unprecedented scale of the pandemic, notified states of company payment plans, and then proceeded to swiftly act, in good faith, in accordance with those plans, absent any state objections. To that point, Grange issued nearly 340,000 relief payments to our policyholders during the last week of April and first week of May.

In light of the COVID-19 pandemic, regulators from a majority of states issued a number of bulletins, orders, advisories, and other guidance (collectively “Bulletins”) urging property & casualty insurance carriers nationwide to provide some means of immediate financial relief to policyholders, at least in private passenger automotive lines. The principle was that insurers should provide immediate financial relief in anticipation of lower than expected loss experience arising from a decrease in driving activity due to federal and state shelter-in-place orders. Such payments needed to be applied reasonably and consistently in order to avoid being considered a rebate or unfair discrimination. Though payments by insurance carriers would be a voluntary action in most states, they were required in the State of California (Bulletin 2020-3). The issuance of Bulletins by each state, each with their own guideline nuances, created uncertainty across insurance carriers of how to accommodate making such payments within applicable compliance standards.
Grange considered the magnitude of the situation and guidance available at the time. A policyholder dividend was deemed inappropriate, at least in part, as it would take longer to enact given the required approval process. A premium refund would create unintended negative financial consequences to state agencies and our independent agent partners (absent the decision by Grange, like many carriers, to not impact agent compensation) by reducing premium amounts, thereby reducing premium taxes and commissions. Premium refunds also have the negative impact of altering comparability for all components of the combined ratio. Additionally, these policyholder relief payments were based on the expectation of profits from favorable loss experience, yet the data to determine such experience had not yet occurred. Therefore, Grange communicated to states that the payment program would be treated as an expense when policy endorsements were filed. Grange included that we intend to review the actual loss experience results and adjust premiums on a forward looking basis as part of regularly planned future rate reviews. These one-time payments would be excluded from future rate calculations and filings. No state rejected Grange’s payment program.

In the absence of any state objections, Grange acted in accordance with the relief payment program and contends that reporting these pandemic related payments as an expense would fall within the guidance of SSAP 70 – Allocation of Expenses and be disclosed in accordance with SSAP 24 – Discontinued Operations and Unusual or Infrequent Items. INT 20-08T already includes disclosure guidance under SSAP 24. SSAP 70 – Allocation of Expenses, paragraph 3 states:

3. Allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows:

And then goes on to list the three expense categories as a) Loss adjustment expenses, b) Investment expenses, or c) Other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses. Grange would report the one-time relief payments as a write-in item under other underwriting expenses.

In conclusion, Grange believes it is reasonable and appropriate for INT 20-08T to provide guidance to companies to report the relief payments as an expense. The payments achieved immediate financial relief for policyholders without unintended negative consequences for state agencies and our independent agent partners. Policyholders would see premium relief, when experience supports it, in future rates. We also believe that comparability of insurance company results is least impacted if these payments are recorded as other underwriting expenses.

Sincerely,
Brian Poling
VP - Finance
June 5, 2020

Dale Bruggeman  
Chair, Statutory Accounting Principles (E) Working Group  
National Association of Insurance Commissioners  
VIA Email Transmission: jgann@naic.org;  

RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies regarding the interpretive reporting guidance issued to account for premium refunds, rate reductions, and policyholder dividends. We previously submitted a comment letter on this topic to the working group on May 14, 2020 and continue to support the points raised in that letter.

The purpose of this follow-up letter is to emphasize the point that insurance company statutory financial statements should reflect the actions and approaches taken by management that best reflects company experience; therefore, in regards to accounting for premium relief measures, statutory accounting should be flexible to accommodate the various approaches taken by insurers. The COVID-19 ongoing crisis prompted many insurance companies to respond to policyholders experiencing economic hardship in various ways. While different approaches were taken, one common theme among insurers who provided premium relief to policyholders was evident, that is there was a sense of urgency to get money back to impacted policyholders.

That urgency and drive to get money back to policyholders created some obstacles for companies. Traditional methods of returning premium to policyholders was not a viable option for some carriers. For example, issuing a policyholder dividend presented challenges around timing and restrictions on issuing dividends for only single line of business contracts. Companies unable to issue a dividend but were able to provide premium relief to policyholders did so without having complete loss experience data. As part of normal business operations, a full review of actual loss experience results is conducted leading to a potential adjustment to future premiums. Without that complete analysis, some insurers view treating these payments as an “other underwriting expense” to be the cleanest method of accounting.

Treating these payments as an “other underwriting expense” avoids certain unintended consequences for those insurers that were unable to issue a dividend or were not able to file for new rates in an expeditious fashion. If regulators agree to allow for flexibility, insurers that treat these payments as expenses will avoid impacting both the combined ratio and loss ratio. Instead it would only impact the expense ratio. Critical to understanding the
profitability of a line of business, or more importantly, determining the adequacy of rates for certain lines is an analysis of the loss ratio. When you treat these payments as a return of premium, that automatically increases the loss ratio. Given the importance of rate adequacy, classifying these payments as an expense will help in determining future rates as these unusual and infrequent expenses would be excluded from future rate filings.

In addition to these unintended consequences to the financial statements, other challenges should be considered by the working group. For example, if expense treatment is not allowed for any insurer, that has the impact of reducing the amount of premium taxes paid to the state. While many insurers will treat these relief measures as a return of premium, reducing their premium tax bill, those who classify as an “other underwriting expense” will not have their premium tax bill reduced.

Finally, the statutory financial statements assist state insurance regulators with regulating the solvency of insurance companies, and the proposed INT includes a new disclosure that requires insurers to disclose all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends as unusual or infrequent items in annual statement note 21A. This disclosure will help regulators understand the approaches taken by various insurance companies around providing policyholder relief, regardless of whether they classified it as a return of premium or an “other underwriting expense”. If the working group doesn’t allow for “other underwriting expense” treatment, companies will be forced to seek alternative options, such as state permitted or prescribed practices leading to additional and unnecessary disclosures. In this case, a duplicative disclosure to the new note 21A.

Thank you for your consideration of these comments. This issue is critically important to NAMIC members and their policyholders. If there are any questions, please feel free to contact me at 317-876-4206.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies
June 5, 2020

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
VIA Email Transmission, c/o jgann@naic.org; rmarcotte@naic.org
RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Progressive Group of Insurance Companies, on behalf of its property & casualty insurance companies, (“Progressive”) appreciates the opportunity to provide comments for consideration on the exposure draft released for comment by the Statutory Accounting Principles Working Group (“SAPWG”) on interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Progressive is the third largest private passenger auto insurance company in the United States of America, based upon our approximately $31 billion in direct premiums written for 2019.

In response to the Tentative INT, Progressive agrees in principle with the comments previously submitted to SAPWG by The Cincinnati Insurance Company and Grange Insurance and agrees with the draft edits to the Tentative INT by the interested parties, particularly the addition of Issue 4.

Progressive’s position is based on the following:

- Where required, we filed a policy endorsement and/or rule, not a rate filing, to authorize and facilitate discretionary credits and payments to policyholders in response to the COVID-19 pandemic and was a one-time action to provide immediate relief
- The credits and payments are available to all customers with an active personal automobile policy on April 30 and/or May 31 and there was no differentiation among customers
- To ensure consistency, the credit was calculated based on 20% of the amount of premium earned by each policyholder during the months of April and/or May (for New York policyholders, the credit will be calculated based on 20% of May and/or June premiums earned, instead of April and/or May)
- To accommodate the urgency of the situation, the amount of the credits and payments was determined without specific known loss experience but was based on changes in: average miles travelled per vehicle, as derived from our usage-based insurance (UBI) program; weekly incoming claim features; and total personal auto frequency pre and post the COVID-19 restrictions period. We did not determine the credit for policyholders enrolled in our UBI program based on their individual miles driven.
- Reducing premiums in conjunction with the policyholder credits and payments would conflict with the rate filings that are currently in place and would reduce the amount of premium taxes, independent agents’ commissions, and various assessments that would be due based on these
filed rates; we have never had any intention of receiving a return of premium taxes, assessments, or commissions paid

- We are not aware that there has ever been a difference between statutory accounting and generally accepted accounting principles in the United States of America (“GAAP”) as it relates to accounting for premiums. Similar to several other public company registrants, we recorded the policyholder credits and payments as an underwriting expense when we filed our April results via a Current Report on Form 8-K with the Securities and Exchange Commission (SEC) on May 20, 2020; the GAAP accounting treatment was based on the underlying premise that the credits and payments are akin to a policyholder dividend in the sense that we are, at our noncontractual discretion, returning profits that resulted from a reduction in loss costs due to the shelter-in-place orders with policyholders based on a program that was derived at the enterprise-wide level as opposed to the contract level.

- Given that our rating plans were not impacted as a result of the policy endorsement and/or rule that was filed, it would seem appropriate that the statutory accounting treatment would follow the GAAP accounting treatment.

- The intent to treat the policyholder credits and payments as an underwriting expense has been clearly disclosed in the filing memorandum issued to the states’ departments of insurance and as a separate financial statement line item in our April GAAP-basis financial statements released and filed with the SEC on May 20, 2020. We intend to show the credits as a write-in line item in our statutory financial statements. The transparency of these credits enables the users of the financial statements to understand the financial impact resulting from this issue.

The current draft of the Tentative INT only provides for the classification of policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds, rate reductions, or policyholder dividends, and provides proposed statutory accounting and reporting guidance based on these classifications. Progressive instead supports the addition of Issue 4 as proposed in the comment letter submitted by the interested parties to allow the flexibility of accounting for these policyholder relief payments based on the underlying methodology used by the insurance companies.

Regards,

/s/ John P. Sauerland

John P. Sauerland
Chief Financial Officer
The Progressive Group of Insurance Companies

cc: Mariann Wojtkun Marshall, Chief Accounting Officer, The Progressive Group of Insurance Companies
    Jeffrey A. Schenk, Deputy General Counsel, The Progressive Group of Insurance Companies
    Julie Gann, SAP Working Group, NAIC, via: jgann@naic.org
    Robin Marcotte, SAP Working Group, NAIC, via: rmarcotte@naic.org
June 5, 2020

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: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

UnitedHealthcare appreciates the opportunity to comment on INT 20-08T, COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends. UnitedHealthcare is a diversified health care company dedicated to helping people live healthier lives and helping to make the health system work better for everyone. Over the last several months, the emergence of the COVID-19 virus has caused well-documented challenges to people, businesses and institutions across national and global health care systems. Among them is the disruption to traditional patterns of delivering health care causing related economic disruption and imbalances to the nation’s health care coverage systems.

In response to this challenge, UnitedHealthcare and many other insurers are taking actions in a variety of ways to help provide financial relief to insured members. Since the form of the financial relief varies among insurers, the accounting treatment may need to be tailored to the specific form of the relief program. Our comments are focused on the voluntary issuance of premium refunds or credits to in-force policyholders which are not outlined in the policy terms.

We agree with and support the current proposal to treat these types of premium refunds as a reduction to written and earned premium. We believe this treatment is consistent with the intent of the transaction (a return of premium to the policyholder) and is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations. The timing of recognition of the premium refund should correspond with the associated coverage period impacted by the premium action. In the case of premium refunds issued for current or prior coverage periods, the recognition should be immediate. There may be situations where the premium rate is being reduced over the remaining policy period, in which case, the premium reduction may need to be recognized over the policy period impacted.

With respect to any liability required to be recognized in accordance with in SSAP No. 5R - Liabilities, Contingencies and Impairments of Assets, we believe the liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.

While we believe the above-described reduction to premium approach is the appropriate accounting treatment, we understand other interested parties and some regulators have expressed concerns with the
distortion of reported loss or operating ratios resulting from this classification. As an alternative acceptable option to address these concerns, we feel there could be some justification for treatment as bad debt expense. The election to not collect premium could result in the premiums being written off as bad debts when it is determined to be uncollectable.

We appreciate the consideration of our comments. We would be happy to discuss further and address any questions you may have.

Sincerely,

Sherry Gillespie
Director, Regulatory Finance
Sherry.Gillespie@uhc.com

James R. Braue
Director, Actuarial Services
Jim_Braue@uhg.com

CC: Randi Reichel, UnitedHealthcare
    Robin Marcotte, NAIC SAPWG Staff
    Julie Gann, NAIC SAPWG Staff
Interpretation of the Statutory Accounting Principles Working Group

INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

INT 20-08 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020; June 15, 2020

INT 20-08 References

SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets
SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items
SSAP No. 53—Property Casualty Contracts—Premiums
SSAP No. 54R—Individual and Group Accident and Health Contracts
SSAP No. 65—Property and Casualty Contracts
SSAP No. 66—Retrospectively Rated Contracts

INT 20-08 Issue

COVID-19

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

Refunds, Rate Reductions and Policyholder Dividends

2. The federal, state or local government orders requiring non-essential workers to “stay home” caused a significant reduction in commercial and non-commercial activity, including automotive usage. Some consumer groups wrote letters and issued press releases calling for insurance premium refunds or pricing decreases, which included specific comments directed toward consumer automotive lines. The comments presumed that the decrease in activity would result in fewer losses.

3. Many insurers began issuing voluntary premium refunds, future rate reductions or policyholder dividends because of the decreased activity. The majority of the refunds were related to automotive lines of business. Insurers have provided the reductions in a variety of ways. Some of the rate reductions were specific for in-force policies, whereas some of the rate reductions would apply to future policy renewals.

Voluntary

4. The majority of the refunds or rate reductions are being offered voluntarily and are not amounts required under the policy terms. The aggregate monetary amount of the return of funds is considered materially significant.
Jurisdiction Directed

5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on accident and health insurance and varying lines of property and casualty insurance, including but not limited to: private passenger automobile, commercial automobile, workers’ compensation, commercial multiple peril, commercial liability and medical professional liability. In addition, some jurisdictions have indicated support for refunds or rate reductions, but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues

6. This intent of this interpretation is to address questions related to refunds, rate reductions and policyholder dividends in response to the decreased activity related to COVID-19. Because there are a variety of ways that reporting entities are accomplishing a similar objective of returning money or reducing premiums, this interpretation provides guidance on the following issues:

- Issue 1: How to account for refunds not required under the policy terms.
- Issue 2: How to account for refunds required under the policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder dividends.
- Issue 5: Where to disclose refunds, rate reductions and policyholder dividends related to COVID-19 decreases in activity.

INT 20-08 Discussion

7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible.

Issue 1: How to Account for Refunds Not Required Under the Policy Terms

8. The Working Group reached a consensus that voluntary refunds because of decreased activity related to COVID-19 and jurisdiction-directed refunds which are not required by the policy terms, are fundamentally a return of premium. Such refunds shall be accounted for as immediate adjustments to premium. The refunds shall be recognized as a reduction to written or earned premium and the unearned premium reserve adjusted accordingly.

9. Refunds shall be recognized as a liability when the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets is met. For example, the declaration of a voluntary dividend by the board of directors will trigger liability recognition. In cases where the refunds are directed by a jurisdiction, the SSAP No. 5R definition of a liability shall be used to determine timing of liability recognition.

10. Immediate adjustment to premium is consistent with the existing guidance in SSAP No. 53—Property Casualty Contracts—Premiums. SSAP No. 53 guidance requires adjustments to the premium charged for changes in the level of exposure to insurance risk. It is also consistent with the treatment of loss sensitive premium adjustments in SSAP No. 66—Retrospectively Rated Contracts. While some of the
voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply.

11. Immediate adjustments to premium for voluntary accident and health premium refunds is also consistent with the guidance in SSAP No. 54R—Individual and Group Accident and Health Contracts on contracts subject to redetermination. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply. The liability for voluntary health premium refunds attributable to COVID-19 and which are not required under the policy terms shall be recognized in aggregate write-ins for other liabilities.

12. Reporting the voluntary or jurisdiction-directed refund as an expense is not consistent with statutory accounting guidance and would improperly present the expense ratios in the statutory accounting financial statements. Reporting the refund as an expense, or any other method besides a decrease to premium, would be considered a permitted or prescribed practice and shall be disclosed as required by SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures:

   a. Reporting the refunded amounts as a miscellaneous underwriting expense is not consistent with the underwriting expense description. This reporting option is inconsistent with the characterization of the amount as a return of premium.

   b. Reporting the refunds as premium balances charged off (e.g., bad debt expense) is inconsistent with guidance in SSAP No. 53, paragraph 14, on earned but uncollected premium. It is also inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged.

**Issue 2: How to Account for Refunds Required Under the Policy Terms**

13. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53, SSAP No. 54R or SSAP No. 66 continues to apply:

   a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers’ compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but unbilled (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.

   b. SSAP No. 54R provides guidance for policies subject to redetermination in which the premium is subject to adjustments by contract terms. This is commonly seen in federal and state groups. The guidance notes that estimates are based on experience to date and premium adjustments are estimated for the portion of the policy that has expired. Accrued return premiums are recorded as a liability with a corresponding entry to written premium. Refunds required under the policy terms would continue to be reported as retrospective or redetermination premium liabilities if applicable.
c. SSAP No. 66 provides guidance for policies whose terms or legal formulas determine premium based on losses. SSAP No. 66 references other applicable statements based on contract type for the initial accrual of premium. Estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium. SSAP No. 66 guidance specifies the corresponding annual statement reporting lines for different entity types.

**Issue 3: How to Account for Rate Reductions**

14. Some reporting entities are offering rate reductions instead of premium refunds. Some of these rate reductions provide one-time price decreases to future payments on in-force policies. Other reporting entities have provided offers of rate reductions on future renewals. Some of the offers for future rate reductions are only applicable to in-force policyholders as of a specified date. Some reporting entities have offered one-time rate reductions for future renewals for both existing and new policyholders for 2020.

   a. Rate reductions on in-force business, shall be recognized as immediate adjustments to premium.

   b. Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. This is because it is outside of the policy boundary to require the accrual before contract inception. While the amount of future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate, therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue No. 5.

**Issue 4: How to Account for Policyholder Dividends**

15. *SSAP No. 65—Property and Casualty Contracts*, paragraph 46 requires that dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability.

16. The Working Group noted that policyholder dividends are typically only provided on participating policies or policies issued by non-stock companies, such as mutual entities and other corporate entity types in which profits are shared with policyholders.

17. Research during the development of this item identified that a small number of jurisdictions have legal restrictions which only allow policyholder dividends to be provided after the expiration of the policy period for which the dividend was earned. This interpretation only addresses policyholder dividends which are permitted by the applicable jurisdiction.

18. The property and casualty annual statement blank provides specific reporting lines for policyholder dividends including, but not limited to a liability line and a line in the income statement and statement of cash flow. For those entities whose policies are participating or whose corporate shell type and/or membership structure allow for policyholder dividends, the accounting for policyholder dividends is unchanged by this interpretation.

19. This interpretation does not change the policyholder dividend disclosure or reporting but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.
Issue 5: Where to Disclose Refunds, Rate Reductions and Policyholder Dividends Related to COVID-19 Decreases in Activity

20. There are various places in the notes to the statutory annual statement where disclosures of various aspects of premium refunds, premium reductions or policyholder dividends are required. This interpretation does not recommend changes to those existing disclosures. This interpretation does, however, recommend a consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

21. SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items requires disclosure of the nature and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. This disclosure is currently required to be reported in annual statement Note 21A. (Reporting entities shall maintain jurisdiction-specific information to be made available upon request from department of insurance or revenue regulators.)

22. To allow for aggregate, consistent assessment, the Working Group came to a consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For clarification, refunds required under policy terms in-force prior to the federal declaration of emergency for the COVID-19 pandemic as discussed in paragraph 13 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends. Policies whose terms were modified after the declaration of emergency in response to COVID-19 are required to disclose the COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

INT 20-08 Consensus

23. The Working Group reached a consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:

a. Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-12 of this interpretation. This guidance stipulates that such refunds shall be recognized as a reduction of premium. Refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

b. Reporting entities that provide refunds in accordance with insurance policy terms shall follow paragraph 13 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53, SSAP No. 54R or SSAP No. 66 shall be followed as applicable.

c. Reporting entities that provide rate reductions shall follow paragraph 14 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.
d. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 15-19 and in addition, shall complete the disclosures described in paragraphs 20-22.

e. This interpretation, paragraphs 20-22 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A as unusual or infrequent items.

24. The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

25. This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

INT 20-08 Status

26. Further discussion is planned.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call May 20, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Richard Ford (AL); Kim Hudson (CA); Kathy Belfi (CT); Ryllynn Brown (DE); Eric Moser and Kevin Fry (IL); Stewart Guerin (LA); Judy Weaver (MI); Tom Dudek (NY); Joe DiMemmo (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

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

The Working Group held a public hearing to review comments (Attachment One-C1 and One-C2) on previously exposed items. Ms. Malm made a motion, seconded by Mr. Hudson, to adopt the statutory accounting revisions detailed below as non-contested statutory accounting revisions. This motion also included the disposal of agenda item 2019-41. The motion passed unanimously.

a. Agenda Item 2019-37

Mr. Bruggeman directed the Working Group to agenda item 2019-37: Surplus Notes – Enhanced Disclosures (Attachment One-C3). Jim Pinegar (NAIC) stated that this nonsubstantive agenda item was drafted from the Working Group’s request that additional disclosures be captured in Statement of Statutory Accounting Principle (SSAP) No. 41R—Surplus Notes. He stated that the proposed disclosures materially reflected certain key details from the 2019 surplus note data call. These disclosures were intended to give state insurance regulators further insight into the issuances of surplus notes that do not contain the cash flows typically associated with surplus notes while providing adequate pricing confidentiality sought by interested parties.

b. Agenda Item 2019-41

Mr. Bruggeman directed the Working Group to agenda item 2019-41: Eliminating Financial Modeling Process (Attachment One-C4). Mr. Pinegar stated that this nonsubstantive agenda item was in response to an earlier referral received from the Valuation of Securities (E) Task Force. The agenda item originally was drafted so the Accounting Practice and Procedures Manual (AP&P Manual) would reflect a revision that was under consideration by the Task Force regarding financial modeling of residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) securities. However, the Task Force has since elected to retain the financial modeling approach and will now map the designation derived from the model to a new NAIC designation category. Mr. Pinegar stated that considering this change, the proposed update in this agenda item was no longer applicable and recommended disposal of this agenda item without statutory revisions.

c. Agenda Item 2019-47

Mr. Bruggeman directed the Working Group to agenda item 2019-47: VM 21 Grading (Attachment One-C5). Robin Marcotte (NAIC) noted that the agenda item addresses VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and grade-in requirements for reporting changes in valuation basis for years beginning Jan. 1, 2020. She stated that the revisions to the Valuation Manual allowed different optional phase-in requirements. The exposure includes nonsubstantive revisions to SSAP No. 51R—Life Contracts and SSAP No. 3—Accounting Changes and Corrections of Errors for reporting years beginning Jan. 1, 2020. Ms. Marcotte stated the exposure incorporated many of the previous edits recommended by interested parties and would expand the disclosure for changes in valuation basis, which are reported as a change in accounting principle under SSAP No. 3. The additional disclosure would identify specific details regarding phase-in of changes in valuation basis.

d. Agenda Item 2020-06EP

Mr. Bruggeman directed the Working Group to agenda item 2020-06EP: Editorial and Maintenance Update (Attachment One-C6). Ms. Marcotte stated that this item provides nonsubstantive editorial corrections in accordance with the maintenance process, deleting an unnecessary excerpt and updating various paragraph references in SSAP No. 21R—Other Admitted Assets and SSAP No. 51R.

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e. **Agenda Item 2020-07**

Mr. Bruggeman directed the Working Group to agenda item 2020-07: Change to the Summary Investment Schedule (Attachment One-C7). Jake Stultz (NAIC) stated that SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures requires disclosures as detailed in Appendix A-001: Investments of Reporting Entities (A-001). He stated that Section 3 of A-001 requires the Summary Investment Schedule in the statutory annual statements and the notes of the annual audited financial statements. This agenda item arose because NAIC support staff for the Blanks (E) Working Group were notified of a cross-check error where total mortgage loans reported on the Summary Investment Schedule do not tie to the amounts reported in Schedule B, Mortgages – Part 1. Mr. Stultz noted that the nonsubstantive revisions will add the total valuation allowance to the Summary Investment Schedule to ensure these schedules appropriately tie together.

f. **Agenda Item 2020-08**

Mr. Bruggeman directed the Working Group to agenda item 2020-08: Accounting Standard Update (ASU) 2016-20, Technical Corrections & Improvements – Topic 606 (Attachment One-C8). Mr. Stultz stated that ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers was issued to clarify narrow aspects of the guidance issued in ASU 2014-09, Revenue from Contracts with Customers. He stated that in 2018, the Working Group previously rejected the guidance in ASU 2014-09 and several other ASUs related to revenue recognition in SSAP No. 47—Uninsured Plans. He stated that this agenda item proposes to reject ASU 2016-20 in SSAP No. 47, and the proposed action is consistent with how the prior ASUs related to Topic 606 have been treated.

g. **Agenda Item 2020-09**

Mr. Bruggeman directed the Working Group to agenda item 2020-09: ASU 2018-18, Collaborative Arrangements – Topic 808 (Attachment One-C9). Mr. Stultz stated that this ASU clarifies and aligns revenue recognition under the new Topic 606 for collaborative arrangements. He stated that a collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity involving two or more parties that are active participants in the activity and are exposed to significant risks and rewards dependent on the commercial success of the activity. He stated that this agenda item proposes to reject ASU 2018-18 in SSAP No. 47, and the proposed action is consistent with how the prior ASUs related to Topic 606 have been treated.

h. **Agenda Item 2020-10**

Mr. Bruggeman directed the Working Group to agenda item 2020-10: ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606 (Attachment One-C10). Mr. Stultz stated that this ASU only affects U.S. Securities and Exchange Commission (SEC) paragraphs in Topic 220, Topic 605 and Topic 606. He noted that the nonsubstantive revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403 as not applicable to statutory accounting.

i. **Agenda Item 2020-11**

Mr. Bruggeman directed the Working Group to agenda item 2020-11: ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses and Lease (Attachment One-C11). Mr. Stultz stated that this ASU only affects the SEC section in Topic 326, which clarifies reporting for SEC registrants and updates the effective date for these provisions and the updates to Topic 842. He noted that the nonsubstantive revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) as not applicable to statutory accounting.

2. **Reviewed Comments on Exposed Items**

The Working Group held a public hearing to review comments (Attachments One-C1 and One-C2) on previously exposed items.
a. **Agenda Item 2019-25**

Mr. Bruggeman directed the Working Group to agenda item 2019-25: Working Capital Finance Investments. Ms. Marcotte noted that the materials contain substantive revisions, incorporating the industry proposed language for the specific items directed by the Working Group at the 2019 Summer National Meeting to **SSAP No. 105—Working Capital Finance Investments**. She stated that NAIC staff recommended adoption of the substantively revised SSAP No. 105 and **Issue Paper No. 163—Working Capital Finance Investment Updates**, noting a proposed effective date of June 30.

Ms. Belfi stated she requested that the Working Group consider removing the last sentence in paragraph 16, which states, “Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.” She stated that since Connecticut does not currently possess the resources to adequately evaluate such an investment program, they would rely upon the NAIC Securities Valuation Office (SVO) for input. Ms. Belfi stated that as the SVO must already preapprove these transactions, that control regarding these investments was sufficient and thus not requiring a secondary preapproval by the domiciliary commissioner. Additionally, the statement could result in regulator misinterpretation in that domiciliary commissioners may feel compelled to review transactions in which they do not possess the resources to adequately evaluate. She stated that regulators already can review any transaction or investment deemed appropriate and the statement in paragraph 16 was unnecessary. Ms. Belfi proposed a friendly amendment to remove this single sentence from paragraph 16.

Mr. Fry stated agreement with Ms. Belfi’s comments and noted that no other investment SSAPs contain such language, adding that the language confuses the substance of the SSAP. He stated that with the current requirements such as the SVO preapproval, investments being restricted to investment grade and state investments laws, these investments should remain short-term and of relatively low risk. Ms. Marcotte stated that NAIC staff did not object to the friendly amendment, noting that in addition to the single sentence removal to paragraph 16 of SSAP No. 105, minor edits would also be required in Issue Paper No. 163 documenting the revision. Michael Monahan (American Council of Life Insurers—ACLI) stated that interested parties support the friendly amendment that Ms. Belfi proposed.

Ms. Belfi made a motion, seconded by Mr. Fry, to adopt the substantially revised SSAP No. 105 and Issue Paper No. 163 incorporating the additional revisions discussed (Attachments One-C12, One-C13 and One-C14). The motion passed unanimously.

b. **Agenda Item 2019-42**

Mr. Bruggeman directed the Working Group to agenda item 2019-42: Cash Equivalent – Cash & Liquidity Pools. Mr. Pinegar stated that this nonsubstantive agenda item was drafted to scope certain cash and liquidity pools into **SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**. He stated that cash pools that met specific criteria would be permitted to be captured in SSAP No. 2R, but the intent of the agenda item was not to permit reporting entries to move short-term investments into the pool or conduct activities that would not be permitted under statutory accounting, such as circumventing reporting or disclosures. Mr. Pinegar stated that interested parties requested consideration for reporting based on a determination, based on management’s judgment at the time the pool is formed, as to the expected characteristics of the pool assets. He stated that NAIC staff supported single line reporting in Schedule E – Part 2. Single line reporting will ensure unilateral, uniform reporting among all pool participants and all reporting entities who participate in various, qualified cash pools. Additionally, a unique reporting line specifically for qualified cash pools is expected to be available in 2021. Mr. Pinegar stated that interested parties also requested an effective date of Jan. 1, 2021. However, NAIC staff were supportive of an immediate effective date to ensure that cash pools that do not meet the qualifying parameters, absent permission from a reporting entity’s domestic regulator, would not be allowed to be reported as a cash equivalent or short-term investment. However, for qualifying cash pools that would require a reclassification to Schedule E, the agenda item would allow current schedule reporting until Jan. 1, 2021.

Diane Bellas (Allstate), representing interested parties, noted the importance of single line reporting and agreed with the proposed Jan. 1, 2021, effective date as entities may need to analyze their qualified pools for potential schedule changes. She requested clarification regarding the requirement for a permitted or prescribed practice in terms of entities that hold pools that do not qualify upon adoption of this agenda item.

Julie Gann (NAIC) stated that there are currently no provisions in SSAP No. 2R that permit the admittance of cash pools. She stated that if an entity were to continue to hold a cash pool that does not meet the qualifying parameters, for continued reporting as a cash equivalent or a short-term investment, a permitted or prescribed practice would be required. In terms of the Jan 1,
2021, effective date, this was simply a reclassification deadline for qualifying cash pools that meet the parameters in this agenda item.

Mr. Bruggeman stated that state investment laws may prescribe reporting of cash pool participation. However, reporting entities should work with their domestic regulators for cash pools not within scope. This agenda item effectively proposes guidance for valuation and reporting of cash pools, which were not previously in scope of SSAP No. 2R. He stated that the intent of cash pools is to effectively use the idle cash of several affiliated entities. Regulators do not want to find nonqualifying investments in these pools, and the principles of this agenda item should not be violated.

Mr. Hudson made a motion, seconded by Ms. Mears, to incorporate the modifications as proposed by NAIC staff and adopt nonsubstantive revisions to SSAP No. 2R (Attachment One-C15). The motion passed unanimously.

c. Agenda Item 2019-20

Mr. Bruggeman directed the Working Group to agenda item 2019-20: Rolling Short-Term Investments. Mr. Pinegar stated that this nonsubstantive agenda item was originally exposed to address certain investments that were structured as short-term investments, with those investments being rolled or renewed and remaining on a short-term schedule for multiple consecutive years. This agenda item proposes specific revisions that would restrict related party or affiliated investments in scope of SSAP No. 26R—Bonds, SSAP No 43R—Loan-Backed and Structured Securities or that would be reported as other invested asset investments from being continually classified as a cash equivalent or short-term investment. He stated that additional provisions are included to recognize the independent operational nature of some affiliated or related party reporting entities, and the agenda item provides special carveouts from the short-term rolling restrictions. Mr. Pinegar stated that if a reporting entity re-underwrites the investments, maintains appropriate re-underwriting documentation and each party had the ability to independently review the terms and can terminate the transaction prior to renewal, the short-term rolling restrictions would not apply. He stated that interested parties proposed a few minor, corrective edits, all of which were supported by NAIC staff. Additionally, interested parties proposed to remove the term “substantially similar” from the disclosure requirement that requires identical or substantially similar investments in which remain on the short-term schedule for more than one year be identified. NAIC staff believe that removing the substantially similar verbiage would allow for minor, insignificant modifications to be made to an investment that would then preclude disclosure and remove the substance of the agenda item.

Josh Bean (Transamerica), on behalf of interested parties, suggested one additional minor editorial change (removing an extra period within a sentence) for clarification purposes. Ms. Gann stated agreement with a minor editorial suggestion and noted that any other modifications would occur in the normal process of using an editorial update agenda item.

Angelica Tamayo-Sanchez (New York Life) requested clarification regarding the term “substantially similar” and if disclosure requirements would apply to both short-term and cash equivalent investments. She stated that parameters or expanded guidance would be needed to adequately define “substantially similar,” noting that for liquidity purposes, many nonaffiliated investments continually roll.

Mr. Bruggeman stated the term “substantially similar” was originally intended to capture investments that were renegotiated. Ms. Gann stated that the disclosure element is a code in the reporting blanks to identify both affiliated and non-affiliated investments, which remain on the short-term schedule for more than one consecutive year. She stated that the concept of “substantially similar” is a common accounting term and that there is existing reference in SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities for substantially similar investments. She stated that the principal intent of the reference in SSAP No. 2R is to prevent minimal changes in investments solely to circumvent the short-term rolling restrictions and/or the disclosure requirements. She stated that the disclosure of rolled investments is the use of a code in the financial statements, not a narrative statement.

Mr. Bruggeman stated that currently the disclosure only specifically identifies short-term investments. However, he stated the intent was to also include cash equivalent investments. Ms. Gann stated the intent of the agenda item was to capture both short-term and cash equivalents due to potential risk-based capital (RBC) arbitrage. However, she stated the edit to explicitly add cash equivalents to the disclosure requirements can be added in a subsequent agenda item, but numerous references regarding identification of cash equivalents are already in the agenda item. Mr. Bruggeman stated that in an effort to have the desired reporting in place for year-end 2020, adoption of the rolled short-term investments could occur, with a future update to clarify the inclusion of cash equivalent investments in the disclosure requirements. Mr. Bean stated agreement with this approach and stated he does not oppose adopting the agenda item in its current form, with the expectation of a future update to clarify the inclusion of cash equivalent investments in the disclosure requirements.
Mr. Hudson made a motion, seconded by Mr. DiMemmo, to incorporate the modifications as proposed by NAIC staff and adopt nonsubstantive revisions to SSAP No. 2R (Attachment One-C16). The motion passed unanimously. The Working Group also directed NAIC staff to draft an editorial agenda item to clarify that cash equivalent investments shall be included in the disclosure requirements.

d. Agenda Item 2019-36

Mr. Bruggeman directed the Working Group to agenda item 2019-36: Expand MGA and TPA Disclosures. Ms. Marcotte stated that this nonsubstantive agenda item was drafted pursuant to a request from two states to expand the existing annual statement disclosure regarding managing general agents (MGAs) or third-party administrators (TPAs) to include additional information. She noted that in agreement with interested parties’ comments, additional work needs to be completed on the definitional terms of TPAs. She stated that the previously referenced NAIC guideline only applies to a few specified lines of business and that the sponsors of the agenda item would like the disclosure to be applied broadly to all lines of business. She stated that NAIC staff are supportive of trying to find reasonable metrics for the disclosure but noted that finding one definition that works for all state laws to define TPA will not be practical or feasible. She recommended that this agenda item be deferred and NAIC staff be directed to coordinate with regulators, industry and the sponsors to develop recommendations including a functional definition. She stated that NAIC staff do not recommend the formation of a study group. She stated that the Working Group should also notify the Blanks (E) Working Group of the decision to withdraw the concurrently exposed annual statement blanks proposal.

The Working Group did not object to the recommendation to defer the agenda item and directed NAIC staff to coordinate with the sponsors and industry to refine the definition of TPA used in the disclosure to one that is inclusive of more lines of business and more functional. The Working Group also directed the notification of the Blanks (E) Working Group of the decision to withdraw the concurrently exposed annual statement blanks proposal.

e. Agenda Item 2020-14

Mr. Bruggeman directed the Working Group to agenda item 2020-14: Assessment of OTTI Based on Original Contract Terms. Ms. Gann stated this nonsubstantive agenda item was drafted to clarify the other-than-temporary impairment (OTTI) guidance in SSAP No. 26R. She stated it has been identified that there is a disconnect between SSAP No. 26R, SSAP No. 36R—Troubled Debt Restructuring and SSAP No. 103R with how modifications to debt instruments are considered for OTTI. Existing guidance in SSAP No. 26R identifies that OTTI assessments are based on the contractual terms of a debt security in effect at the date of acquisition. However, if a debt instrument has been modified pursuant to SSAP No. 36R or SSAP No. 103 (nontroubled situations), subsequent assessments of OTTI shall be based on the modified contractual terms of the debt instrument, and not refer to the original acquisition terms. Ms. Gann stated that NAIC staff agree with the minor edit as proposed by interested parties, clarifying that the OTTI shall be assessed on the modified contract terms.

Mr. Hudson made a motion, seconded by Ms. Malm, to incorporate the modification as proposed by interested parties and adopt nonsubstantive revisions to SSAP No. 26R (Attachment One-C17). The motion passed unanimously.

f. Tentative INT 20-05

Mr. Bruggeman directed the upcoming proposed interpretations provide an exception to statutory accounting standards and require a two-thirds vote for adoption. She stated this interpretation provides limited-time collectibility assessments and admissibility exceptions for SSAP No. 34—Investment Income Due and Accrued. This interpretation allows an exception to the collectibility assessment for investments that have had a forbearance or modifications, in response to COVID-19, that were both current as of Dec. 31, 2019, were not experiencing financial difficulties at the time of the modification. For these items, further evaluation of collectibility would not be required for the first- and second-quarter financial statements unless other indicators that interest would not be collected were known. Ms. Gann stated the second exception is related to the admissibility of recorded investment income due and accrued that is deemed collectible and is more than 90 days past due. With this exception, reported investment income that becomes more than 90 days past due in the first or second quarters may be admitted in the second-quarter financial statements. She stated comments received from interested parties requested clarification regarding impairment for mortgage loans. This interpretation does not provide an exception for accrued interest on mortgage loans in default, as existing guidance in SSAP No. 37—Mortgage Loans already states impairment shall be based on the modified contractual terms. Ms. Gann stated that in response, NAIC staff have proposed minor edits clarifying that accrued interest on mortgage loans that were in default are not in scope of this interpretation.
Ms. Weaver made a motion, seconded by Ms. Mears, to adopt the consensus in INT 20-05, with the modification as proposed by NAIC staff, for statutory accounting (Attachment One-C18). The motion passed unanimously.

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g. Tentative INT 20-06

Mr. Bruggeman directed the Working Group to INT 20-06T: Participation in the 2020 TALF Program. Ms. Gann stated this interpretation proposes guidance for reporting entities participating in the federal Term Asset-Backed Securities Lending Facility (TALF) program. The guidance addresses both direct borrowers and reporting entities that participate as an investor to a direct borrower. She stated INT 20-06T differs from the TALF interpretation issued in 2009 as the earlier interpretation only provided accounting and reporting guidance for reporting entities who were direct participants in the program. However, from a public records search, it appears as though most reporting entities were not direct participants but rather were material investors to the direct participant. Ms. Gann stated that for direct participants, this interpretation follows existing statutory accounting guidance with the exception of allowing direct borrowers who pledge assets to the TALF program to continue admittance of those pledged assets. This exception was required as the TALF program does not permit substitutions of collateral. For investors, the interpretation proposes to follow existing statutory accounting guidance in that the investment shall follow the appropriate SSAP. She stated that NAIC staff agreed with interested parties’ proposed edits, which eliminated minor redundant verbiage.
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Mr. Hudson made a motion, seconded by Mr. Moser, to adopt the consensus in INT 20-06, with the modifications as proposed by interested parties, for statutory accounting (Attachment One-C19). The motion passed unanimously.

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h. Tentative INT 20-07T

Mr. Bruggeman directed the Working Group to INT 20-07T: Troubled Debt Restructurings of Certain Debt Instruments Due to COVID-19. Ms. Gann stated this interpretation was drafted after receiving comments in response to INT 20-03: Troubled Debt Restructuring Due to COVID-19 and INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19, which requested consideration of similar accounting exceptions for private placement investments. She stated that interested parties had proposed broad exceptions for all debt securities in an effort not to spend resources on obtaining a collaborative agreement regarding the definition of private placement investments. Ms. Gann stated this guidance proposes limited-time practical expedients in determining whether a restructuring reflects a “concession” under paragraph 10 of SSAP No. 36. Under existing statutory accounting guidance, a restructuring that is insignificant is not a concession; therefore, it is not a troubled debt restructuring. The interpretation originally proposed two practical expedients in determining what is an insignificant debt modification. The original expedients proposed were a 10% shortfall threshold in the contractual amount due and a repayment duration delay no greater than six months. Had both occurred, the modification was deemed to be insignificant. However, in response to comments received from interested parties, NAIC staff have proposed a three-year time duration for the modification in place of the original six-month duration as most debt modifications would likely extend well beyond a six-month time horizon. As proposed by NAIC staff, a modification that does not extend the original contract duration by more than three years and does not change the contractual cash flows by more than 10% would be considered an insignificant change and thus, by definition, not a troubled debt restructuring. Ms. Gann stated that debt covenant changes also do not rise to the level of a troubled debt restructuring and if a modification is not automatically deemed insignificant by the provisions of this interpretation, a reporting entity still has the ability to independently assess, or assess with the assistance of its domestic regulator, if the concession was insignificant. Additionally, if a modification was deemed insignificant under SSAP No. 36, even if the modification does not fall within scope of this interpretation, the investment does not need to be derecognized as an exchange of debt instruments under SSAP No. 103R. She stated the guidance in INT 20-07T does not affect the guidance in INT 20-03 and investments, such as commercial mortgage loans would first follow applicable guidance in INT 20-03. If INT 20-03 does not provide applicable guidance, a reporting entity would then follow the temporary expedience in INT 20-07T.
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Mr. Bruggeman stated the intent of this interpretation was to provide a practical expedient for determining what was an insignificant modification under SSAP No. 36. However, if a modification does not fall within scope of this interpretation, it does not necessarily mean the modification is not insignificant and thus requiring troubled debt accounting.

Mr. Hudson made a motion, seconded by Mr. Moser, to adopt the consensus in INT 20-07, with the modification as proposed by NAIC staff, for statutory accounting (Attachment One-C20). The motion passed unanimously.
Ms. Marcotte stated that seven comment letters were received, including comments from: the group of interested parties representing several companies, America’s Health Insurance Plans (AHIP), American Property Casualty Insurance Association (APCIA), the Cincinnati Insurance Companies, Grange Insurance Company, National Association of Mutual Insurance Companies (NAMIC) and Travelers Insurance Companies. She stated that most of the comments focus on Issue 1: How to account for refunds not required under the policy terms and on clarifying the scope of the proposed disclosure in Issue 5.

Ms. Marcotte stated there seems to be general support for:

- **Issue 2**: How to account for refunds required under the policy terms.
- **Issue 3**: How to account for rate reductions on in-force and renewal business.
- **Issue 4**: Requires policyholder dividends to follow existing guidance and complete the disclosures per Issue 5.

Ms. Marcotte stated that Issue 5 regarding disclosures requires that reporting entities continue to comply with all statutory accounting disclosure requirements and also requires that all premium refunds, rate reductions or policyholder dividends provided because of the decreased activity due to COVID-19 be aggregated and reported in Note 21A as unusual and infrequent items. She noted that the P/C actuaries who perform rate review and analysis noted that transparency will assist them in evaluating 2020 activities.

Ms. Marcotte provided an overview of comments received. She noted that there was primarily support for the exposure by APCIA and Travelers Insurance on Issues 1–4, and interested parties on Issues 2–4.

Ms. Marcotte noted that there was the most diversity in the comments regarding premium refunds in Issue 1. She stated that some of the interested parties, APCIA and Travelers all supported the exposure requirements of reporting as an adjustment to premium. She said that the interested parties group recommended adding more guidance regarding adjustments to unearned premium. She stated that Grange Insurance Company, Cincinnati Insurance Companies and some of the interested parties group recommended adding a new issue that allows payments under modified policy terms to be recognized as an “other underwriting expense” referencing SSAP No. 70—Allocation of Expenses as an alternative to recognizing adjustments to premium. She stated that Grange Insurance Company noted it was not able to provide dividends to isolated lines of business and viewed the payment as akin to the treatment of a policyholder dividend. She stated that the comment letter from interested parties included a proposed draft supported by some of the interested parties, which illustrated industry-proposed revisions. She stated that NAMIC supports allowing the reporting entity to choose between multiple different methods of recognition, including premium refunds, policyholder dividends and also bad debt expense. She noted that NAMIC’s comment letter prefers the flexibility of reporting payments similar to dividends even if they were not technically policyholder dividends so that the payments are reflected in the combined ratio.

Ms. Marcotte stated that AHIP noted its written comments as preliminary and that it prefers more health-specific guidance. She stated that AHIP also noted that immediate adjustments to premium may be too quick as some entities amortize the rate adjustments.

Ms. Marcotte stated that comments regarding Issue 5 were directed at refining the scope of the disclosures. She stated that AHIP, interested parties and APCIA recommended adding a sentence clarifying that other refunds required under policy terms are not required to be aggregated with the COVID-19 refunds. She stated that Travelers Insurance commented that for commercial rate adjusted policies, it will not be practical to separately identify refunds and rate reductions from changes in premium due to loss experience and as such, policies should be excluded from the disclosure. She stated that NAMIC recommended an editorial deletion of a reference to disclosure of stockholder dividends required under SSAP No. 72—Surplus and Quasi Reorganizations to be clearer that the focus of this interpretation is policyholder dividends.
Ms. Marcotte stated that APCIA recommended putting more permanent guidance in the SSAPs on an expedited basis.

Ms. Marcotte stated that NAIC staff have proposed a limited number of revisions to reflect a few of the comments. She stated the first proposed revision is to Issue 1 on refunds, adding a reference to unearned premium as suggested by interested parties to note, “The refund shall be recognized as a reduction to written or earned premium and the unearned premium reserve adjusted accordingly.” She stated that the next proposed revision in Issue 1 is to add a new paragraph and a new subparagraph to reference SSAP No. 54 regarding individual accident and health to address refunds and rebates announced on health business subsequent to the exposure. She stated that overall, the recommendations for Issue 1 are consistent with the exposed guidance with minor health specific references.

Ms. Marcotte stated that NAIC staff have proposed modified revisions to Issue 4 – Policyholder Dividends to incorporate the NAMIC comments that provide editorial deletions to remove references to stockholder dividend disclosures as not needed and maintain the focus on policyholder dividends.

Ms. Marcotte stated for Issue 5 on disclosures, NAIC staff recommend a modification to the clarification suggested by AHIP, the interested parties’ group and APCIA. The industry-proposed language would exclude all policies whose terms require an adjustment to premium. The NAIC staff proposed modification is to include policies whose terms were modified in response to COVID-19. She noted that Travelers Insurance made a similar comment in that it noted, “For commercial rate adjusted policies, it will not be practical to separate refunds and rate reductions from changes in premium due to loss experience and therefore, such policies should be excluded.” She stated that the NAIC staff recommendation is to include policies whose terms were modified after the declaration of emergency in the disclosure of the COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

Ms. Marcotte stated the exposed interpretation is also not proposed to be modified to allow reporting the refunds or rate reductions on in-force policies as premium balances charged off (e.g., bad debt expense). She noted this industry recommendation is inconsistent with guidance in SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 14, on earned but uncollected premium. She also noted that it is inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged.

Mr. Bruggeman stated that it appears there is consensus regarding Issue 2, Issue 3 and Issue 4. He noted that a good example of the scoping problem identified by industry for Issue 5 on disclosure is that for a workers’ compensation policy in which the policyholder would normally have 100 active employees and now has 10 employees, a refund would normally be required under the policy terms because of the decrease in covered risks. Ms. Marcotte noted that the NAIC staff recommendation was, “For clarification, refunds required under policy terms in-force prior to the federal declaration of emergency for the COVID-19 pandemic as discussed in paragraph 13 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends. Policies whose terms were modified after the declaration of emergency in response to COVID-19 are required to disclose the COVID-19 inspired premium refunds, rate reductions and policyholder dividends.” Mr. Bruggeman said that the NAIC staff recommendation on Issue 5 adequately addressed the issue.

Mr. Bruggeman stated that at this point, he is not certain that he has all of the information regarding the variety of ways and reasons that funds were returned to policyholders. He noted that the comment letter attachments included the illustration proposed by some of the interested parties and that he would like to understand some of the different situations better. Additionally, he noted that most of the payments were made after April 1. Therefore, he said this is predominately a second-quarter reporting issue. He stated that while there is some time to address this issue, there was also a need for consistent guidance to be finalized expeditiously. Mr. Hudson stated California’s support for reflecting Issue 1 as an adjustment to premium but noted he is also mindful of the amount of comments. He asked if Mr. Bruggeman was suggesting exposing the issue again to allow for further discussion, particularly on Issue 1. Mr. Bruggeman responded that he wants to explore the exposure options of either all of the interpretation or finalizing aspects of the interpretation and allowing for further discussion on Issue 1. Mr. Smith said he is not opposed to another exposure, but he supports the initial recommendation to reflect as an adjustment to premium. Mr. Smith said even with different situations provided in the comments, after review of various company actions—including premium credits, premium refund or return, and rate reductions—in his view, all reflect an adjustment to premium.

Mr. Bruggeman said that some entities’ comments noted that they have returned money even though the risk has not been reduced. Mr. Moser noted that Illinois is willing to explore the accounting as an expense if it makes sense. Ms. Marcotte
suggested exposure with the NAIC staff edits to narrow the scope of future comments. Mr. Bruggeman asked for commentators to focus their comments regarding Issue 1.

Keith Bell (Travelers Insurance), representing interested parties, noted that for reporting entities that reflected the payments as an adjustment to premiums, they viewed the issue as a distinction of form over substance. If the reason the payment is being made to the insured is because the risk or exposure went down, then it was appropriate to reflect as a reduction of premium. He noted that premium is an important metric that measures the amount of risk that an insurer takes on as part of the contract and that is how they reached that conclusion.

Kevin Spataro (Allstate) noted that Allstate was early to announce a policyholder relief program. He noted its objective was to get relief into the hands of policyholders quickly with the least disruptions to other stakeholders. He noted that it considered reflecting the amounts as a premium refund but ultimately rejected the treatment, principally because Allstate lacked loss data to be able to reliably reassess the underwriting risk related to the policies in the current conditions. He noted that reporting as a premium refund would also affect other key stakeholders, including agents, whose commissions are based on premiums, and also the states in which they do business, who rely on premium taxes to fund their operations. He stated that as a result, Allstate ultimately decided to amend its policy forms to provide an endorsement to provide a new type of policy benefit that it classified as an other underwriting expense pursuant to SSAP No. 70. He said that Allstate believes that due to the unique nature of the payment, it fits well as an other underwriting expense in a write in line. He noted that Allstate also supported disclosure to provide transparency. He noted that Allstate has no issue with other insurers reporting as a return of premium or as a dividend based on program design. He noted that they believe that Allstate and others who designed and executed their programs around a policyholder benefit should be permitted to classify their payments as an expense. Mr. Spataro stated that while Allstate understands that there is not a specific expense category to allow this treatment, for a COVID-19 relief payment, it believes that the interpretation is an appropriate vehicle to codify its proposed accounting treatment. Mr. Spataro further noted that Allstate also does not believe that another agenda item or a permitted practice designation is either necessary or appropriate at this time.

Mr. Bruggeman summarized that it appears that Allstate’s recommendation is that the statutory accounting should follow the policy form, which was filed, i.e. a policy benefit. Mr. Spataro confirmed the comment from Mr. Bruggeman. Mr. Bruggeman noted that the subject companies actually filed amendments to their policy forms; they did not base the refund amount on data telematics from policyholders (such as decreased driving miles.) Mr. Spataro stated that Allstate does not have the data to re-underwrite the policies.

Mr. Bell stated that he is not suggesting the reduced prices were because of telematics, but rather the decrease in losses. He stated that again, the argument is form over substance. If you put aside the labels applied to the payments, the amounts were paid back to the policyholder. He stated that if the payment was because there was less exposure or less losses, then the view is that is a reduction in premium and that premium is the most important measure of an insurer’s exposure to loss.

Mr. Spataro said Allstate looks at this issue differently because it did not reassess the exposure to loss. He noted that the stay-at-home orders have resulted in some policyholders that seem to be driving faster. He stated that Allstate believed the payments were important to get into the hands of its policyholders, but it did not have the ability to re-underwrite those policies, and Allstate still believes this is a policy benefit as opposed to a return of premium. Mr. Bruggeman noted that some policyholders were driving less, and others, such as essential workers, were driving the same or sometimes more.

Thomas Finnell (AHIP) noted that AHIP did not have much time to react to the health specific change. However, he said other than a large insurer making an announcement, there is not a lot of activity on the health side regarding the same types of refunds. He said that the example may be restrictive to other insurers if they decide to take action later in the reporting year. Mr. Finnell stated that the interpretation provided more P/C examples and that additional health examples would be helpful. He said one jurisdiction has put out an announcement that such payments would require a rate filing. He noted that a few members have provided premium holidays in prior years that were reported as a reduction of premium which was amortized over the policy year. Mr. Finnell stated that such amortization is not covered by the text in the interpretation. He stated that AHIP would like to have further clarification regarding what is meant by immediate reduction in premium (written, earned or unearned). He stated that AHIP would like to bring the idea of premium holidays into the interpretation. He stated that AHIP shared the concern of interested parties regarding the scoping of the disclosure. It seems that there are retrospective premium assessments because of the totality of activity on the policy not just as a result of COVID-19 payments. Mr. Bruggeman noted that the very large company announcement prompted inclusion of the health contracts in case other entities decided to go down that path.
Steve Broadie (APCIA) noted that APCIA’s financial management regulation committee considered all of the issues and voted to support the conclusions reached in the interpretation as an appropriate application of the existing accounting guidance. He stated that APCIA supports adoption of the INT with respect to Issue 1. Mr. Broadie stated that the diversity of comments received also indicated the need for additional permanent substantive guidance in the statements. He said that APCIA would be happy to support and work with NAIC staff on developing revisions that it believes are necessary on an expedited basis.

Rachel Underwood (Cincinnati Insurance Companies) noted support for the position of reporting the payment in Issue 1 in other underwriting expense as Mr. Spataro presented. She noted that Cincinnati Insurance Companies presented additional reasoning for its position in its comment letter.

Jonathon Rodgers (NAMIC) noted that this is unprecedented and that there is great diversity of actions and preferences among NAMIC’s members. He stated that characterizing the return of funds to policyholders as a return of premium does not work for everyone. He noted some mutual entities wanted to provide policyholder dividends, but their systems were not set up to provide the expedited payments. He noted that often a policyholder dividend is issued to share favorable loss experience. Mr. Rodgers said it is too early to substantiate the impact of the loss experience, but the losses being reported are lower. He noted that the company systems could not accommodate the accelerated payments. He stated that although the payments were not policyholder dividends, NAMIC’s members supported similar treatment. He noted another instance in which premium previously collected and earned was returned. He stated that some members supported reporting these returned amounts as premium and agents balances charged off similar to bad debt expense. He noted that the accounting guidance in SSAP No. 53 and SSAP No. 70 was not a good fit for all of the actions. He stated that this extraordinary event calls for flexibility in reporting.

Mr. Bruggeman said that at this time, he thinks that another exposure that includes the NAIC staff proposed revisions is appropriate. He asked if the Working Group had any issues with another exposure, and no objections were stated.

Mr. Hudson made a motion, seconded by Mr. Moser, to expose INT 20-08T with the modifications recommended by NAIC staff for a 16-day public comment period ending June 5. The motion passed unanimously.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
Comment Letters Received for Items Exposed for the May 20, 2020 Conference Call

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Interested Parties – May 1, 2020

- Ref #2019-20: Rolling Short-Term Investments
- Ref #2019-25: Working Capital Finance Investments
- Ref #2019-36: Expand MGA & TPA Disclosures
- Ref #2019-37: Surplus Notes – Enhanced Disclosures
- Ref #2019-42: Cash Equivalent – Cash & Liquidity Pools
- Ref #2019-47: VM 21 Grading
- Ref #2020-01: Update / Remove References to SVO Listings
- Ref #2020-06EP: Editorial and Maintenance Update
- Ref #2020-07: Change to the Summary Investment Schedule
- Ref #2020-08: ASU 2016-20, Technical Corrections and Improvements – Topic 606
- Ref #2020-09: ASU 2018-18, Collaborative Arrangements – Topic 808
- Ref #2020-10: ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606
- Ref #2020-11: ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses and Leases
May 1, 2020

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 During the NAIC Spring National Meeting Conference call with Comments due May 1

Dear Mr. Bruggeman:

Interested parties thank the NAIC Statutory Accounting Principles (E) Working Group (the “Working Group”) for your continuing effort to address the various statutory accounting issues during the ongoing pandemic. We appreciate the opportunity to comment on the exposure drafts released for comment the Working Group during the recent NAIC Spring National Meeting via conference call. We offer the following comments:

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

The Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*, with modifications from the prior exposure.

The revisions incorporate additional principle concepts, if certain criteria are not met, that will restrict the classification of related party or affiliated investments as a cash equivalent or short-term investment in the scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-backed and Structured Securities*, or that would be reported as “Other Invested Assets.”

An additional disclosure has also been proposed to identify short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed). A concurrent blanks proposal will recommend a reporting code for renewed short-term investments as well as a new general interrogatory to certify that re-underwriting has occurred. (This code will also apply to nonaffiliated non-related party transactions for identification purposes.)

Interested parties appreciate the Working Group’s engagement with us on this proposal. We believe the current proposal is well suited to addressing the issues identified in the Form A. We offer the following.
suggested changes which we believe will improve the current proposal as well as clarify certain provisions that may cause confusion on the part of preparers and result in inconsistent application by insurers.

The proposed new Footnote 1 to both paragraphs 7 and 13 of SSAP No. 2R- Cash, Cash Equivalents and Short Term Investments ("SSAP No. 2R") explicitly excludes specific short term investment vehicles qualifying under the scope of SSAP No. 103R- Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SSAP No. 103R") from the scope of the proposed long term reclassification requirements. However, the proposed footnote makes reference to both “reverse repurchase” transactions, which are defined as collateralized lendings to be reported as short term investments under SSAP No. 103R and therefore relevant for inclusion in the proposed new Footnote 1 for paragraph 13 of SSAP No. 2R, as well as “repurchase” transactions, which are defined as collateralized borrowings to be reported as liabilities under SSAP No. 103R and are not relevant to the proposed SSAP No. 2R footnote. As reverse repurchase agreements are to be reported as short-term investments, not cash equivalents, there is no reason to mention them in the proposed new Footnote 1 for paragraph 7.

In addition, the proposed new footnote 1 to both paragraphs 7 and 13 of SSAP No. 2R contains two distinct and separate instructions: one for excluding reverse repurchase agreements (or cash pooling arrangements in the case of the paragraph 7 footnote) from the scope of the new long term reclassification guidance; and another regarding subsequent reporting for cash equivalents and short-term investments that are subject to the new long term reclassification guidance. We recommend breaking the proposed footnote 1 into two separate footnotes.

Therefore, we recommend the following edits to SSAP No. 2R:

Proposed new footnote 1 to paragraph 7: Cash pooling arrangements permitted under paragraph 8 are excluded from these provisions.

Proposed new footnote 2 to paragraph 7: Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Paragraph 12: “Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.”

Proposed new footnote 1 to paragraph 13: Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R- Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.
Proposed new footnote 2 to Paragraph 13: Short term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Finally, interested parties recommend the deletion of the term “or substantially similar investments” in the new proposed disclosure of paragraph 16e of SSAP No. 2R. Unless defined, this terminology is vague and will likely result in inconsistent application by preparers.

Ref# 2019-25, Working Capital Finance Notes


Interested parties agree the changes reflected in the modified version of SSAP No. 105 are appropriate, necessary, and we support their adoption. Nevertheless, interested parties maintain that absent changes reflecting industry input on the four items not supported by the Working Group that adoption of SSAP 105 will remain muted and that the asset class will remain under invested in. We respectfully request consideration of regulators to direct staff to revise its proposal and adopt industry-requested changes governing these four requests.

Ref# 2019-36: Expand MGA and TPA Disclosures

In December 2019, the Working Group exposed revisions to SSAP No. 51R—Life Contracts, paragraph 50, SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 19, SSAP No. 54R—Individual and Group Accident and Health Contracts, paragraph 33 and SSAP No. 59—Credit Life and Accident and Health Insurance Contracts, paragraph 19, to expand the MGA/TPA footnote as follows:

- Aggregate direct written premium and total premium written by MGA/TPA;
- Aggregate dollar amount of claims process / total claims processed by MGA/TPA; and
- Information on related party / affiliate status and if the MGA/TPA is independently audited and / or bonded.

Based on responses received on the original exposure, a re-exposure was made in March 2020 with the following attributes:

- A TPA was defined to be consistent with the NAIC Model Guideline, VI-1090 Registration and Regulation of Third-Party Administrators (“TPAs”).

- A claims measure was maintained for determining which TPAs to be disclosed, instead of a written premium measure suggested by interested parties. However, to address the interested parties’ operational concerns the language has been revised from “claims adjusting services are
greater than 5% of annual average claims volume” to “if the total count of claims processed by the TPA /MGA are greater than 5% of the total count of claims processed.”

Interested parties appreciate the incorporation of our previous comments in the re-exposed draft by including a definition of third-party administrators through referencing Version 1 of the Third Party Administrator Act. However, upon further analysis and as noted in the Registration and Regulation of Third-Party Administrators (NAIC Guideline), there are two versions of the model law of the Third-Party Administrator Act, and states have adopted either version, if any. Therefore, a consistent and widely accepted definition of a TPA is not available and needs to be developed to ensure uniform disclosure amongst companies.

Additionally, the reporting threshold and basis remains unclear. Is total count of claims processed by the TPA/MGA measured at a line of business or company level? Would claims paid within insureds’ deductibles be included? We believe it will be quite burdensome for insurers to monitor this metric as there is no reasonable basis for measurement that can be utilized from the Annual Statement.

As we are concerned that the exposure draft includes a definition of a TPA that is inconsistent with state law which will most likely lead to preparer confusion and misapplication of the proposed guidance once adopted, we recommend that a state regulator/industry study group be formed to develop a uniform definition taking into consideration commonalities in existing state law. In addition to developing a uniform definition, the study group could also recommend the best way, and the proper mechanism, to develop the information requested.

Ref# 2019-37: Surplus Notes – Enhanced Disclosures

During the 2018 Spring National Meeting, the Working Group exposed revisions to SSAP No. 41R – Surplus Notes (“SSAP No. 41R”) to indicate that surplus notes, where the proceeds from the issuance of the surplus note were used to purchase an asset directly or indirectly from the holder of the surplus note, are not subordinate and do not qualify for reporting as surplus and should be classified as debt. Furthermore, the exposure draft stated that these assets were not considered available for policyholder claims and should be non-admitted. The exposure was the result of a referral from a Subgroup of the Reinsurance Task Force that was more narrowly focused on whether specific securities could be considered Primary Securities.

At the 2019 Fall National Meeting, the Working Group exposed additional disclosures that should be captured in SSAP No. 41R. Interested parties responded to that exposure in early 2020, and more recently in discussions with NAIC staff, with suggestions to enhance the disclosure as summarized below:

Summary of Proposed Revisions

- Expand the disclosure requirement to the financial statements of the ceding company as well as the surplus note issuer.
- Retain the current disclosure of total interest paid (gross of any administrative or other netting)
• Replace quantitative disclosure of “interest remitted” and “cost of liquidity” with three Y/N disclosure columns, which correspond to the criteria used in the data call scoping.

• Add information on the percentage of interest payments offset through ‘administrative offsetting’ (not inclusive of amounts paid to a 3rd party liquidity provider).

• Add requirement for narrative disclosure of any related guarantees or support agreements

On March 18, 2020, the Working Group re-exposed the disclosure and the re-exposure substantially incorporated interested parties’ comments and suggestions. Interested parties appreciate the engagement and collaborative effort we’ve had with the Working Group and NAIC staff over the past six months to arrive at a mutually beneficial robust disclosure, and support adoption of the proposed revisions.

We are aware that the Working Group does intend, later in 2020, to continue discussions on how to treat surplus notes where an associated asset is received by the surplus note issuer. We believe that the disclosure, once adopted, and further analysis of the 2019 data call should allow regulators to focus on areas for further analysis with specific companies on their financing transactions (utilizing surplus notes) as opposed to any restrictions on the usage of surplus notes as currently allowed in statutory guidance.

Ref# 2019-42: Inclusion of Cash / Liquidity Pools - Cash Equivalents as defined in SSAP No. 2R

The Working Group exposed this agenda item, with revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, with revisions from the prior exposure marked, to reflect that certain cash / liquidity pools, meeting defined criteria, may be reported as cash, cash equivalents, or short-term investments.

Interested parties appreciate the Working Group addressing the considerations raised in our previous comment letter for Ref #2019-42, Inclusion of Cash/Liquidity Pools-Cash Equivalents as defined in SSAP No. 2R. Cash/Liquidity pools are very important to insurers as they have been used throughout the years for efficient management of cash, cash equivalents, and short-term investments.

After reviewing the modifications proposed by the Working Group, we request one additional change to the proposal. As mentioned in our previous comment letter:

“Given the varied characteristic discussed above, we recommend paragraph 8 be modified to state that, if the requirements of paragraph 8 are met, the reporting entity may look through the ownership structure and report the assets as either cash equivalents or short-term assets based on the predominant characteristic of the underlying assets. This would allow companies the flexibility to report their investments in the pools in the Statutory statement schedule that is more reflective of the type of underlying investments in their pool and prevent the need for companies to reclassify/change their existing reporting to Schedule E2 from DA if they currently report the pools in DA due to the underlying assets.”

In response to our comment noted above, the Working Group proposed the following addition to SSAP No. 2R:

“The reporting entity shall report their total balances in the cash pool on the schedule which represents a majority of the held assets (For example, a qualifying cash pool that contains 20%
We note that the Working Group proposal for SSAP No. 2R requires reporting in either Schedule E2 or DA based on the “majority” of the underlying assets held in the Cash/Liquidity pool. After further considering the verbiage, we propose SSAP No. 2R be modified to state that the classification of Cash/Liquidity pools in either Schedule E2 or DA be based on “a determination, based on management’s judgment at the time the pool is formed, as to the expected characteristics of the majority of the underlying assets in the pool”. That is, if based on management’s judgment at the time the pool is formed, the expectation is that the majority of assets in the pool will be invested in short-term investments, the pool would be classified on Schedule DA.

This change in verbiage would allow insurers who have already been using such pools to continue to classify them in either Schedule E2 or DA, consistent with the reporting since forming their pools. It also would prevent the need for insurers to unnecessarily transfer their pools between Schedule E2 and DA, which would cause operational inefficiencies counterproductive to the use of a pool, should the mix of the underlying assets change from period to period. It also would eliminate the need to continue to track the mix of assets in the underlying pool on an on-going basis. We do not believe this approach would be a concern to regulators because, as mentioned in the Working Group’s March 21, 2020 Public Hearing Agenda “…cash, cash equivalent, and short-term investments are aggregated together for solvency and analysis reviews”.

We request an adoption date of January 1, 2021 for the changes to SSAP No. 2R so that insurers can have time to fully evaluate their short-term pools to ensure they meet the requirements in the proposal and determine the appropriate reporting. Additionally, time may be needed to modify pool operating agreements and audit procedures to meet the new requirements.

Ref# 2019-47: Grade in of Variable Annuity Reserves

The Working Group exposed this agenda item, with revisions marked with the heading “Spring National Meeting Discussion.” A referral was also be sent to the Life Actuarial (A) Task Force for notification of this exposure.

Interested parties agree with the conclusion on this item.

Ref# 2020-01: Update / Remove References to SVO Listings

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock, to eliminate references to the NAIC Bond Fund List. The revisions also add reference to the “NAIC Fixed-Income Like SEC Registered Funds List” in SSAP No. 30R.

Interested parties agree with the conclusion on this item.

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the editorial maintenance revisions to SSAP No. 21R—Other Admitted Assets and SSAP No. 51R—Life Contracts.

Interested parties have no comment on this item.

Ref# 2020-07: Change to the Summary Investment Schedule

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix A-001, Section 3, Summary Investment Schedule to add a line for Total Valuation Allowance. These revisions mirror those that the Blanks (E) Working Group concurrently exposed.

Interested parties agree with the conclusion on this item.

Ref# 2020-08: ASU 2016-20, Technical Corrections and Improvements to Topic 606

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 47—Uninsured Plans to reject ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

Interested parties agree with the Working Group’s conclusion on this item.

Ref# 2020-09: ASU 2018-18, Collaborative Arrangements (Topic 808)

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 47—Uninsured Plans to reject ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606.

Interested parties have no comment on this item.

Ref# 2020-10: ASU 2017-14—Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topics 605 and Topic 606 for statutory accounting.

Interested parties have no comment on this item.

Ref# 2020-11: ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842)

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed
revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topics 842) as not applicable for statutory accounting.

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
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** These comments were not received in time for distribution for the May 20, 2020 SAPWG conference call. They are, however, being posted with INT 20-08T, which was exposed at the direction of the SAPWG.
May 14, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group

Via e-mail to: Julie Gann
JGann@naic.org

Re: Proposed INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Chairman Bruggeman:

America’s Health Insurance Plans (AHIP) and its members appreciate the continuing dedication and diligence that you and your colleagues show in your work to address the pandemic crisis while balancing the regulatory goals of consumer protection and company solvency. It is beyond doubt that these are extraordinary times, and they require extraordinary effort by both the regulatory community and industry.

The Statutory Accounting Principles (E) Working Group (SAPWG) recently exposed five new proposed Interpretations that address various impacts of the pandemic. AHIP is providing the following comments which pertain to one of those five exposures, specifically, INT 20-08T, COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends.

AHIP often signs on to comment letters submitted by a broader group of interested parties (IP), however we have chosen not to do so in this instance. That is not because of any fundamental disagreement per se with the draft of the IP letter that we reviewed. Rather, it is because, as drafted, the IP letter proposes to amend INT 20-08T to address the accounting and reporting for premium refunds, rate reductions, policyholder benefit payments and policyholder dividends attributable to COVID-19 impacts on the private passenger and commercial auto insurance business only. In light of the message we received from NAIC staff yesterday which included staff’s recommended changes to INT 20-08T to specifically scope in health insurance, we believe it is best for AHIP to submit its own comments and focus directly on impacts on health plans.

Also, and given that we have had barely more than one day to review the health-specific amendments provided by NAIC staff, we have had extremely limited time to study those amendments and solicit input from our members. Accordingly, please accept the following comments as preliminary. We hope you will afford us the opportunity to expand upon them if needed in oral comments to SAPWG when it convenes by phone on May 20. With that, we offer the following comments:

1. With regards to paragraphs 1-5, some additional context that is more specific to the health insurance sector may be appropriate. For example, and to the extent known, it would be helpful to include information as to the various ways in which such premium reductions have been made in the health sector.
2. As drafted with the health-related amendments, INT 20-08T calls for “immediate adjustments to premium for voluntary accident and health premium refunds.” It is not clear to us that “immediate” is necessarily appropriate depending, for example, as to whether the subject is written or earned premium. Many health plans are established as 12-month contracts. In some cases the insurer records premiums on a monthly basis as billed, and on others it records written premium for the 12-month period with corresponding unearned premium which are then reduced as premium payments are received and as premiums are earned over the coverage period, respectively. Depending on management’s intent with respect to the premium reduction, it may have an intended immediate impact on earned premium, or be amortized over the remaining term of the contract.
   a. For example, it may depend if the premium reduction is in the context of past business with the insurer (expired portion of the contract or prior contracts) or in the context of continued business (unexpired portion of the contract or future contracts).
   b. Such alternatives are conceptually like the FASB guidance cited by the IPs with respect to INT 20-05T: Investment Income Due and Accrued, and the treatment of an “interest holiday.”
   c. We are aware of one member which has in the past given premium holidays, usually in the first month of the policy period which is then amortized ratably over the policy period.

3. In short, we can see such health premium reductions happening in various ways, and more time is needed to assure that the INT text accommodates those variances and thus maximizing opportunities for such reductions, while at the same time providing sufficient uniformity in reporting across reporting entities in order to meet your objectives.

4. AHIP also has concerns about some aspects of the proposed disclosures proposed by INT 20-08T and references therein to SSAP 66 and experience rated contracts (which includes experience rated health contracts). It provides that “all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items.” For experience-based refunds, the amount is based on the group's total experience over the contract period, and it is not practical to parse through claim details to say how much is necessarily related to Covid-19. Moreover, to the extent that claims have not been made (e.g., elective procedures have been deferred) and premiums reduced, a health plan could only surmise the cause of that impact, although certainly a good portion would be related to the pandemic - it just can't be quantified with any precision. We thus suggest the following change:

21. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either (i.e., policies that require an adjustment to premium based on either
the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

* * * * *

Thank you for the opportunity to comment. We look forward to discussing this with you and addressing any questions you or your colleagues may have.

Kind regards,

Bob Ridgeway
Bridgeway@AHIP.org
501-333-2621
America’s Health Insurance Plans
May 14, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: SAPWG Proposals Exposed on May 5, 2020

Dear Chairman Bruggeman:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the items exposed by the Statutory Accounting Principles (E) Working Group on May 5, 2020. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA supports the comment letter from industry interested parties with respect to all issues except for INT 20-08T, which we address below.

**INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends**

The COVID-19 pandemic has introduced unprecedented challenges for the insurance industry and regulators as it has for the entire nation. While changing many aspects of their operations, insurers are undertaking substantial and extraordinary efforts to help policyholders at this challenging time. For example, companies are providing flexible payment options, waiving late fees, and pausing cancellation of coverage due to non-payment of premiums. Most significantly, property casualty insurers are returning billions of dollars to policyholders through a variety of mechanisms—including refunds, discounts, dividends, and credits.

Given the unprecedented nature and scope of this extraordinary industry action, there is understandably limited statutory accounting guidance for reporting the various methods that insurers are implementing to support policyholders. INT 20-08T proposes tentative guidance on how to account for policyholder relief issued in response to COVID-19. The proposed INT concludes that voluntary refunds and rate reductions should be accounted for as an adjustment to premium revenue, and different treatment (e.g., as an expense) must be considered a permitted or prescribed practice.

APCIA’s Financial Management and Regulation Committee voted to support the conclusions reached in the INT. We agree that, under existing accounting guidance, voluntary refunds and rate reductions should be accounted for as an adjustment to premium revenue, and differing
treatment should be considered a permitted or prescribed practice. Consequently, APCIA urges the Working Group to adopt INT 20-08T in order to provide temporary guidance.

While we agree with the proposal’s interpretation of existing statutory accounting principles, APCIA believes that current accounting guidance may not adequately address the wide variety of methods companies are using to deliver policyholder relief. For example, it may be appropriate to amend statutory accounting principles to allow certain types of policyholder relief to be treated as an expense, depending on the circumstances that call for such relief. Some insurers have amended their policies through manual rate filings and endorsements to provide payments or credits to policyholders; however, companies would be unable to report these amounts as an expense unless statutory accounting is amended. Because of the extraordinary circumstances in which we find ourselves as a result of COVID-19, we believe that additional substantive guidance is needed by the end of this year. Therefore, APCIA asks the Working Group to consider—an expedited basis—a Form A containing substantive amendments to statutory accounting regarding the treatment of policyholder relief measures.

Furthermore, accounting and financial reporting issues associated with policyholder relief should be addressed holistically. Although we are experiencing a highly unusual and unexpected situation that has required extraordinary industry and regulatory action, we should not assume new unusual and unexpected situations will not occur in the future. Statutory accounting guidance must be able to adapt to sudden changes in the regulated environment, so we believe the Working Group should consider changes to statutory accounting that would be applicable to future situations where policyholder relief may be a suitable reaction to a future event. This approach would build flexibility into statutory accounting to allow timely development of necessary guidance to suit the exigent and unpredictable needs of a future crisis.

Finally, we note that APCIA agrees with interested parties’ recommendation to add the following sentence to paragraph 21 of the proposed INT: “For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends.”

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel
May 14, 2020

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: INT 20-08T - COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Cincinnati Insurance Company ("Cincinnati") appreciates the opportunity to provide comments for consideration on the Statutory Accounting Principles Working Group ("SAPWG") interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends ("the Tentative INT"). Cincinnati's property casualty group is among the 25 largest groups in the United States, based upon net written premium.

The Tentative INT contemplates interpretation of policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds, rate reductions, or policyholder dividends, and provides statutory accounting and reporting framework as such. Cincinnati supports the comment letter submitted by interested parties in adding a new Issue 4 to the Tentative INT. Cincinnati's position is based on the following:

• This was a one-time action intended to provide immediate relief to policyholders in response to the unusual and unprecedented COVID-19 pandemic.
• Payment amount was determined without specific known loss experience in order to accommodate urgency of the situation.
• Cincinnati revised the impacted policyholder contracts through rule filings to states and company letters to impacted policyholders, allowing this one-time payment benefit with the intent to treat it as a company expense.
• Companies acted with a sense of urgency, notified states of the company payment plan, and proceeded to act, in good faith, in accordance with those plans, absent any state objections.
• The INT as originally drafted does not address the situation where companies utilized rule filings to allow this one-time policyholder relief payment.

In conclusion, Cincinnati supports the comment letter submitted by interested parties, which suggests adding an Issue 4 to the INT where companies utilized rule filings to allow this one-time payment and allow this situation to be reported as an expense following the guidance provided under SSAP 70 - Allocation of Expenses.

Sincerely,

Michael J. Sewell
Chief Financial Officer, Senior Vice President

CC: Julie Gann, NAIC Staff; Robin Marcotte, NAIC Staff; Theresa Hoffer, Senior Vice President and Treasurer; Andrew Schnell, Assistant Vice President; James Sims, Assistant Treasurer; Rachel Underwood, Technical Accounting Manager
May 14, 2020

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

Re: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Grange Insurance Company (“Grange”) appreciates the opportunity to provide comments for consideration on the exposure drafts released for comment by the Statutory Accounting Principles Working Group (“SAPWG”) on interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Grange’s property & casualty group is among the 75 largest insurance groups in the United States of America, based upon our approximately $1.3 billion in net written premium.

The Tentative INT contemplates classifying policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds or policyholder dividends and provides proposed statutory accounting and reporting guidance as such. Grange’s comments will primarily focus on rationale to revise the Tentative INT to allow reporting these payments as other underwriting expenses due to other fact patterns that were not contemplated by the original policy exposure. Grange’s position is based on the following logic:

- The payments were intended to provide immediate financial relief to our policyholders regardless of contractual obligations.
- The payments were made voluntarily in our operating states.
- Loss experience data was mostly unknown at the time of announcing and issuing relief payments, regarding the ultimate impact of federal and state shelter-in-place orders.
- These payments are more in line with a company expense, such as a policyholder dividend.
- Grange revised the impacted policyholder contracts through filing endorsements with certain states and provided company letters to all impacted policyholders to provide the contractual language needed to allow such payments.
- Formal policyholder dividends were not a viable option, as dividends must be paid to all policyholders not just the lines of business expected to be favorably impacted by the shelter-in-place orders. Also, due to required approvals, dividends would not be the most immediate payment option.
- When we looked for relative consistency in reporting treatment for payments made outside of contractual premium refunds, categorizing these payments as an expense was the closest option to policyholder dividend reporting.
Classification as a premium refund will have unintended ancillary financial consequences, such as reducing premium taxes to state agencies. Like many of our competitors, we assured our independent agent partners, many of which are small businesses, that their commissions would not be impacted by these payments. Accordingly, commission ratios will be impacted (elevated) if reporting as a premium refund is required.

Reporting the payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio.

Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.

Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which is not completely available in this situation.

These payments are the result of an unusual and infrequent event that would be excluded from future rate filing consideration.

Insurance companies acted with a sense of urgency in light of the pandemic, notified states of the company’s payment plans, and then proceeded to act, in good faith, in accordance with those plans, absent any state objections.

In addition to these payments to our policyholders for immediate financial relief, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

In light of the COVID-19 pandemic, regulators from a majority of states issued a number of bulletins, orders, advisories, and other guidance (collectively “Bulletins”) urging property & casualty insurance carriers nationwide to provide some means of immediate financial relief to policyholders, at least in private passenger automotive lines. The principle was that insurers should provide immediate financial relief in anticipation of lower than expected loss experience arising from a decrease in driving activity due to federal and state shelter-in-place orders. Such payments needed to be applied reasonably and consistently in order to avoid being considered a rebate or unfair discrimination. Though payments by insurance carriers would be a voluntary action in most states, they were required in the State of California (Bulletin 2020-3). The issuance of Bulletins by each state, each with their own guideline nuances, created uncertainty across insurance carriers of how to accommodate making such payments within applicable compliance standards.

Grange considered the magnitude of the situation and guidance available at the time. A policyholder dividend was deemed inappropriate, at least in part, as it would take longer to enact given the required approval process. A premium refund would create unintended negative financial consequences to state agencies and agents (absent the decision by Grange, like many carriers, to not impact agent compensation) by reducing premium amounts, therefore reducing premium taxes and commissions. Premium refunds also have the negative impact of altering comparability for all components of the combined ratio. Additionally, these policyholder payments were based on the expectation of profits from favorable loss experience, yet the data to determine such experience has not yet occurred. Therefore, Grange communicated to states that the payment program would be treated as an expense when policy endorsements were filed. Grange included that it intends to review the actual loss experience results and adjust premiums as part of regularly planned future rate reviews. These one-time payments would be excluded from future rate calculations and filings. No state rejected Grange’s payment program.

In the absence of any state objections, Grange acted in accordance with the payment program and contends that reporting these pandemic related payments as an expense would fall within the guidance of SSAP 70 – Allocation of Expenses and be disclosed in accordance with SSAP 24 – Discontinued Operations and Unusual or Infrequent.
Items. INT 20-08T already includes disclosure guidance under SSAP 24. SSAP 70 – Allocation of Expenses, paragraph 3 states:

3. Allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows:

And then goes on to list the three expense categories as a) Loss adjustment expenses, b) Investment expenses, or c) Other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses. Grange would report the relief payments as a write-in item under other underwriting expenses.

In conclusion, Grange believes that INT 20-08T should provide guidance for companies to report the relief payment as an expense. The payments achieved immediate financial relief for policyholders without unintended negative consequences for state agencies and company agents. Policyholders would see premium relief, as applicable, in future rates. We believe that comparability of insurance company results is least impacted if these payments are recorded as other underwriting expenses.

Sincerely,
Brian Poling
VP - Finance
May 14, 2020

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 May 5 with Comments due May 14

Dear Mr. Bruggeman:

Interested parties thank the NAIC Statutory Accounting Principles (E) Working Group (the “Working Group”) for your continuing effort to address the various statutory accounting issues arising from the ongoing pandemic caused by the novel coronavirus, COVID-19. We appreciate the opportunity to comment on the exposure drafts released for comment the Working Group. We offer the following comments:

INT 20-05T: Investment Income Due and Accrued

In response to COVID-19, temporary interpretations have been considered to provide exceptions to existing statutory accounting guidance with regards to the 90-day rule for various receivables, as well as guidance on the assessment of impairment and trouble debt restructurings. In response to these interpretations, a request to provide a temporary exception to SSAP No. 34—Investment Income Due and Accrued was made.

This interpretation is intended to assess the requirements to review investment income due and accrued and consider whether temporary exceptions could be granted in response to COVID-19. Issues addressed in the interpretation include:

a. Recognition and admittance of investment income under SSAP No. 34.

b. Review of FASB staff technical inquiries and responses on investment income.

The Working Group considered limited time collectability assessments and admittance exceptions for investment income due and accrued and reached the following tentative consensus:

a. Continue with existing guidance in SSAP No. 34 that investment income shall be recorded when due (earned and legally due) or accrued (earned but not legally due until after the reporting date). If investments have been impacted by forbearance or other modification provisions, a reporting entity shall assess whether the investment income has been earned in accordance with the modified terms. Investment income shall only be recognized when earned.

b. Continue with existing guidance in SSAP No. 34 to require an assessment of whether recorded investment income due and accrued is uncollectible.
i. For mortgage loans, bank loans and investment products with underlying mortgage loans impacted by forbearance or modification provisions, reporting entities may presume that borrowers and investments that were current as of Dec. 31, 2019, were not experiencing financial difficulties at the time of the forbearance or modification for purposes of determining collectability. For these investments, further evaluation of collectability is not required for the 1st and 2nd quarter 2020 financial statements unless other indicators that interest would not be collected are known (e.g., the entity has filed for bankruptcy).

ii. For investments not impacted by forbearance or modification provisions, this interpretation does not provide an assumption of collectability and the provisions of SSAP No. 34 shall be followed in evaluating collectability and assessing whether an impairment exists.

c. Provide an exception for the nonadmittance of recorded investment income due and accrued that is deemed collectible and over 90-days past due. With this exception, reported investment income interest due and accrued that becomes over 90-days past due in the 1st or 2nd quarter may continue to be admitted in the June 30th, 2020 (1st and 2nd quarter) financial statements. This exception does not encompass mortgage loans in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance.

The Working Group considered the FASB technical guidance and reached a tentative consensus consistent with the FASB staff on how interest should be recognized when a payment holiday is given and interest is not accrued. With this guidance, either of the following methods could be applied:

a. A new effective interest rate is determined that equates the revised remaining cash flows to the carrying amount of the original debt and is applied prospectively for the remaining term. With this approach, interest income is recognized during the payment period holiday.

b. The reporting entity recognizes interest income on the loan in accordance with the contractual terms. Under this view, the reporting entity would recognize no interest income during the payment holiday and would resume recognizing interest income when the payment holiday ends.

The exceptions and provisions detailed in the interpretation are applicable for the June 30th, 2020 (2nd quarter) financial statements. The exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements as the interpretation will automatically expire as of September 29, 2020.

Interested parties note that paragraph 10C of the INT states the following: “Provide an exception for the nonadmittance of recorded investment income due and accrued that is deemed collectible and over 90-days past due. With this exception, reported investment income interest due and accrued that becomes over 90-days past due in the 1st or 2nd quarter may continue to be admitted in the June 30th, 2020 (1st and 2nd quarter) financial statements. This exception does not encompass mortgage loans in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance.” (emphasis added by italics)

Interested parties also note that, under certain circumstances, a modified loan (in scope of SSAP No. 34) where the modification is in the scope of INT 20-03, could have an amount due and accrued (deemed collectible) that is 180 days or more past due if the number of days past due is measured in terms of the original contractual terms (prior to the modification). We recommend that INT 20-05T be clarified to state that the determination of whether a loan is in default should be done based on the terms of the modified contractual terms of the loan and not the original contractual terms of the loan (prior to the modification).
INT 20-06T: Participation in the 2020 TALF Program

The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entity involvement in the 2020 TALF Program. Pursuant to this consensus:

a. Reporting entities borrowers who directly receive the TALF loan shall follow guidance in paragraphs 8-14 of this interpretation for the statutory accounting and reporting. As detailed in paragraph 11 of the INT, this interpretation provides an exception to allow admitted asset reporting for the pledged securities although the TALF program does not permit the pledged assets to be generally substitutable.

b. Reporting entities that do not directly receive the TALF loan but are investors to borrowers that receive the TALF loan, shall follow the provisions in paragraphs 15-16 for the statutory accounting and reporting.

The provisions detailed in this interpretation are applicable for the duration of the 2020 TALF loan program.

Interested parties propose the following clarifying edit to paragraph 13 in order to avoid unnecessary confusion for reporting entities and unintended inconsistencies in reporting:

13. Although the transaction is similar to a repurchase agreement accounted for as a secured borrowing, the TALF transaction is not a repurchase transaction. As such, the provisions and disclosures for repurchase agreements are not applicable. Particularly, as each TALF loan will have a three-year maturity, the loan will not be impacted by the statutory accounting provisions that require short-term (less than one year) repurchase agreements for admittance purposes.

Clarification that a TALF transaction is not a repurchase agreement and that, therefore, the repurchase agreement provisions and disclosures are not applicable is sufficient for purposes of providing guidance to financial statement preparers. The sentence we suggest be stricken would not provide additional clarity, and could only serve to create extraneous ambiguities pertaining to requirements that have already been clearly established as non-applicable for the subject of this INT.

INT 20-07T: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19

The Working Group reached a tentative consensus in response to requests to consider exceptions to statutory accounting guidance for troubled debt restructurings and impairment for all debt instruments. Pursuant to this consensus:

a. This interpretation does not provide exceptions to the recognition of a troubled debt restructuring for debt securities with modifications that result in non-insignificant concessions to a debtor that is experiencing financial difficulties.

b. This interpretation does not provide exceptions to the assessment or recognition of impairment for debt instruments. Pursuant to the guidance in SSAP No. 26R, after a modification for a debt instrument, assessment of OTTI shall be based on the current terms of the debt instrument.

(Exposure Staff Note – This statement corresponds with Agenda Item 2020-14.)

c. This interpretation does not provide exceptions for trouble debt restructuring determination and impairment assessments for situations in which the reporting entity is a direct, active participant in negotiating debt instrument modifications.
In response to assessments on the application of existing SSAP No. 36 provisions, particularly in determining whether a modification is a concession (insignificant), this consensus provides the following limited-time practical expedients in determining whether a modification is a concession under SSAP No. 36:

a. Paragraph 10.a. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay is insignificant to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results with a change that reflects a 10% or less shortfall amount in the contractual amount due.

b. Paragraph 10.b. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay in timing of the restructured payment period is insignificant to the frequency of payments due under the debt, debt’s original contractual maturity or the debt’s original expected duration. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results in a one-time 6-month or less delay in payment receipts. (This timeframe is consistent with the provisions in the interagency statements for loans.)

c. For the duration of this interpretation, debt security restructurings in response to COVID-19 that solely impact covenant requirements are not considered troubled debt restructurings.

In response to assessments on the application of existing SSAP No. 103R provisions, particularly in determining whether a modification that is not a troubled debt restructuring needs to be assessed as an exchange, this consensus provides the following exceptions to SSAP No. 103R:

a. Modifications that reflect a 10% or less change in contractual cash flows considered insignificant under this interpretation do not need to be further evaluated to determine whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. As such, these investments shall not be reported as an extinguishment and a new debt instrument.

The Working Group highlighted that modifications that would be considered troubled debt restructurings, particularly as they provide a non-insignificant concession, may be presented to the domiciliary state regulatory for a permitted practice exception to prevent troubled debt restructuring recognition and disclosure. However, the Working Group concluded that the need for reliable and accurate financial information does not permit exceptions that would allow wide-spread non-insignificant restructurings to occur and not be recognized on the statutory financial statements.

This interpretation is effective for the specific purpose to provide practical expedients in assessing whether modifications in response to COVID-19 are insignificant under SSAP No. 36 and in assessing whether a change is substantive under SSAP No. 103R. This interpretation will only be applicable for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.

Interested parties appreciate your responsiveness by providing accounting relief associated with COVID-19 related modifications we make to borrowers in both our loan and debt security investment portfolios. As significant investors in the capital markets, and as economic conditions have changed rapidly, we believe it is imperative that we respond as quickly as possible to help position our borrowers for financial success post-COVID-19.
For all the reasons conveyed in our April 2nd letter, we believe the same accounting relief provided to mortgage
loans and bank loans in INT 20-03 and INT 20-04 should be provided to private placement debt securities.
Although the exposed INT 20-07T provides some relief in assessing Troubled-Debt-Restructurings (“TDR”) for
private placement debt securities, when applied in practice, we do not expect it to provide sufficient relief (i.e.,
relief from assessing TDRs) based on the types of modifications we expect. The exposed INT includes a 6-month
modification constraint, which is very restrictive since private placement debt modifications may potentially
involve periods longer than 6 months and still be considered insignificant relative to the entire debt instrument.
Modifications that insurers make for debt securities are intended to provide the borrowers relief due to temporary
operational and financial issues because of COVID-19. Providing such relief now will benefit the borrowers and
ultimately our policyholders as it reduces the likelihood that the borrowers will have immediate liquidity concerns
resulting in longer-term financial issues and ultimately could result in insurers suffering impairments.

The remainder of these comments relate to the proposed INT and recommends some changes we believe will
better align with the types of modifications expected in our private placement portfolios, while retaining the
integrity and usefulness of our financial statements.

**Clarifications Related to the Proposed INT**

In reviewing the INT, we noted several areas of the INT for which we would like to confirm our interpretation as
to how the INT would be applied. The key areas are as follows:

1) Scope- We interpret the INT to be applicable for all debt securities and not to introduce additional
restrictions for loans that are in the scope of INT 20-03.

2) How the practical expedients are to be applied- After studying the practical expedients in paragraphs 15 a,
b, c and 16 a, we interpret them as follows:

   • An insurer may conclude a modification for a debt security is insignificant if the modification
     meets the criteria in both 15a and 15b.
   • Paragraph 15a provides that to be considered insignificant, the total modified cash flows, over the
     remaining life of the asset, may not be more than 10% less than the then current contractual cash
     flows (prior to the modification) over the remaining life of the asset.
   • Paragraph 15b is simply stating the modification must not result in a delay in payments (either
     principal or interest) that is more than 6 months.
   • Paragraph 15c provides relief in that all covenant modifications are assumed to not be significant.
   • If either the criteria in paragraph 15 a and 15b are not met, the practical expedients may not be
     employed, and the modification must be assessed for a TDR based on current practices consistent
     with SSAP No. 36. That is, it is still possible, based on the application of SSAP No. 36 (not
     using the practical expedients), that the modification does not meet the conditions to be
     considered a TDR.
   • If the investor has concluded that the modification is not a TDR and the criteria in paragraph 15a
     has not been met, it is assumed that the modification would not be considered a new asset via
     SSAP No. 103R (i.e., not considered more than minor both quantitatively and qualitatively). That
     is, no additional analysis is required to determine if the modified terms result in a new asset, with
     a related realized capital gain/loss recorded.

**Recommended Changes to the Proposed INT:**

Assuming our interpretation of the INT as detailed above is accurate, we have the following recommendations:
Criteria for Paragraph 15

In discussing modifications with our private placement investment managers, we expect modifications that provide borrowers delayed payments of principal and/or interest, will likely be for a longer period than 6-months; however, the modification would still be considered insignificant when considering the remaining life of the debt security. As a result, as opposed to focusing the use of the practical expedient on insignificant modifications (determined by ensuring both criteria 15a and 15b are met), we recommend a form of the “financial difficulty” criteria in paragraph 9 of SSAP No. 36 be introduced into the criteria that must be met for the practical expedients to be used (see recommendation below). Using such an approach introduces a higher standard in ensuring the modifications are only driven by COVID-19 temporary conditions.

We recommend removing paragraph 15b criteria so that the paragraph 15a criteria (i.e., the 10%) would be leveraged to determine if a modification was insignificant. This would allow modifications that are still considered temporary in nature, but longer than 6-months and insignificant to a specific debt security, to be considered insignificant. To introduce the “financial difficulty” criteria into the use of the practical expedient, like INT 20-03 for loans, we recommend a criterion be added (to replace paragraph 15b) to require that the debt security must have not been more than 30 days past due at December 31, 2019. The December 31, 2019 date is important because borrowers likely began to experience temporary operational and financial issues in the 1st Q of 2020. Thus, if the borrower was not more than 30 days past due at December 31, 2019, it is presumed that they are only experiencing temporary issues due to COVID-19. The modifications are intended to help them through those temporary situations.

We also recommend moving item 15c to its own paragraph and not including it with paragraphs 15a and 15b. We believe the intent is that both paragraph 15a and 15b must be met for the practical expedients to be applied. Paragraph 15c criterion is stand-alone and not related to 15a and 15b. That is, all financial covenants are considered insignificant regardless of paragraphs 15a and 15b.

Paragraph 14c:
Paragraph 14c of the INT states “This interpretation does not provide exceptions for troubled debt restructuring determination and impairment assessments for situations in which the reporting entity is a direct, active participant in negotiating debt instrument modifications.” We recommend this paragraph be struck from the final INT as it implies that the practical expedients outlined in the INT do not apply to private placement debt securities, which we believe is not your intent. We believe paragraphs 14a and 14b are enough for what is intended to be conveyed in the INT.

Example 3:
Example 3 discusses a modification related to a SSAP No. 43R investment. In paragraph 3 of the “Example 3-Application of INT 20-07T” section of the document, the example notes that “…assuming there is no collateral, a realized loss shall be recognized for the difference between fair value and amortized cost”. We find the SSAP No. 43R examples to be somewhat complex in terms of conveying the message related to the criteria. We believe the objective of the example is to illustrate the need for both criteria in 15a and 15b to be met to apply the practical expedients. Should a similar example be retained in the final INT, we recommend it be simplified to use a SSAP No. 26R security rather than a SSAP No. 43R security.

Period during which INT 20-07T is effective:
Paragraph 18 of the INT notes that the interpretation would be applicable from March 1, 2020 until the earlier of 12/31/2019 or 60 days after the national emergency expires. Similar to INT 20-03 for loans, we recommend the INT be applied to a modification for the term of the modification.
We appreciate you considering our recommendations summarized above to ensure we may contribute to economic recovery post COVID-19 for the various private placement borrowers in our debt security portfolios.

**INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends**

The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:

**Issue 1:** Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-11 of this interpretation. This guidance stipulates that such refunds shall be recognized as a reduction of premium. Refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

**Issue 2:** Reporting entities that provide refunds in accordance with insurance policy terms shall follow paragraph 12 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53 or SSAP No. 66 shall be followed as applicable.

**Issue 3:** Reporting entities that provide rate reductions shall follow paragraph 13 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

**Issue 4:** Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 14-18 and in addition, shall complete the disclosures described in paragraphs 19-21.

**Issue 5:** This interpretation, paragraphs 19-22 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A.

The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

Interested parties offer the following comments on the tentative consensus noted above:

**Issue 1:** Those insurers that provided voluntary or jurisdiction-directed refunds which are not required under the policy terms concluded that guidance similar to that described in paragraphs 8-11 of this interpretation is appropriate and accounted for those amounts accordingly. However, it is noted that the consensus for Issue 1 should be amended to address the effect on the unearned premium reserve by stating: . . . refunds shall be recognized as a reduction of premium and the unearned premium reserve adjusted accordingly.

Other insurers chose to provide funds or credits to policyholders by amending the terms of their policies through manual rate filings or policy endorsements and reported the amounts provided to policyholders as an expense as part of Other Underwriting Expense based on SSAP No. 70, Allocation of Expenses. To address the accounting treatment for policies that were amended to allow for a policy payment in circumstances related to COVID-19, those companies recommend that Issue 1 be modified, and a new issue added to the INT as marked in the attachment.
Issue 2: Interested parties agree with the tentative consensus.

Issue 3: Interested parties agree with the tentative consensus.

Issue 4: Interested parties agree with the tentative consensus.

Issue 5: Interested parties believe it would be cumbersome (and may not be possible) to aggregate workers compensation audit premium adjustments attributable to COVID-19 with premium adjustments based on either the level of exposure to insurance risk or the level of losses. To address this, we recommend that the tentative consensus be amended as follows:

21. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

Ref# 2020-14: Assessment of OTTI Based on Original Contract Terms

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and consider revisions to add a new footnote to SSAP No. 26R—Bonds to clarify the interrelationship between SSAP No. 26R, SSAP No. 36 and SSAP No. 103 when there is a modification to a debt instrument.

SSAP No. 26R—Bonds
Impairment
13. An other-than-temporary (OT) 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 a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond’s carrying value and its fair value 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/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

New Footnote: If a bond has been modified from original acquisition, the guidance in SSAP No. 36—Troubled Debt Restructuring and paragraph 22 of SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the current contractual terms of the debt instrument.
Interested parties recommend that the new footnote be modified to clarify that after modification of original terms, future assessments to determine other-than-temporary impairment should be based on the modified contractual terms of the debt instrument. Use of the term “current” may not be clear to preparers and auditors.

* * *

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

Sincerely,

D. Keith Bell                  Rose Albrizio

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Interpretation of the Statutory Accounting Principles Working Group

INT 20-08T: COVID-19 Premium Refunds, Rate Reductions, Policyholder Benefits and Policyholder Dividends

INT 20-08T Dates Discussed

Email Vote to Expose

INT 20-08T References

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets
SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items
SSAP No. 53—Property Casualty Contracts—Premiums
SSAP No. 65—Property and Casualty Contracts
SSAP No. 66—Retrospectively Rated Contracts
SSAP No. 70—Allocation of Expenses

INT 20-08T Issue

COVID 19

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

Premium Refunds, Rate Reductions, Policyholder Benefits and Policyholder Dividends

2. The federal, state or local government orders requiring non-essential workers to “stay home” caused a significant reduction in commercial and non-commercial activity, including automotive usage. Some consumer groups wrote letters and issued press releases calling for insurance premium refunds or pricing decreases, which included specific comments directed toward consumer automotive lines. The comments presumed that the decrease in activity would result in fewer losses.

3. Recognizing the extraordinary economic hardship experienced by their policyholders together with the reduction in auto accident frequency resulting from the decline in economic activity, insurers began issuing designed various programs to provide a portion of the favorable experience realized from reduced accident frequency to policyholders. The underlying objective of the programs is to provide temporary relief to customers during the period that various government-based shelter in place orders remain in effect resulting in a significant decline in general economic activity accident frequency levels remaining significantly below historic levels. The methods utilized to deliver temporary relief to policyholders include voluntary premium refunds, future rate reductions policyholder benefit payments (in certain instances, based on manual rule filings or policy endorsements) and policyholder dividends because of the decreased activity. The majority of the refunds were related. Most of the relief payments (or programs) relate to automotive lines of business. Insurers have provided the reductions policyholder relief in a variety of ways. Some of the rate reductions were specific including direct relief...
payments for in-force policies, whereas some of the relief payments/programs designed as rate reductions would apply to future policy renewals.

Voluntary
4. The majority of the refunds or rate reductions company actions taken are being offered voluntarily and are not amounts required under the existing policy terms. The aggregate monetary amount of the return of funds, payments and adjustments is considered materially significant.

Jurisdiction Directed
5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on varying lines of property and casualty insurance, including but not limited to: private passenger automobile, commercial automobile, workers’ compensation, commercial multiple peril, commercial liability and medical professional liability. In addition, some jurisdictions have indicated support for refunds, rate reductions, and policyholder benefits but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues
6. This interpretation is to address questions related to the accounting and reporting for premium refunds, rate reductions, policyholder benefit payments and policyholder dividends in response to the decreased activity attributable to COVID-19. Because there are a variety of impacts on the private passenger and commercial auto insurance business. Due to the severity of the event and the speed at which it emerged, different insurers designed and implemented policyholder relief programs. Reporting entities are accomplishing fundamentally different even if designed to achieve a similar objective. The intent of returning money or reducing premiums, this guidance is to ensure that for accounting purposes, the programs are accounted for in accordance with their design and execution. Separately, to provide policyholders and other stakeholders with information about the size and scope of the programs, required comprehensive disclosures should be utilized. This interpretation provides guidance on the following issues:

- Issue 1: How to account for premium refunds not required under the existing policy terms.
- Issue 2: How to account for refunds required under the existing policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder benefit payments under modified policy terms (e.g., manual rule filings or certain policy endorsements).
- Issue 5: How to account for policyholder dividends.
- Issue 6: Where to disclose premium refunds, rate reductions, policyholder benefit payments and policyholder dividends related to covid-19 decreases in activity.

INT 20-08T Discussion
7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible consistent with the design and execution of the program.
**Issue 1: How to Account for Premium Refunds Not Required Under the Policy Terms**

8. The Working Group reached a tentative consensus that company actions whose intent is a voluntary refund because of a premium refund based on reduced auto accident frequency attributed to decreased activity related to COVID-19 and other jurisdiction-directed premium refunds which are not required by the policy terms, are fundamentally a return of premium. Such refunds shall be accounted for as immediate adjustments to premium. The premium refund will be an adjustment to written or earned premium.

9. Premium refunds shall be recognized as a liability when the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets is met. For example, the declaration of a voluntary dividend by the board of directors will trigger liability recognition. In cases where the refunds are directed by a jurisdiction, the SSAP No. 5 definition of a liability shall be used to determine timing of liability recognition.

10. Immediate adjustment to premium is consistent with the existing guidance in SSAP No. 53—Property Casualty Contracts—Premiums. SSAP No. 53 guidance requires adjustments to the premium charged for changes in the level of exposure to insurance risk. It is also consistent with the treatment of loss sensitive premium adjustments in SSAP No. 66—Retrospectively Rated Contracts. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply.

11. Reporting the refunded amounts as a miscellaneous underwriting expense is not consistent with the underwriting expense description. This reporting option is inconsistent with the characterization of the amount as a return of premium.

   a. Reporting the refunds as premium balances charged off (e.g., bad debt expense) is inconsistent with guidance in 53, paragraph 14, on earned but uncollected premium. It is also inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged.

**Issue 2: How to Account for Premium Refunds Required Under the Policy Terms**

12. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53 or SSAP No. 66 continues to apply:

   a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers’ compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but un billed (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.
b. SSAP No. 66 provides guidance for policies whose terms or legal formulas determine premium based on losses. SSAP No. 66 references other applicable statements based on contract type for the initial accrual of premium. Estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium. SSAP No. 66 guidance specifies the corresponding annual statement reporting lines for different entity types.

**Issue 3: How to Account for Rate Reductions**

13. Some reporting entities are offering rate reductions instead of premium refunds. Some of these rate reductions provide one-time price decreases to future payments on in-force policies. Other reporting entities have provided offers of rate reductions on future renewals. Some of the offers for future rate reductions are only applicable to inforce policyholders as of a specified date. Some reporting entities have offered one-time rate reductions for future renewals for both existing and new policyholders for 2020.

a. Rate reductions on in-force business, shall be recognized as immediate adjustments to premium.

b. Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. This is because it is outside of the policy boundary to require the accrual before contract inception. While the amount of future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate, therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue No. 5.

**Issue 4: How to Account for Policyholder Benefit Payments Under Modified Policy Terms (e.g. Manual Rule Filings or Policy Endorsements)**

14. In an effort to expedite relief to policyholders, certain insurers filed manual rule filings or policy endorsements to modify the terms of their insurance contracts to allow for the payment of discretionary policy benefits. In these instances, policy endorsements or manual rule filings were determined to be the most efficient method to provide relief to policyholders.

15. The manual rules filings or policy endorsements in paragraph 14 allowed for discretionary benefit payments to policyholders that were not otherwise provided under the contract (e.g. the payments did not result from an indemnifiable loss or a premium adjustment based on changes in insurance risk attributable to a policy change or cancellation) and were stated to be in response to circumstances surrounding COVID-19. The manual rule filings or policy endorsement was utilized to expedite providing relief to policyholders. As the manual rule filings or policy endorsements would not impact written premium and would, therefore, not result in adjustments to either premium tax returns or agent commissions. The following was considered in determining the appropriate accounting and presentation of discretionary policy benefit payments provided through the manual rule filings or policy endorsements:

a. Accounting for discretionary policy benefits paid in accordance with contract terms modified through a manual rule filing or endorsement authorizing payments to policyholders that are not directly related to a change in the level of insurance risk is not specifically addressed in existing statutory accounting literature.

b. SSAP 70, *Allocation of Expenses*, does however state that allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows; loss adjustment expenses, investment expenses, other underwriting...
expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses.

c. In those circumstances when an insurer modifies the terms of its insurance contracts to allow for discretionary payments that are not directly related to the level of insurance risk under the contract and not designed as a premium refund, the payment shall be accounted for consistent with its nature and design; as an underwriting expense. These payments affect the results of the underwriting activities of the insurer since they are related to the policy and are not precluded in the literature from being classified as underwriting expenses.

16. Policyholder payments shall be recognized as a liability when the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets is met.

**Issue 5: How to Account for Policyholder Dividends**

17. SSAP No. 65—Property and Casualty Contracts, paragraph 46 requires that dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability.

18. The Working Group noted that policyholder dividends are typically only provided on participating policies or policies issued by non-stock companies, such as mutual entities and other corporate entity types in which profits are shared with policyholders.

19. Research during the development of this item identified that a small number of jurisdictions have legal restrictions which only allow policyholder dividends to be provided after the expiration of the policy period for which the dividend was earned. This interpretation only addresses policyholder dividends which are permitted by the applicable jurisdiction.

20. The property and casualty annual statement blank provides specific reporting lines for policyholder dividends including, but not limited to a liability line and a line in the income statement and statement of cash flow. For those entities whose policies are participating or whose corporate shell type and/or membership structure allow for policyholder dividends, the accounting for policyholder dividends is unchanged by this interpretation.

21. SSAP No. 72—Surplus and Quasi-Reorganizations, paragraph 22 requires disclosure of dividend amounts and dates. In addition, SSAP No. 65, paragraph 47 also requires disclosure of dividend restrictions. The disclosures from both statements are in annual statement Note 13 Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations. This interpretation does not change the dividend disclosure but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.

**Issue 56: Where to Disclose Premium Refunds, Rate Reductions, Policyholder Benefit Payments and Policyholder Dividends Related to COVID-19 Decreases in Activity**

22. There are various places in the notes to the statutory annual statement where disclosures of various aspects of premium refunds, premium reductions or policyholder dividends are required. This interpretation does not recommend changes to those existing disclosures. This interpretation does, however, recommend a consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

23. SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items requires disclosure of the nature and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are
not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. This disclosure is currently required to be reported in annual statement Note 21A. (Reporting entities shall maintain jurisdiction-specific information to be made available upon request from department of insurance or revenue regulators.)

24. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12, (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends.

**INT 20-08T Tentative Consensus**

25. The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds and discretionary policyholder benefits in response to COVID-19. Pursuant to this consensus:

a. Reporting entities that provide voluntary or jurisdiction-directed premium refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-11 of this interpretation. This guidance stipulates that such premium refunds shall be recognized as a reduction of premium. Premium refunds described in paragraphs 8-11 that are recognized in a different manner (e.g., other than as an expense), a decrease to premium, shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

b. Reporting entities that provide premium refunds in accordance with insurance policy terms shall follow paragraph 12 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53 or SSAP No. 66 shall be followed as applicable.

c. Reporting entities that provide rate reductions shall follow paragraph 13 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

d. Reporting entities that provide for the payment of discretionary policy benefits through a manual rule filing or policy endorsement that authorizes payments to policyholders not otherwise provided under the contract (e.g. not a payment resulting from an indemnifiable loss or a return of premium based on changes in insurance risk related to the policy or not related to a policy change or cancellation) shall account for the payment in accordance with the guidance in paragraphs 14-16. This INT addresses and is limited to the accounting for the particular circumstance when policyholder payments as specified in the modified policy terms are related to conditions resulting from COVID 19 for manual rule filings or policy endorsements filed in response to COVID 19 activity.

e. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 14-1817-21 and in addition, shall complete the disclosures described in paragraphs 19-2422-24.
f. This interpretation, paragraphs 19-22-24 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds and payments, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A.

26. The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

27. This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

**INT 20-08T Status**

28. Further discussion is planned.
May 14, 2020

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
VIA Email Transmission: jgann@naic.org; rmarcotte@naic.org

RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies (NAMIC) regarding the interpretive reporting guidance issued to account for premium refunds, rate reductions, and policyholder dividends.

As the COVID-19 global pandemic continues to disrupt our national and state economies, insurers are hard at work continuing to adapt and innovate to best serve policyholders in their time of need. Like every other business in America, our members are navigating the new challenges and demands that come from remote work arrangements, implementing business continuity plans, making best efforts to educate and communicate updates to staff, and much more. These complications notwithstanding, our members continue to remain focused on providing regular service to policyholders in addition to taking proactive steps to alleviate the financial hardships facing many consumers, including cancellation suspensions, fee waivers, and premium relief. NAMIC members remain committed to working with all policyholders to provide flexibility where possible for the duration of this crisis.

Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close leading to a significant increase in unemployment and the potential permanent closure of many businesses. The federal, state or local government orders requiring non-essential workers to “stay home” caused a significant reduction in commercial and non-commercial activity, including automotive usage. Many NAMIC members responded proactively and implemented various programs in response to the reduction in auto accident frequency due to the decline in economic activity. These programs were designed to provide relief to policyholders experiencing economic hardship and to recognize the improvement in loss experience due to less miles driven on the roads.

NAMIC members view this issue from many different perspectives, and for some, treating these refunds/credits as a reduction in premium makes the most sense for how the company manages its’ operations and ultimately

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1 NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country’s largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.
how it reports it in the annual statement. For others, treating these refunds as a policyholder dividend or an expenditure similar to a policyholder dividend is in line with the types of policies they issue. Still others prefer to treat the funds distributed to policyholders as a premium charge-off, as that makes the most sense for the insurer based on their unique circumstances.

The reasons for an accounting interpretation of this nature is to respond to various approaches taken by insurers during these unprecedented times; therefore, NAMIC believes the accounting treatment for these transactions needs to recognize the unusual nature and the infrequency of an event of this scale. The proposed interpretive guidance does not fully consider the nuances of a mutual insurance company’s participating structure, contract form, and financial reporting considerations. NAMIC members respectfully request the working group consider more flexibility in their guidance; this would allow companies to continue classifying funds returned to policyholders in the same consistent manner with how they have done so historically in the financial statements.

**Participating Insurance Contracts**

The payment of a dividend is considered a component of an insurer’s combined ratio and for mutual insurance companies that offer participating policies, a dividend is typically paid to policyholders when favorable operating profits are realized. The proposed interpretation does not consider insurers returning funds to policyholders (other than dividends) for a period of favorable underwriting experience as a similar situation, and therefore the proposal treats all refunds/credits/rate reductions as a return of premium. NAMIC members do not believe that treating funds returned to policyholders as a premium credit is the only way to account for these distributions of funds. Depending on the design of the program, insurers should be afforded the flexibility to account for these refunds similar to a policyholder dividend.

Paragraph 10 of INT 20-08T states that the guidance in SSAP No. 53 – Property Casualty Contracts – Premiums “requires adjustments to the premiums charged for changes in the level of exposure to insurance risk.” Paragraph 7 of SSAP No. 53 also states, “the exposure to insurance risk for most property and casualty insurance contracts does not vary significantly during the contract period.” Mutual insurance companies that provide participating insurance contracts designed to return operating profits resulting from favorable loss experience to policyholders didn’t experience any change in loss exposure, rather it is their loss experience that improved. Because the level of exposure to insurance risk is unchanged and loss experience has improved, many mutual insurers returning money to policyholders do not view these payments as a premium credit, rather they view them very similarly to a dividend payment.

The INT makes reference to certain types of policies that require premium refunds under the policy terms; however, the guidance is nonapplicable to participating insurance contracts. The reference to paragraph 12.b of INT 20-08T is appropriate for retrospectively rated contracts, such as workers compensation polices – these policies are designed to include a return mechanism. For these policies, the INT states that SSAP No. 66 – Retrospective Rated Contracts, “provides guidance for policies whose terms or legal formulas determine premium based on losses” and that “estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium.” For participating insurance contracts, the return mechanism is designed to return shared operating profits to policyholders as a separate payment (usually a dividend), not as a return of premium. Our view is these payments are funds returned to policyholders related to the accelerated recognition of favorable loss experience and are similar to making a dividend payment; therefore, insurers should not be forced to treat these as premium credits.

**Material Unusual and Infrequent Item**

Many mutual insurance companies offering participating policies view the amounts already returned to policyholders as a shared benefit of favorable loss experience and were planning to include them as a component of the combined ratio and treat as an expenditure similar to a policyholder dividend. In this case and
in response to the uniqueness of the COVID-19 situation, the expenditure should be considered a material unusual and infrequent item. The abrupt nature of this refund was unique in circumstance and the sense of urgency to return these funds in an expedient manner was not readily possible within most mutual insurer’s administrative systems. Although in substance these policyholder payments were consistent with the intent of a dividend payment, they were not remitted in the form of a dividend. For these reasons, we believe insurers that offer participating policyholder payments should be afforded the option to account for these policyholder payments similarly to a dividend, so as not to force all insurers to net them within premiums in the annual statement.

The rationale for optionality is supported by paragraph 9 of SSAP No. 24 – Discontinued Operations and Unusual or Infrequent Items, which states, “a material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported consistently with the reporting entity’s reporting of continued operations.”

**Premium Balance Charge-Off**

Other insurers are looking at this from an entirely different perspective and have made the decision to pay for a percentage of auto premiums for their policyholders for policies in force. This approach has no impact on agents or the insured only that the insurer is helping to pay the policyholder’s bill. These companies were planning to record the total amount in billing assistance as a premium charge-off in their financial statements. These companies are looking to avoid impacting the combined ratio, as these amounts are significant in size and certainly qualify as unusual and infrequent. Availing flexibility for insurers in this situation recognizes the need to call out these unique and unusual transactions in the financial statements, so as not to distort the core operations, assisting regulators in their examination and analysis of the financial results of an impacted company.

Paragraph 11.b of INT 20-08T states that reporting refunds as premium balances charged off is “inconsistent with guidance in SSAP No. 53, paragraph 14, on earned but uncollected premiums.” However, in certain cases the premium was earned and collected. Instead of issuing a refund, some insurers paid off a portion of the policyholders billed premium. Thus, it was collected and the premium was then earned by the company. It makes more sense for companies in this situation to treat the reduction in loss experience as a one-time premium charge-off instead of telling the policyholder to not pay their bill only to then write it off.

**Disclosing Premium Refunds, Rate Reductions, and Policyholder Dividends Related to COVID-19**

The disclosure of dividend amounts and dates required by SSAP No. 72, paragraph 22, as referenced by paragraph 18 of INT 20-08T, applies to stockholder dividends only, and not policyholder dividends. Therefore, this reference should be removed from INT 20-08T as a requirement for disclosure of policyholder dividends. Note 13 Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations only requires disclosure of policyholder dividend restrictions as required by SSAP 65, paragraph 47.

NAMIC members recommend paragraph 18 of INT 20-08 be reworded as follows to clarify the required disclosure of policyholder dividends:

18. SSAP No. 65, paragraph 47 requires disclosure of dividend restrictions. This disclosure is in annual statement Note 13 Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations. This interpretation does not change the dividend disclosure but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.

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2 Premium Balances Charge Off – Page 4, Line 12 of the P/C Annual Statement

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Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies and their policyholders. If there are any questions, please feel free to contact me at 317-876-4206.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies
May 14, 2020

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: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Thank you, the Working Group and NAIC staff for responding quickly to the issues that are arising as a result of the rapid spread of the Coronavirus Disease 2019 (COVID-19). Travelers appreciates the opportunity to comment on INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends (INT 20-08T) of the NAIC Statutory Accounting Principles Working Group (the Working Group), which was exposed for comment with comments due May 14.

During the past couple of months, state and/or local government orders requiring non-essential workers to “stay home” caused a significant reduction in economic activity, including automotive usage. As a result, many insurers, including Travelers, began issuing voluntary premium refunds, future rate reductions, or policyholder dividends. As stated in the INT, insurers provided the reductions in a variety of ways. Some of the rate reductions were specific to in-force policies, whereas some of the rate reductions apply to future policy renewals. In most cases, the refunds or rate reductions were not amounts required under the policy terms.

Travelers agrees with the conclusions reached for Issues 1 through 4 of INT 20-08T that adjustments to premium is consistent with the statutory accounting guidance in SSAP No. 53, Property Casualty Contracts – Premiums, SSAP No. 65, Property and Casualty Contracts and SSAP No. 66, Retrospectively Rated Contracts. We also believe that there should be consistent reporting by property and casualty insurers of voluntary premium refunds, temporary future rate reductions, and policyholder dividends resulting from COVID-19.

Other than the treatment of policyholder dividends specifically referenced in Issue 4 of INT-20-08T, we do not believe that payments to policyholders that are based on past or current premiums and are the result of reduced insured exposure due to COVID-19 should be characterized as an expense. SSAP No. 70, Allocation of Expenses, provides for three types of reportable expense classifications for property and casualty insurers: loss adjustment expenses, investment expenses and other underwriting expenses. Premium refunds and temporary future rate reductions to policyholders are clearly not loss adjustment or investment expenses, nor are such payments other underwriting expenses, the latter of which is meant to capture the allocable underwriting expenses of the insurer. Rather, these refunds, payments and credits are the result of changes in insured exposures (such as lower miles driven related to auto policies due to federal, state or local government orders requiring non-essential workers to “stay home”). Additionally, we agree that if such premium refund payments or credits to policyholders are reported as expenses, such treatment should be disclosed as a permitted practice.
Regarding Issue 5 ("Where to Disclose Refunds, Rate Reductions and Policyholder Dividends Related to COVID-19 Decreases in Activity"), Travelers has concerns regarding the proposed disclosure requirement in paragraph 21 that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends be disclosed as unusual or infrequent items. We believe that this proposed disclosure is not practicable as it concerns certain commercial policies, especially loss sensitive policies and policies subject to retrospective rating or audit adjustment. For such policies, it will not be practical to separate refunds and rate reductions from changes in premium due to loss experience.

Thank you for the opportunity to comment on INT 20-08T. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277-0537.

Best regards,

D. Keith Bell
May 20, 2020

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: Addendum to original comments regarding INT 20-0ST - COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Thank you for this opportunity to share additional comments on INT 20-08T for your consideration. And thank you again to the Working Group for your effort in this endeavor during such extraordinary times. We value and appreciate your partnership and guidance.

The Cincinnati Insurance Company offers the following additional comments:

When a state mandates that companies make a payment, this is typically accounted for as some sort of an expense to the company, such as assessments, surcharges, guaranty funds, fines, taxes.

For purpose of context, I would like to use a general example for comparison:

A state enacts a fee whereby companies are required to pay an amount equal to 5% of premiums for a specific product line. Companies have the option to collect all, or part, of this fee from impacted policyholders. If the company chooses to NOT collect the fee from policyholders, the amount incurred by the company is an expense.

Now, substitute this example with the nature of the current relief payment:

States have strongly encouraged, and in some cases mandated, that companies pay a civic donation to policyholders for, at least, a specific product line. This request, or order, is based on the premise that companies will experience favorable loss experience, but not based on actual loss experience.

Assuming contracts are non-participating and premium refunds are not required under the policy terms, this relief payment should also be an expense.

- Companies are essentially incurring an expense, in place of a loss.
- As an expense, companies bear the majority of the financial burden for the payment. As opposed to the financial burden being shared by further exacerbating revenue shortfalls
  - for state governments through reduced premium taxes and
  - for small businesses through commission clawbacks.
- States allowed payments to be made directly to policyholders, rather than sending payments to the states and the state making payments directly to impacted policyholders.

Whether viewed as most aligned with an assessment, surcharge, donation, or marketing, we propose these payments are appropriately reported as expense. In accounting treatment, reporting payments as an expense limits the combined ratio impact to the expense ratio. Given the fact that some companies have the option of making these payments under normal policyholder dividend guidelines, limiting the impact to dividend and expense ratios provides a level of industry consistency. If treated as premium, all aspects of the combined ratio, including the loss ratio, are impacted, which does not seem appropriate. Given that the premise of the payment request is for companies to share their anticipated favorable loss experience, it seems counterintuitive that loss experience ratios be negatively impacted by the payment.

For these reasons, The Cincinnati Insurance Company respectfully proposes that relief payments made on non-participating contracts, and outside of policy terms that existed at the time of state orders, are fundamentally an expense and should be accounted for as such.
Sincerely,

Andrew Schnell  
Assistant Vice President

CC: Robin Marcotte, NAIC Staff  
    Michael Sewell, Chief Financial Officer and Senior Vice President  
    Theresa Hoffer, Senior Vice President and Treasurer  
    James Sims, Assistant Treasurer  
    Rachel Underwood, Technical Accounting Manager

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

**Issue:** Surplus Notes – Enhanced Disclosures

**Check (applicable entity):**

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<tr>
<td>Interpretation</td>
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**Description of Issue:**
Surplus notes are unique statutory accounting items which have the characteristics of both debt and equity addressed in *SSAP No. 41R—Surplus Notes*. Surplus notes are debt instruments that are required to be subordinated to policyholders, claimants and all other creditors; with interest and principal repayments requiring approval by the domiciliary commissioner. As such, surplus notes are reported as equity for statutory accounting purposes. (This treatment is specific to statutory accounting. Surplus notes are reported as debt under U.S. GAAP.) Pursuant to the requirements of SSAP No. 41R, proceeds received by the issuer of a surplus note must be in the form of cash or other admitted assets meeting both value and liquidity requirements of the state of domicile’s commissioner.

In conjunction with agenda item 2018-07, originally a referral from the Reinsurance (E) Task Force, the Statutory Accounting Principles (E) Working Group has been discussing surplus notes where an “associated” asset is received by the surplus note issuer. These discussions have questions whether a surplus note that does not result with an exchange of cash flows (as the cash flows of offset with an associated asset), shall be considered surplus notes under SSAP No. 41R. Although the discussion on how to treat these surplus notes will occur in agenda item 2018-07, the Working Group has directed that additional disclosures shall be captured in SSAP No. 41R. The intent of this agenda item is to consider new disclosures involving surplus notes to better identify these situations in the statutory financial statements.

**Existing Authoritative Literature:**
Authoritative guidance is detailed in *SSAP No. 41R—Surplus Notes*. Current guidance does not require disclosure if a surplus note has been issued with the structure as described where little or no actual cashflows are exchanged.

**Current Surplus Note Disclosures under SSAP No 41R:**

**Disclosures**

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;

b. Description of the assets received;

c. Holder of the note or if public the names of the underwriter and trustee;

d. Amount of note;

e. Carrying value of note;

f. The rate at which interest accrues;

g. Maturity dates or repayment schedules, if stated;

h. Unapproved interest and/or principal;
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): Discussions on linked surplus notes is occurring within agenda item 2018-07. The Working Group directed NAIC staff to collect information via a data-call on “linked” surplus notes as of Sept. 30, 2019. This information is requested by Dec. 31, 2019. Improved disclosures on surplus notes in SSAP No. 41R will reduce the need for subsequent data-call collection.

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. 41R to provide enhanced disclosures to identify when a surplus note has been issued in which anticipated or typical cashflows have been partially or fully offset through the terms of the asset provided by the note holder.

Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

   a. Date issued;
   b. Description and fair value of the assets received;
   c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
   d. Original issue amount of note;
   e. Carrying value of note;
   f. The rate at which interest accrues;
   g. Maturity dates or repayment schedules, if stated;
   h. Unapproved interest and/or principal;
   i. Life-to-date and current year approved interest and/or principal recognized as “paid” with identification of the amount of approved interest and/or principal remitted to the holder of the surplus note (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets);
   j. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur;
   k. Subordination terms;
   l. Liquidation preference to the reporting entity’s common and preferred shareholders;
The repayment conditions and restrictions.

19. If a reporting entity is not remitting actual cash or assets to the holder of the surplus note for approved interest or principal (as reported under paragraph 18.h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting asset:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

b. Book/ adjusted carrying value of asset and interest income recognized in the current year.

c. Amount of principle return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity’s issued surplus note.

20. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

Updates to the Blanks are proposed as a result of the SSAP No. 41R revisions. For readability and due to the amount of proposed changes, both the current and proposed Blanks revisions are detailed below.

**Current Blanks Disclosures:**

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**Proposed Blanks Disclosures:**

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<th>Current Year Approved Interest Not Remitted Since Issuance (No Transfer of Cash/Assets)</th>
<th>Current Year Approved Principal Not Remitted Since Issuance (No Transfer of Cash/Assets)</th>
<th>Is Non-Remitted Interest or Principal Offset with Amounts Owed from Surplus Note Holder? (Y/N)</th>
<th>Does Remitted Interest or Principal Payments Result with Acquisition of a Source of Liquidity Through the Surplus Note Holder? (Y/N)</th>
<th>Is Surplus Note Holder a Related Party (Y/N)</th>
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*Include amounts offset with amounts owed from the holder of the surplus note.*
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<th>Name of 3rd Party Liquidity Source Acquired</th>
<th>Is Liquidity Source a Related Party to the Surplus Note Issuer?</th>
<th>Current Year Total Cost of Liquidity Source</th>
<th>Current Year Cost of Liquidity Source Reported as Surplus Note Interest</th>
<th>Total Cost of Liquidity Source Since Acquisition</th>
<th>Total Cost of Liquidity Source Reported as Surplus Note Interest Since Acquisition</th>
<th>Maximum Amount Surplus Note Issuer Can Receive from Liquidity Source</th>
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Staff Review Completed by: Jim Pinegar, October 2019

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 41—Surplus Notes to provide enhanced disclosures to identify when an issued surplus note’s anticipated or typical cash flows have been partially or fully offset through an asset held by the surplus note issuer.

Spring 2020 National Meeting discussion
Interested Parties submitted comments and suggested edits on the prior exposure; NAIC staff agree that the proposed edits, as they in essence, require disclosure of the desired items as detailed in the original agenda item. Additionally, in some cases, suggested proposed edits expanded surplus note structure disclosures requirements.

NAIC staff added one disclosure item to be data captured in the Blanks

NAIC staff recommends that the Working Group expose this agenda item, with revisions as proposed by interested parties, and as further modified by NAIC staff. These revisions will require additional disclosures regarding the issuance of Surplus Notes – specifically those that are structured in a manner in which typical cashflows have been reduced or eliminated

Changes from the original exposure are highlighted in grey below.

Disclosures
18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:
   a. Date issued;
   b. Description and fair value of the assets received;
   c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
   d. Original issue amount of note;
   e. Carrying value of note;
   f. The rate at which interest accrues;
   g. Maturity dates or repayment schedules, if stated;
   h. Unapproved interest and/or principal;
   i. Life-to-date and current year approved interest recognized and/or principal paid recognized
      i. Percentage interest payments offset through "administrative offsetting" (not inclusive of amounts paid to a 3rd party liquidity provider). I.E. if $100 in interest was recognized through
the year, $10 of which was remitted to a 3rd party liquidity provider and the reminder $90 was offset, the reporting entity shall report 100% as offset.

j. Disclosure of whether the surplus note was issued as part of a transaction with identification any of the following attributes:
   i. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked (For example, the asset provides amount of approved interest and/or principal remitted payments only when the surplus note provides interest payments).
   ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement (This may be referred to as administrative offsetting).
   iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note. (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets).

h. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur.

k. Principal amount of assets received upon Surplus Note issuance, if applicable:
   i. Subordination terms;
   j. Liquidation preference to the reporting entity’s common and preferred shareholders;
   n. The repayment conditions and restrictions.

k-o. Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is not remitting actual cash or assets to a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in 18. j above, the ceding entity shall provide a description of the transaction, including whether the criteria in 18. j. above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

19.20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note for approved interest or principal (as reported under paragraph 18.h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting asset:
   a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation;
   b. Book/ adjusted carrying value of asset and interest income recognized in as of the current year, reporting date;
   c. Amount of principle return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity’s issued surplus note. A description of terms under which liquidity would be provided should a triggering event occur.
20.21. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.
Proposed Blanks Disclosures:

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<th>Carrying Value of Note Prior Year</th>
<th>Carrying Value of Note Current Year</th>
<th>Unapproved Interest And / Or Principal Interest Expense Recognized</th>
<th>Approved Interest Recognized Current Year</th>
<th>Current Year Interest Expense Recognized</th>
<th>Date of Maturity</th>
<th>Carrying Value of Note Current Year</th>
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<td>1311999 Total</td>
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- **Life-To-Date Interest Remitted (Actual Transfer of Cash/Assets)**
- **Life-To-Date Interest Expense Recognized**
- **Current Year Interest Offset Percentage (not including amounts paid to a 3rd party liquidity provider)**
- **Current Year Principal Paid**
- **Life-To-Date Principal (Actual Transfer of Cash/Assets) Remitted**
- **Life-To-Date Principal Paid**
- **Date of Maturity**

*Include amounts offset with amounts owed from the holder of the surplus note.

<table>
<thead>
<tr>
<th>Current Year Approved Interest Not Remitted (Actual Transfer of Cash/Assets)</th>
<th>Surplus Note payments subject to administrative offsetting provisions? (Y/N)</th>
<th>Current Year Approved Interest Not Remitted Since Issuance (No Transfer of Cash/Assets)</th>
<th>Were Surplus Note proceeds used to purchase an asset directly from the holder of the surplus note? (Y/N)</th>
<th>Is Asset Issuer a Related Party (Y/N)</th>
<th>Is Surplus Note Holder a Related Party (Y/N)</th>
<th>Book/Adjusted Carry Value of Assets</th>
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On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed proposed revisions to SSAP No. 41R—Surplus Notes, as illustrated below, with modifications highlighted in gray. A referral will also be sent to the Blanks (E) Working Group for notification of the proposed modifications for its concurrent exposure. This item has a shortened comment period deadline ending May 1, 2020.

**Spring 2020 NM Proposed Revisions:**

**Disclosures**

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

   a. Date issued;
   
   b. Description and fair value of the assets received;
   
   c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
   
   d. Original issue amount of note;
   
   e. Carrying value of note;
   
   f. The rate at which interest accrues;
   
   g. Maturity dates or repayment schedules, if stated;
   
   h. Unapproved interest and/or principal;
   
   i. Life-to-date and current year approved interest and/or principal recognized;
   
   j. Disclosure of whether the surplus note was issued as "paid part of a transaction with identification any of the following attributes:
      i. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked (For example, the asset provides amount of approved interest and/or principal remitted payments only when the surplus note provides interest payments);
      ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement (This may be referred to as administrative offsetting);
      iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets);
   
   h. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur;
   
   k. Principal amount and fair value of assets received upon Surplus Note issuance, if applicable;
   
   l. Subordination terms;
   
   m. Liquidation preference to the reporting entity’s common and preferred shareholders;
   
   n. The repayment conditions and restrictions.
k-o. Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is not remitting actual cash or assets to a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in 18. j above, the ceding entity shall provide a description of the transaction, including whether the criteria in 18. j above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note for approved interest or principal (as reported under paragraph 18.h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting asset:

   a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

   b. Book/adjusted carrying value of asset and interest income recognized in as of the current year reporting date.

   c. Amount of principle return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity's issued surplus note. A description of terms under which liquidity would be provided should a triggering event occur.

21. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 41R—Surplus Notes, as illustrated above, to require additional disclosures regarding the issuance of surplus notes, specifically those that are structured in a manner in which typical cash flows have been reduced or eliminated.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Eliminating Financial Modeling Process

Check (applicable entity):

- Modification of Existing SSAP [X]
- New Issue or SSAP [ ]
- Interpretation [ ]

Description of Issue: In coordination with a Valuation of Securities (E) Task Force and the Blanks (E) Working Group, this agenda item proposes elimination of the multi-step modeling process (i.e. incorporating breakpoints) to determine final NAIC designations on RMBS and CMBS securities.

Current guidance allows the amortized cost basis to be used in determining the “final” NAIC designation for statutory accounting and reporting - including the assessment of AVR and for risk-based capital (RBC) purposes. By design, this practice allows for reporting diversity as identical securities, purchased a different price points (thus having different amortized/carrying values) may have differing reported NAIC designations. Thus, two identical reporting entities possessing the same security, may have differing NAIC designations.

The current RMBS/CMBS multi-step modeling practice is the only remaining approach that utilizes breakpoints to determine final NAIC designations. In March 2019, agenda item 2018-19 removed the multi-step modeling approach for modified filing exempt (MFE) securities. This change removed the carrying value from the designation determination analysis and accordingly now utilizes the original NAIC designation, without adjustment, to determine the measurement method under SSAP No. 43R and corresponding RBC charges. With this change, identical securities have an identical NAIC designation.

The implemented change for MFE securities is being proposed for expansion to RMBS and CMBS securities for several reasons. In conjunction with the upcoming designation granularity expansion, the cost, complexity and technical issues to maintain the multi-step modeling process will be substantial for reporting entities. Each individual security will be required to develop an additional 19 price breakpoints to correspond with designation granularity reporting; insurance companies will need to substantially modify their investment accounting software to determine designations and designation categories. It is important to note that the current multi-step modeling approach has the potential to increase/improve a security’s NAIC designation – thus reducing RBC and AVR charges, however, could also work in an opposite manner decreasing NAIC designation. Despite the proposal to cease the multi-step model usage, industry appears supportive of the change as the cost and usage in both today’s environment and with the upcoming granularization reporting, does not adequately justify any potential benefit. A RMBS/CMBS security can be appropriately modeled, regardless of the amortized carrying value and will provide a single, nonadjustable NAIC designation. This will provide regulators with increased efficiency of oversight and improved comparability between various reporting entities carrying identical investments.

Existing Authoritative Literature:

SSAP No. 43R—Loan-backed and Structured Securities

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.**

**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 *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides detailed guidance. A general description of the processes is as follows:

a. **Financial Modeling:** The NAIC identifies 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. Securities where modeling results in zero expected loss in all scenarios are automatically considered to have a final NAIC designation of NAIC 1, 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 that shall be used for investment schedule reporting 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. This final NAIC designation shall be applicable for statutory accounting and reporting purposes (including establishing the AVR charges). The final 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 loan-backed and structured securities not subject to paragraphs 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. 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, mortgage-referenced securities, equipment trust certificates, credit tenant loans (CTL), 5*6* securities, interest only (IO) securities, securities with CRP ratings (excluding RMBS/CMBS), and loan-backed and structured 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): In accordance with a Valuation of Securities (E) Task Force referral, agenda item 2018-19 eliminated the multi-step designation guidance, utilizing amortized cost basis and breakpoints for the determination of final NAIC designations of MFE securities. The revisions were adopted with an effective date of March 31, 2019, with early adoption permitted for year-end 2018.

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


Staff Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 43R—Loan-backed and Structured Securities to eliminate the multi-step financial modeling designation guidance in determining final NAIC designations for RMBS/CMBS securities.

Although the Working Group is recommended to proceed with exposure on this agenda item and solicit comments for consideration, final action will not occur on this item until revisions eliminating the RMBS/CMBS multi-step modeling approach has been adopted by the Valuation of Securities (E) Task Force. NAIC SAPWG staff will coordinate with the VOSTF staff to stay current on their discussion and action on this item.

Proposed Revisions to SSAP No. 43R—Loan-backed and Structured Securities

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.

10 Securities within scope of this statement shall be reported with NAIC designations. The process to determine the NAIC designation may vary based on type of underlying investment and is directed in accordance with the Purposes and Procedures Manual of the NAIC Investment Analysis Office. For example, certain investments may use CRP ratings in determining the equivalent NAIC designation, whereas other investments, including, but not limited to, mortgage-referenced securities, equipment trust certificates, credit tenant loans (CTL), and interest only (IO) securities, may be required to obtain the NAIC designation directly from the NAIC Valuation of Securities product. For interim reporting instructions, refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office.
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.

**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 Purposes and Procedures Manual of the NAIC Investment Analysis Office provides detailed guidance. A general description of the processes is as follows:

a. Financial Modeling: The NAIC identifies 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. Securities where modeling results in zero expected loss in all scenarios are automatically considered to have a final NAIC designation of NAIC 1, 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 that shall be used for investment schedule reporting is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 26.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP. This final NAIC designation shall be applicable for statutory accounting and reporting purposes (including establishing the AVR charges). The final 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 loan-backed and structured securities not subject to paragraphs 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the Purposes and Procedures Manual of the NAIC Investment Analysis Office. 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, mortgage-referenced securities, equipment trust certificates, credit tenant loans (CTL), 5*/6* securities, interest only (IO) securities, securities with CRP ratings (excluding RMBS/CMBS), and loan-backed and structured securities with SVO assigned NAIC designations.

**Specific Interim Reporting Guidance for RMBS/CMBS Securities**

28. The guidance in this paragraph shall be applied in determining the reporting method for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported
under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 27, regardless of the quarterly methodology used.

a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 27.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.

b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 27.a.) for those securities acquired subsequent to year-end.

c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPS, and are not captured within paragraphs 28.a. or 28.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b.) as appropriate. Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.

d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate).

For brevity, the remaining SSAP has been omitted, however remaining paragraphs will be renumbered accordingly.

EXHIBIT A – Question and Answer Implementation Guide
This exhibit addresses common questions regarding the valuation and impairment guidance detailed in SSAP No. 43R.

Index to Questions

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<th>No.</th>
<th>Question</th>
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<td>1</td>
<td>Are reporting entities permitted to establish an accounting policy to write down a SSAP No. 43R other-than-temporarily impaired security, for which a “non-interest” related decline exists, to fair-value regardless of whether the reporting entity intends to sell, or has the intent and ability to hold?</td>
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<td>2</td>
<td>Can a reporting entity avoid completing a cash-flow assessment or testing for a specific other-than-temporarily impaired security when the entity believes there is a clear cash-flow shortage (i.e., non-interest related impairment) and elect to recognize a full impairment for the SSAP No. 43R security (no impairment bifurcation), with fair value becoming the new amortized cost basis, and recognition of the full other-than-temporary impairment as a realized loss?</td>
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<td>3</td>
<td>Can reporting entities change their “intend to sell” or “unable to hold” assertions and recover previously recognized other-than-temporary impairments?</td>
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<td>4</td>
<td>How do the regulators intend the phrase “intent and ability to hold” as used within SSAP No. 43R to be interpreted?</td>
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<td>5</td>
<td>How do contractual prepayments affect the determination of credit losses?</td>
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<td>No.</td>
<td>Question</td>
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<td>6</td>
<td>Are the disclosure requirements within paragraphs 51.f. and 51.g. of SSAP No. 43R required to be completed for the current reporting quarter only, or as a year-to-date cumulative disclosures?</td>
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<td>7</td>
<td>If an impairment loss is recognized based on the &quot;present value of projected cash flows&quot; in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?</td>
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Questions 8-10 are specific to securities subject to the financial modeling process. (This process is limited to qualifying RMBS/CMBs securities reviewed by the NAIC Structured Securities Group.) The guidance in questions 8-10 shall not be inferred to other securities in scope of SSAP No. 43R.

| 8   | Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis? |
| 9   | The NAIC Designation process for LBSS may incorporate loss expectations that differ from the reporting entity’s expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R? |
| 10  | For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account? |

8. **Question**—Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBs reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the “final” NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation, or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

9. **Question**—The NAIC Designation process for LBSS subject to the financial modeling process may incorporate loss expectations that differ from the reporting entity’s expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?

9.1 In accordance with INT 06-07: Definition of Phrase “Other Than Temporary,” reporting entities are expected to “consider all available evidence” at their disposal, including the information that can be derived from the NAIC designation.
10. **Question** - For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

10.1 The financial modeling process for qualifying RMBS/CMBS securities is required for applicable securities held in either the general or separate account.

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – September 2019

**Status:**
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 43R—Loan-backed and Structured Securities*, as illustrated above, to eliminate the multi-step financial modeling designation guidance in determining final NAIC designations for residential mortgage-backed securities (RMBS) / commercial mortgage-backed securities (CMBS) securities. Exposure was contingent upon the Valuation of Securities (E) Task Force’s concurrent exposure, which occurred on December 8, 2019. The Working Group noted that final action on this would not be taken until the Valuation of Securities (E) Task Force takes action on their related item.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group deferred discussion of this agenda item for a subsequent call or meeting.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group disposed of this agenda item, without statutory revisions.

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

Issue: Grade in of Variable Annuity Reserves

Check (applicable entity):

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

P/C | Life | Health
--- | --- | ---
| | | ✗

Description of Issue:
At the 2019 Summer National Meeting, the NAIC Executive and Plenary adopted revisions drafted by the Life Actuarial (A) Task Force to Section 21 of the Valuation Manual Requirements for Principle-Based Reserves for Variable Annuities (VM-21) which provides comprehensive updates to the Commissioners Annuity Reserve Valuation Method of reserving for variable annuities. The revisions adopted to VM-21 represent an accounting change that must be recognized as a change in valuation basis under SSAP No. 51R—Life Contracts. Updates to SSAP No. 51R are needed to coordinate with the recent revisions to the variable annuity reserving methodology. In addition, the proposed revisions recommend deferring to VM-21 regarding future variable annuity reserving methodology phase-ins along with disclosure on phase in details.

The enhancements to the variable annuity framework resulting in revisions to AG 43 and VM-21 centered around the following:

- Reforming the standard scenario to enhance regulatory oversight of companies’ actuarial assumptions
- Mitigating asset-liability accounting mismatch between hedge instruments and statutory liabilities
- Improving interpretability of framework results and simplicity of calculations
- Facilitating greater harmonization across insurers and products for greater comparability

To achieve this focus the determination of the Conditional Tail Expectation (CTE) amount, Standard Scenario and the Standard Scenario amount has changed significantly resulting in the revised variable annuity reserves methodology.

The revisions to VM-21 in combination with the revisions to Actuarial Guideline XLIII CARVM For Variable Annuities (AG 43) applies retroactively to contracts issued between 1981 and Dec. 31, 2019 as follows:

- VM-21 changes affect reserving for contracts issued Jan. 1, 2017 through Dec. 31, 2019
- AG 43 changes affect reserving for contracts issued to 1981 through Dec. 31, 2016

These changes to the variable annuity reserving framework updated the principles and methodology and apply retroactively (see Authoritative Literature). Under SSAP No. 55 a change in valuation basis is recognized as a change in surplus rather than an increase in reserves recognized through income.

The VM-21 allows the following choices for phasing in the change in reserving valuation basis necessitated by variable annuity reserving methodology changes. Early adoption, beginning Dec. 31, 2019

- Adoption in full beginning Jan.1, 2020
- A reporting entity election to grade in over 3 years.
- An election to grade in over 7 years, subject to commissioner discretion.

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In addition, it provides the following acceleration provisions:

- Early termination and full recognition,
- If there is a material decrease in the book of business by sale or reinsurance ceded, the company shall adjust the amount of the grade-in provision. The grade-in amount \( C = R_1 - R_2 \), as described below) must be scaled down in proportion to the reduction in the excess reserve, measured on the effective transaction date as the reserve amount in excess of cash surrender value before and after the impact of the transaction.
- The company must obtain approval for any other modification of the remaining grade-in amount.

**Existing Authoritative Literature:**

**Valuation Manual – Section 21**

Effective Date and Phase-In These requirements apply for valuation dates on or after Jan. 1, 2020. A company may elect to phase in these requirements over a 36-month period beginning Jan. 1, 2020. A company may elect a longer phase-in period, up to seven years, with approval of the domiciliary commissioner. The election of whether to phase in and the period of phase-in must be made prior to the Dec. 31, 2020, valuation. At the company’s option, a phase-in may be terminated prior to the originally elected end of the phase-in period; the reserve would then be equal to the unadjusted reserve calculated according to the requirements of VM-21 applicable for valuation dates on or after Jan. 1, 2020. If there is a material decrease in the book of business by sale or reinsurance ceded, the company shall adjust the amount of the phase-in provision. The phase-in amount \( C = R_1 - R_2 \), as described below) must be scaled down in proportion to the reduction in the excess reserve, measured on the effective transaction date as the reserve amount in excess of cash surrender value before and after the impact of the transaction. The company must obtain approval for any other modification of the remaining phase-in amount. The method to be used for the phase-in calculation is as follows:

**SSAP No. 51R—Life Contracts**

**Change In Valuation Basis**

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

   a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.
b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. The Valuation Manual is effective prospectively for policies written on or after the operative date. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

SSAP No. 3—Accounting Changes and Corrections of Errors

Disclosures

13. Disclosure of material changes in accounting and correction of errors shall include:

   a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

   b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

   c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material; and

   d. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.

14. 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): Not applicable

Staff Review Completed by:
Robin Marcotte, NAIC Staff - November 2019

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the revisions described and illustrated below to SSAP No. 51R—Life Contracts, and adding reference to the additional grade-in disclosure requirements in SSAP No. 3—Accounting Changes and Corrections of Errors for reporting years beginning Jan. 1, 2020. In addition, NAIC staff plans a future agenda item regarding exercise of Commissioner Discretion in the VM. Proposed revisions detailed in the current agenda item:

1. Revises the existing guidance, which prohibits grading-in changes in valuation basis unless provided for in the statement, to allow a grade-in for changes in valuation basis if permitted by the statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21). Historically choosing effective dates for major reserving changes for the Accounting Practices and Procedures Manual has been determined by Working Group, for example the 2001 CSO table (adopted in 2002) was effective for policies January 1, 2004 in Appendix A-820. This has been to promote consistent implementation and reporting. By deferring to the VM-21 on grade-in options with many varied features, there will be less comparability in reporting, because there is more optionality in reserve reporting. Therefore, additional disclosure regarding grade-in has been proposed.

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

3. The proposed revisions to SSAP No. 51R expand the disclosure for changes in valuation basis as a change in accounting principle under SSAP No. 3 to also include details regarding grade-ins of changes in valuation basis, including the grade-in period applied, the remaining amount to be graded-in, remaining time for the grade-in period and the initial grade-in amount and any adjustments to the original amount.

4. Adds a reference in SSAP No. 3 regarding additional disclosures of grade-in features.

NAIC staff plans to propose a new agenda item to address commissioner discretion in the VM. The exercise of commissioner discretion has been typically removed from Appendix A – Excerpts of Model Laws so that if it is exercised, it is disclosed as a permitted or prescribed difference in Note 1 to provide transparency and comparability. As the Valuation Manual incorporates Commissioner discretion that might not be reported as a prescribed or permitted practice, NAIC staff also recommends a future agenda item, regarding how to provide transparency on the use of commissioner discretion.
SSAP No. 51R:

Change In Valuation Basis

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

   a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.

   b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed, or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. If the grading permitted by this statement or Valuation Manual section VM-21 represents an increase in the reserve liabilities, the unrecognized change in valuation basis reserve increase shall initially be reflected as an allocation from unassigned funds to special surplus until fully recognized in reserving and unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus, but highlights the ungraded in amount for transparency as it represents an unrecognized adjustment (decrease) to total surplus. The allocation to special surplus is reversed to unassigned funds as the grading of the increase in reserving is recognized as a decrease to total surplus. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the Valuation Manual section VM-21 (on variable annuities) or this statement prescribes
or permits a grading in period or provides the option of multiple grading periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

a. the grade in period being applied, and the remaining time period of the grade in
b. any adjustments to the grade in period.
c. amount of change in valuation basis grade in, which has been recognized in unassigned funds and
d. the remaining amount to be graded-in (reflected in special surplus if the ungraded in amount represents an increase in reserving).

40. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The Valuation Manual is effective prospectively for policies written on or after the operative date, however, as the CARVM methodology was already principles based, some changes to the CARVM methodology in section VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

SSAP No. 3—Accounting Changes and Corrections of Errors

Disclosures

13. Disclosure of material changes in accounting and correction of errors shall include:

a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

d. Changes in accounting that are changes in reserve valuation basis as described in SSAP No. 51R—Life Contracts which have grade in or other optional application features, shall also include in the change in accounting disclosures information regarding the application of any grade in as provided for in SSAP No. 51R, and

e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.
Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 51R—Life Contracts and SSAP No. 3—Accounting Changes and Corrections of Errors as illustrated above. The revisions add reference, disclosures and accounting for Section 21 of the Valuation Manual, Requirements for Principle-Based Reserves for Variable Annuities, and grade-in requirements for reporting changes in the valuation basis for years beginning January 1, 2020.

For 2020 Spring National Meeting Discussion

NAIC Staff recommends that the Working Group adopt the exposed revisions, incorporating interested parties proposed edits of removing the reclassification to special surplus as summarized and illustrated in the agenda item and below. The proposed text for adoption does not incorporate all of the interested parties’ revisions. If preferred, the Working Group could have a short re-exposure, but such a deferral may raise first quarter reporting concerns.

NAIC Staff does not propose to incorporate the following revisions requested by Interested Parties:

- SSAP No. 51, paragraph 39, 40 and SSAP No. 3 - Keep the exposed grade in guidance as which defers only to the VM 21 CARVM grade in guidance and requires coordination on future VM grade in proposals.
- SSAP No. 51, paragraph 40 – did not add industry proposed language on retroactivity.

NAIC Staff illustration incorporates the following revisions requested by Interested Parties:

- SSAP No. 51, paragraph 39 and subparagraphs c and d – Delete the exposed reclassification to special surplus until the grade in for reserving amount is fully recognized. Most entities will have a short-term impact (three years) and disclosure should be adequate.
- SSAP No. 51, paragraph 39/40 – Maintain the existing language on changes in accounting in paragraph 39 instead of moving it paragraph 40 as proposed in the exposure.
- SSAP No. 51, paragraph subparagraphs and SSAP No. 3 – editorial - Change “grade-in” to “phase in” as suggested by interested parties to maintain consistency with SSAP No. 51 and the Valuation Manual.

Note that shaded revisions are edits to prior exposure

**SSAP No. 51R**

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded phased in over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. If the grading permitted by this statement or Valuation Manual section VM-21 represents an increase in the reserve liabilities, the unrecognized change in valuation basis reserve increase shall initially be reflected as an allocation from unassigned funds to special surplus until fully recognized in reserving and unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus but highlights the ungraded in amount for transparency as it represents an unrecognized adjustment (decrease) to total surplus. The allocation to special surplus is reversed to unassigned funds as the grading of the increase in reserving is recognized as a decrease to total surplus. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3
and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the Valuation Manual section VM-21 (on variable annuities) or this statement prescribes or permits a phase in period or provides the option of multiple phase in periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

a. the phase in period being applied, and the remaining time period of the phase in
b. any adjustments to the phase in period.

c. amount of change in valuation basis phase in, which has been recognized in unassigned funds and

d. the remaining amount to be phased-in (reflected in special surplus if the ungraded in amount represents an increase in reserving).

40. The Valuation Manual is effective prospectively for policies written on or after the operative date, however, as the CARVM methodology was already principles based, some changes to the CARVM methodology in section VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus for most entities will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

SSAP No. 3—Accounting Changes and Corrections of Errors

13d. Changes in accounting that are changes in reserve valuation basis as described in SSAP No. 51R—Life Contracts which have elected phase in provided for in the Valuation Manual Section VM 21 or other optional application features, shall also include in the change in accounting disclosures information regarding the application of any phase in as provided for in SSAP No. 51R and

“Clean version” of revisions tracked only to SSAP 51R and SSAP No. 3 with shading new wording

SSAP No. 51R

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the Valuation Manual section VM-21 (on variable annuities) or this statement prescribes or permits a phase in period or provides the option of multiple phase in periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

a. the phase in period being applied, and the remaining time period of the phase in
The Valuation Manual is effective prospectively for policies written on or after the operative date, however, as the CARVM methodology was already principles based, some changes to the CARVM methodology in section VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus for most entities will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

**SSAP No. 3—Accounting Changes and Corrections of Errors**

**Disclosures**

13. Disclosure of material changes in accounting and correction of errors shall include:

a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

d. Changes in accounting that are changes in reserve valuation basis as described in SSAP No. 51R—Life Contracts which have elected phase in provided for in the Valuation Manual Section VM 21, shall also include in the change in accounting disclosures information regarding the application of any phase in as provided for in SSAP No. 51R, and

e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed this agenda item, with revisions as illustrated above under “Spring National Meeting Discussion.” A referral will also be sent to the Life Actuarial (A) Task Force for notification of this exposure. This item has a shortened comment period deadline ending May 1, 2020.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts, as illustrated above.
Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

<table>
<thead>
<tr>
<th>SSAP/Appendix</th>
<th>Description/Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSAP No. 21R</td>
<td>In paragraph 2, remove the excerpts from SSAP No. 4—<em>Assets and Nonadmitted Assets</em> regarding the definition and accounting treatment for admitted assets.</td>
</tr>
<tr>
<td>SSAP No. 51R</td>
<td>Update paragraph references in paragraph 36 related to change in valuation basis to be consistent with the originally adopted language in the related issue paper.</td>
</tr>
</tbody>
</table>

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

**SSAP No. 21R**

1. **SSAP No. 21R—Other Admitted Assets** in paragraph 2, remove the excerpts from SSAP No. 4 regarding the definition and accounting treatment for admitted assets.

**SUMMARY CONCLUSION**

2. The definition and accounting treatment for admitted assets is outlined in paragraphs 2 and 3 of SSAP No. 4—*Assets and Nonadmitted Assets* as follows:

   2. For purposes of statutory accounting, an asset shall be defined as: probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others’ access to it, and (c) the transaction or other event giving rise to the entity’s right to or control of the benefit has already occurred. These assets shall then be evaluated to determine whether they are admitted. The criteria used is outlined in paragraph 3.

3. As stated in the Statement of Concepts, “The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet,” and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2, which is accorded limited or no value in statutory reporting, and is one which is:

   a. Specifically identified within the Accounting Practices and Procedures Manual as a nonadmitted asset; or

If an asset meets one of these criteria, the asset shall be reported as a nonadmitted asset and charged against surplus unless otherwise specifically addressed within the Accounting Practices and Procedures Manual. The asset shall be depreciated or amortized against net income as the estimated economic benefit expires. In accordance with the reporting entity’s written capitalization policy, amounts less than a predefined threshold of furniture, fixtures, equipment, or supplies, can be expensed when purchased.

3. Consistent with paragraph 2, the following assets shall be considered admitted and shall be reported in accordance with SSAP No. 4. These admitted assets are not addressed in other statements.

SSAP No. 51R

SSAP No. 51R—Life Contracts - Update paragraph references in SSAP No. 51R, paragraph 36.

Update paragraph references in paragraph 36 related to changes in valuation basis to be consistent with the originally adopted language in the related issue paper. Paragraph 36 refers to “a change in valuation basis for reserves determined under paragraphs 18-21 and the reference should be updated to be paragraphs 17-21. This edit is consistent with Issue Paper No. 154–Implementation of Principle Based Reserving, Exhibit A, which documents changes to SSAP No. 51, paragraph 36 and includes a reference to paragraphs 17-21.

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors.

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the editorial maintenance revisions to SSAP No. 21R—Other Admitted Assets and SSAP No. 51R—Life Contracts as detailed above. This item has a shortened comment period deadline ending May 1, 2020.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed editorial revisions to SSAP No. 21R—Other Admitted Assets and SSAP No. 51R—Life Contracts, as final.
Issue: Change to the Summary Investment Schedule

Check (applicable entity):

<table>
<thead>
<tr>
<th>Description of Issue:</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification of Existing SSAP</td>
<td>✗</td>
<td></td>
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<tr>
<td>New Issue or SSAP</td>
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<tr>
<td>Interpretation</td>
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</tbody>
</table>

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures requires disclosures as detailed in Appendix A-001: Investments of Reporting Entities (A-001). Section 3 of A-001 requires the Summary Investment Schedule in the statutory annual statements and in the notes to the annual audited financial statements.

NAIC staff support for the Blanks (E) Working Group were notified of a crosscheck error within the Annual Reporting Blanks where total mortgage loans reported on the Summary Investment Schedule do not tie to the amounts reported in Schedule B, Part 1. After research, it was found that this is due to Valuation Allowance not being included on the Summary Investment Schedule. This agenda item will add in Valuation Allowance to ensure that these schedules will tie together.

The purpose of the referral was to allow coordination to update the Appendix A-001 requirements for the Summary Investment Schedule and the related financial statement notes. This agenda item is intended to be exposed concurrently with a Blanks (E) Working Group proposal.

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures

Supplemental Investment Disclosure

26. For the current year, reporting entities shall disclose the information required by Appendix A-001, Investments of Reporting Entities. A Summary Investment Schedule and Investment Risk Interrogatories shall be filed with the audited statutory financial statements. The Summary Investment Schedule shall be filed with the Annual Statement whereas the interrogatories shall be filed as a supplement to the Annual Statement by April 1 for the applicable reporting period.

Appendix A-001

The annual statement must include:

- Supplement to Annual Statement filed by April 1 Investment Risk Interrogatories (as specified in A-001, Section 2) and
- Summary Investment Schedule (as specified in A-001, Section 3)

The audited statutory financial statements must include:

- Investment Risk Interrogatories (as specified in A-001, Section 2) and
- Summary Investment Schedule (as specified in A-001, Section 3)
SSAP No. 83—Mezzanine Real Estate Loans

Disclosures

6. The financial statements shall disclose, as applicable, the requirements of SSAP No. 37, paragraphs 25-27. The MREL lender shall report in Appendix A-001 to its annual statement the amount and percentages of its total admitted assets held in MREL and the largest three investments held in MREL except that such detail shall not be required for assets held in MREL totaling less than 2.5% of its total admitted assets.

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 agenda item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix A-001, Section 3, Summary Investment Schedule to add a line for Total Valuation Allowance as illustrated below. The updates below match those that will be concurrently exposed by the Blanks (E) Working Group at the Spring National Meeting.

Section 3. Summary Investment Schedule (Revised for reporting periods effective January 1, 2019)

<table>
<thead>
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<th>Investment Categories</th>
<th>Gross Investment Holdings</th>
<th>Admitted Assets as Reported in the Annual Statement</th>
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<td>4.2 Residential Mortgages</td>
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<td>4.3 Commercial Loans</td>
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<td>4.4 Mezzanine Real Estate Loans</td>
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<td>4.5 Total Valuation Allowance</td>
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<td>4.56 Total Mortgages</td>
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Staff Review Completed by: Jake Stultz, February 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix A-001, Section 3, Summary Investment Schedule, as detailed above, to add a line for Total Valuation Allowance. These revisions mirror those that the Blanks (E) Working Group concurrently exposed. This item has a shortened comment period deadline ending May 1, 2020.
On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to Appendix A-001, Section 3, Summary Investment Schedule, as detailed above, to add a line for Total Valuation Allowance.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: **ASU 2016-20, Technical Corrections and Improvements to Topic 606**

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of Existing SSAP</th>
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**Description of Issue:**
In December 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, to clarify narrow aspects of the guidance issued in *ASU 2014-09, Revenue from Contracts with Customers*, which was the result of a joint project between FASB and the International Accounting Standards Board (IASB). This project clarified the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRS (the IASB issued *IFRS 15 – Revenue from Contracts with Customers*) and created ASC Topic 606 – Revenue from Contracts with Customers.

In 2018, the Working Group rejected the guidance in ASU 2014-09 and several other ASUs related to Revenue Recognition in *SSAP No. 47—Uninsured Plans*. The guidance in ASU 2016-20 provides updates and clarifications based on issues that were found during the initial implementation of ASU 2014-09 and ASC Topic 606.

**Existing Authoritative Literature:**
Premium revenue recognition is detailed throughout the SSAPs, including the following: *SSAP No. 51—Life Contracts; SSAP No. 53—Property Casualty Contracts – Premiums; SSAP No. 54—Individual and Group Accident and Health Contracts* and *SSAP No. 57—Title Insurance*. The ASUs related to ASC Topic 606 have been rejected in SSAP No. 47.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** Agenda item 2016-19 and 2017-37 address the previous ASUs related to ASC Topic 606.

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

**Convergence with International Financial Reporting Standards (IFRS):** ASC Topic 606 and IFRS 15 are the result of the joint project between the FASB and IASB to improve financial reporting by creating common revenue recognition guidance.

**Staff Recommendation:**
NAIC Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2016-20 in *SSAP No. 47—Uninsured Plans*. This recommendation is consistent with how the prior ASUs related to Topic 606 have been treated.

**Staff Review Completed by:** Jake Stultz, February 2020

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Ref #2020-08

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 47—Uninsured Plans, as illustrated below, to reject ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. This item has a shortened comment period deadline ending May 1, 2020.

**Proposed Revisions to SSAP No. 47:**

15. This statement rejects ASU 2014-09, Revenue from Contracts with Customers; ASU 2015-14, Revenue From Contracts With Customers; ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 47—Uninsured Plans, as illustrated above, as final, to reject ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers for statutory accounting.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2018-18, Collaborative Arrangements (Topic 808)

Check (applicable entity):

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

Description of Issue:
FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606, which clarifies and aligns revenue recognition under the new Topic 606 for collaborative arrangements. A collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity, involving two (or more) parties that are both: 1) active participants in the activity and 2) are exposed to significant risks and rewards dependent on the commercial success of the activity. The intent of this guidance is to ensure that revenue recognized within a collaborative arrangement is consistent with revenue recognition in Topic 606.

Existing Authoritative Literature:
Collaborative arrangements in Topic 808 are similar in nature to voluntary pooling arrangements that are discussed in SSAP No. 63—Underwriting Pools. ASU 2014-09, Revenue from Contracts with Customers established ASC Topic 606 with the new revenue recognition guidance and was rejected for statutory accounting in SSAP No. 47—Uninsured Plans.

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): ASU 2014-09, which created ASC Topic 606, and IFRS 15 are the result of the joint project between the FASB and IASB to improve financial reporting by creating common revenue recognition guidance.

Staff Recommendation:
Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2018-18 in SSAP No. 47—Uninsured Plans. This recommendation is consistent with the treatment of prior ASUs related to Topic 606.

Staff Review Completed by: Jake Stultz, February 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 47—Uninsured Plans to reject ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606. This item has a shortened comment period ending May 1, 2020.
Proposed Revisions to SSAP No. 47:

15. This statement rejects ASU 2014-09, Revenue from Contracts with Customers; ASU 2015-14, Revenue From Contracts With Customers; ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 47—Uninsured Plans, as illustrated above, as final, to reject ASU 2018-18, Collaborative arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606 for statutory accounting.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606

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Description of Issue:
FASB issued ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403, which effects only SEC paragraphs in Topic 220, Topic 605 and Topic 606.

The revisions to Topic 220 update references from “income statement” to “statement of comprehensive income” and add a reference to revenue recognition in Topic 606. The revisions to Topic 605 remove guidance from and references to SEC Staff Accounting Bulletin 13, Revenue Recognition. The updates to Topic 606 add in guidance from SEC Release No. 33-10403, which is guidance for revenue recognition for sales of vaccines and bioterror countermeasures to the federal government for strategic national stockpiles, specifically for SEC registrants.

Existing Authoritative Literature:
Generally, all SEC guidance from ASUs is rejected as not applicable for statutory accounting in Appendix D. The ASUs related to ASC Topic 606 have been rejected in SSAP No. 47—Uninsured Plans.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item 2016-19 and 2017-37 address the previous ASUs related to ASC Topic 606.

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

Convergence with International Financial Reporting Standards (IFRS): ASC Topic 606 and IFRS 15 are the result of the joint project between the FASB and IASB to improve financial reporting by creating common revenue recognition guidance.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403 as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as ASU 2017-14 is specific to deletion and modification of SEC paragraphs, which are not applicable for statutory accounting purposes.

Staff Review Completed by: Jake Stultz, February 2020

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**Status:**

On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topics 605 and Topic 606* for statutory accounting. This item has a shortened comment period ending May 1, 2020.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements*, as final, to reject *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topics 605 and Topic 606* as not applicable to statutory accounting.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842)

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Description of Issue:
FASB issued ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842), which effects the codification in Credit Losses (Topic 326) and Leases (Topic 842). The update provides a new SEC section in Topic 326 that clarifies reporting for SEC registrants and updates the effective date for these provisions, and the updates to Topic 842 update the effective dates for the new lease guidance for SEC reporting companies.

Existing Authoritative Literature:
Credit Losses (Topic 326) while not yet addressed, is being actively monitored by the Working Group.

Leases are covered in SSAP No. 22R—Leases. Basic discussion of the nature of assets, and specifically admitted assets, is covered in SSAP No. 4—Assets and Nonadmitted Assets.

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 Working Group adopted substantive revisions to create SSAP No. 22R, which brings in language from Topic 842 but retains the operating lease treatment for statutory accounting.

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

Convergence with International Financial Reporting Standards (IFRS):
The leases project began as a joint project with the IASB and many of the requirements in Topic 842 are the same as the requirements in IFRS 16.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as ASU 2020-02 is specific to deletion of SEC paragraphs, which are not applicable for statutory accounting purposes.

Staff Review Completed by: Jake Stultz – February 2020

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Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topics 842) as not applicable for statutory accounting. This item has a shortened comment period ending May 1, 2020.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements, as final, to reject ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topics 842) as not applicable to statutory accounting.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Working Capital Finance Notes

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Modification of existing SSAP
New Issue or SSAP
Interpretation

Description of Issue:
The Valuation of Securities (E) Task Force has referred to the Working Group industry-prepared tracked revisions to SSAP No. 105—Working Capital Finance Investments and materials produced by the Securities Valuation Office (SVO) staff on the issues raised. The Task Force recommends that the Working Group consider the amendments, which the Task Force has previously exposed. This agenda item has been drafted to address the referral.

The industry-proposed revisions to SSAP No. 105 detailed in the referral can be grouped into the following categories:
1. Changes to program and or obligor credit quality requirements
2. Changes to program administration and/or documentation
3. Changes to regulatory compliance requirements
4. Changes to statutory reporting requirements.

Existing Authoritative Literature:
SSAP No. 105—Working Capital Finance Investments was originally effective on January 1, 2014.

Purposes and Procedures Manual of the NAIC Investment Analysis Office provides the following on NAIC Designations

NAIC 1 is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An NAIC 1 obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 2 is assigned to obligations of high quality. Credit risk is low but may increase in the intermediate future and the issuer’s credit profile is reasonably stable. This means that for the present, the obligation's protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay. An NAIC 2 obligation should be eligible for relatively favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 3 is assigned to obligations of medium quality. Credit risk is intermediate and the issuer's credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer’s capacity to make timely payments.
payments. An NAIC 3 obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 4 is assigned to obligations of low quality. Credit risk is high and the issuer’s credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer’s capacity to make timely payments. An NAIC 4 obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

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):

SSAP No. 105 permits admittance of Securities Valuation Office (SVO) designated WCFI programs that meet specific requirements. SSAP No. 105 was originally effective in 2014 and was controversial as it was developed at the request of a single life entity. At that time, some Working Group members objected to the development of a new statement of statutory accounting principles (SSAP), reporting changes and specific asset class risk-based capital (RBC) charges at the behest of a single company. The discussion at that time noted that the permitted practice concept was intended to address such situations.

In 2018, the single reporting entity that participates in these programs requested modifications to the adopted program and submitted a proposal for consideration. The Valuation of Securities (E) Task Force held discussion on the industry proposal in the third quarter of 2018, which was exposed for comment. The Task Force approved the referral at the 2019 Spring National Meeting.

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

Working Capital Finance Investments (WCFI) reported in the annual statement Schedule BA - Other Invested Assets continues to be limited to investments by the same single life entity that requested the development of SSAP No. 105. This company reported a total of $258 million in a total of seven WCFI programs for 2017 and $224 million in a total of six WCFI programs for 2018. The total of these amounts is immaterial to the reporting entity. No reporting entities disclosed any prescribed or permitted practices varying from SSAP No. 105 in annual statement Note 1 for 2017 or 2018.


Staff Review Completed by:
Robin Marcotte
NAIC Staff

Staff Recommendation:
Staff recommends that the Working Group receive the referral and provide initial direction on the referral, as it is still perceived as primarily impacting a single entity. If consideration of the referral, and revisions to SSAP No. 105 are supported, NAIC staff recommends that the Working Group direct NAIC staff to proceed with drafting revisions to SSAP No. 105, pursuant to the staff recommendations below which include a review of the industry proposed revisions. NAIC staff does support limited revisions to SSAP No. 105, but a few key elements requested by industry are not supported by NAIC staff.
The key industry proposed revisions included in the referral are under the heading “Details for Working Group Discussion.” If consideration of staff recommendations for the revisions to SSAP No. 105 are supported, NAIC staff will prepare updates to the industry proposal for future discussion based on the Working Group direction. Alternatively, the Working Group could choose to hold a separate call on this topic. The industry proposed revisions are substantive, but categorization could change based on the extent of the revisions.

The following is a summary of the NAIC Staff recommendations on the topics for Working Group discussion:

1. **NAIC Staff does not recommend** lowering the credit quality of the acceptable obligors from NAIC 1 (highest quality) and NAIC 2 (high quality) to allow NAIC designations of 3 (medium quality) and NAIC 4 (low quality) in the WCFI programs. The descriptions of NAIC designations in the *Purposes and Procedures Manual of the Investment Analysis Office note* that both NAIC designations of 3 and 4 have speculative elements (see Authoritative Literature and points for consideration). (paragraphs 6 & 7)

2. **NAIC Staff does not recommend** the proposed credit substitution methodology for unrated subsidiaries as it is overly complex, broad and difficult to apply. SVO staff memos also highlighted the difficulty in applying the industry proposed credit substitution methodology. (paragraph 7)

3. **NAIC Staff recommends the Working Group consider** removing the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the US. Regulator. (paragraph 10.a)

4. **NAIC Staff recommends the Working Group consider** if removing the commingling requirements provide the desired degree of protection. In addition, the Working Group should discuss with the Task Force if the program revisions are functional for analysis purposes. The Working Group should also consider the potential impact of other proposed revisions including lower rated key participants and obligors (points for consideration are in the discussion below). (paragraph 10.b)

5. **NAIC Staff recommends the Working Group consider modifying** the finance agent independent review requirements as requested by industry. The industry proposal still provides independent review of the finance agent either by audit or through an internal control report. (paragraph 16)

6. **NAIC SAPWG Staff recommends the Working Group direct staff to prepare minor rewording** to paragraph 11b to improve readability and eliminate redundancy. (paragraph 11.b)

7. **NAIC Staff does not recommend** removing the statement that the reporting entity may need to seek approval from the domestic regulator as this is a statement rather than an explicit requirement and these investments may not fit into the normal investment law categories (points for consideration are in the discussion below). (paragraph 18)

8. **NAIC Staff recommends the Working Group consider modifying** the filing certification requirements and allowing the SVO to determine if a first priority perfected interest has been obtained. (paragraphs 14 & 15)

9. **NAIC Staff recommends the Working Group consider modifying** the default provisions from 15-30 days as it is more practical to have the default date and the cure period be consistent (points for consideration are in the discussion below). (paragraph 28)
10. NAIC Staff **does not recommend** the Working Group change the reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule DA Short term Investments (points for consideration are in the discussion below). (paragraph 22)

**Details for Working Group Discussion**

**A. Changes to program and or obligor credit quality requirements**

**SSAP No. 105** – Current provisions:
- Allow admitted asset treatment to receivables from WCFI programs that have high quality NAIC designations from the SVO (NAIC 1 or 2).
- Require the direct obligor to have a designation equivalent of NAIC 1 or 2.
- Nonadmits WCFNs if the program or the obligor falls below either credit threshold.

1. **Admit Obligors and Program with Lower Credit Ratings** – (Reference -SSAP No. 105, paragraph 7)

**Industry proposal** – Expand admitted asset treatment to include receivables from WCFI programs with NAIC SVO designations 3 and 4; and direct obligors with designation equivalents of NAIC 3 and 4.

1. NAIC Staff **does not recommend** lowering the credit quality of the acceptable obligors from NAIC 1 (highest quality) and NAIC 2 (high quality) to allow NAIC designations of 3 (medium quality) and NAIC 4 (low quality) in the WCFI programs. The descriptions of NAIC designations in the *Purposes and Procedures Manual of the Investment Analysis Office* note both NAIC designations of 3 and 4 have speculative elements (see Authoritative Literature).

- Assets that reflect “factored receivables” are nonadmitted in statutory accounting. The SAPWG created SSAP No. 105 to allow admission for only high-quality programs, from high quality obligors. Allowing obligors with lower credit assessments would be a fundamental change in program requirements.

- As noted in the P&P Manual:
  - **NAIC 3** is assigned to obligations of medium quality. Credit risk is intermediate and the issuer’s credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer’s capacity to make timely payments. An NAIC 3 obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

  - **NAIC 4** is assigned to obligations of low quality. Credit risk is high and the issuer’s credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer’s capacity to make timely payments. An NAIC 4 obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.
2. Unrated subsidiaries – (Reference - SSAP No. 105, paragraph 7)

**Industry proposal has two aspects:**

1. An unrated subsidiary obligor of a rated obligor - Proposes to attribute the credit strength of the rated parent to the unrated subsidiary obligor without the rated parent being a guarantor of the unrated subsidiary’s WCFI obligations. This proposal envisions the rated entity having some of its own obligations in the program

2. A rated obligor and its unrated subsidiaries which are key transaction participants, but not obligors. The industry proposal is to create criteria to allow the “program” to obtain an acceptable NAIC designation by evaluating if the unrated “key transaction participant” is able to perform its functions.

Industry proposes several different ways to attribute the rated entity’s credit rating to the unrated entity including:

- Documented operational control of unrated obligor, or
- An important inter-relationship with unrated obligor, or
- If the unrated key transaction participants are reasonably expected to perform their functions.

NAIC Staff does not recommend the proposed credit substitution methodology for unrated subsidiaries as it is overly complex, broad and difficult to apply. SVO staff memos excerpted below also highlighted the difficulty in applying the industry proposed credit substitution methodology.

**SVO P&P Requirements** – Note that it is possible for the program and the obligor to have different designations. SVO staff, noted that in their analysis key transaction participants could not have a lower designation than the entire program. Essentially their evaluation of a program is downgraded by the “weakest” link.

- Excerpts VOSTF October 2018 memo to the SAPWG:
  
  SVO evaluated whether analytical discretion would enable it to designate WCFI programs with unrated obligors of a rated or designated parent. SVO evaluated whether operational and strategic linkages between a rated parent and unrated obligor can provide a basis to attribute the credit rating of one entity to the other. It concluded that no principle exists to permit an assumption that a legal entity can be held responsible for the debt of another without having contractually agreed to do so. While WCFI arrangements may be inherently different than the credit situations SVO assesses SVO lacks the experiential basis to opine on the idea that the difference permits attribution.

  The SVO believes that it should be possible to develop performance criteria to evaluate the ability of the unrated entity to perform the functions expected of it. The goal would be to identify performance factors that could be evaluated in the exercise of analytical discretion to determine that the unrated entity could reliably perform the role expected of it.

**B. Changes to Program Administration/ Documentation Requirements**

**SSAP No. 105** – Current provisions:

- Requires the finance agent (bank, financial institution, financial intermediary or service provider) to fall under the jurisdiction of a financial regulator or that the investor be paid directly (No Commingling).
- If the finance agent is domiciled in another country that is on the SVO list of jurisdictions eligible for netting, it can be regulated by an agency that the SVO determines has a functional equivalent to the Board
of Governors of the Federal Reserve System; 2) the Office of the Comptroller of the Currency; or 3) the Federal Deposit Insurance Corporation.

- As an alternative to having a regulated finance agent, SSAP No. 105 allows for the investor to be paid directly without funds flowing through the finance agent. The SSAP program requirements for admission excludes programs which commingle funds of the obligor, supplier, servicers or other investors.


**Industry proposal** – Remove the requirement for the SVO to determine functionally equivalent regulators of finance agents in other countries.

**Excerpts from VOSTF October 2018 memo to the SAPWG:**

The SVO either determines that an international finance agent’s regulator is the functional equivalent of specified US federal bank regulators or verifies that payments due to the investor are not commingled. Determining functional equivalence is not an analytical issue. Therefore, programs are evaluated on the commingling standard. However, the prohibition of commingling is a requirement so the SVO verifies that commingling can never occur or fails the program.

- **NAIC Staff recommends the Working Group consider removing the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the US. Regulator.**

4. Remove finance agent commingling requirements – (Reference SSAP No. 105, paragraph 10.b.)

**Industry proposal** – As an alternative to having a regulated finance agent, allow the payments to be paid directly to the investor or paid into an account maintained by a regulated financial institution for the benefit of investors without the agent being the beneficiary of the payments. This would require removal of the commingling prohibition.

- **NAIC Staff recommends Working Group consider if removing the commingling requirements provide the desired degree of protection. In addition, the Working Group should discuss with the Task Force if the program revisions are functional for analysis purposes. The Working Group should also consider the potential impact of other proposed revisions including lower rated key participants and obligors. Points for consideration:**
  - SVO staff noted in their October 2018 memo that some programs fail the commingling requirement. SVO staff noted if commingling were not a requirement it would consider commingling risk, when present, as a structural deficiency and balance it against the requirement that the Finance Agent be NAIC 1 or NAIC 2.
  - Discussions with SVO staff indicated that although the Finance Agent is not required by SSAP No. 105 to be an NAIC 1 or NAIC 2, that as a key participant, the SVO analysis would require it to have an NAIC 1 or NAIC 2 in order for the program to meet the credit quality requirements. Note that if the program requirements were lowered, presumably the key participants could also have lower designations.

5. Finance agent validation requirements – (Reference SSAP No. 105, paragraph 16)
SSAP No. 105 – Requires that the annual program filing to the SVO include an annual audit which is unqualified related to servicing. In addition, it requires either an independent report on the controls of the finance agent related to the administration of the investment (SSAE 16 report) or an annual audit of the internal controls. Consolidated reports which include the finance agent are acceptable. SSAP No. 105 allows for materiality judgment of the SVO relative to the report findings.

Industry proposal – Make the annual audit requirement one of two options, with either a SSAE 16 report (or its functional equivalent), or an annual audit of the financial statements which includes internal controls. Retain the requirement to only permit reports which do not contain qualifications related to servicing of WCFI.

- NAIC Staff recommends the Working Group consider modifying the finance agent independent review requirements as requested by industry. The industry proposal still provides independent review of the finance agent either by audit or through an internal control report.

6. Confirmed Supplier Receivable – (Reference SSAP No. 105, paragraph 11b)

SSAP No. 105 – Requires that the ability of the investor to exercise its creditor rights not be subject to the discretion of the finance agent, other lenders or investors. A separate sentence notes the same requirements but allows an exception that a cure period not to exceed 30 days is permissible.

Industry proposal – Remove the sentence “shall not be subject to the discretion of the finance agent other lenders or investors” but keep the subsequent sentence.

- NAIC SAPWG Staff recommends that the Working Group direct staff to prepare minor rewording to paragraph 11b to improve readability and eliminate redundancy.

C. Regulatory Compliance Requirements

SSAP No. 105 – paragraph 18 provides the following:

18. Reporting entity investors must have the ability to monitor the working capital finance program and the credit-related activities of the obligor. Reporting entity investors must provide information as requested to the state of domicile indicating that they have the ability to monitor on an ongoing basis the activities of the working capital finance program. Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.

7. Domestic Regulator Approval – (Reference SSAP No. 105, paragraph 18)

Industry proposal – Remove reference to the possibility for the need of insurers to seek prior approval from their domestic regulator.

- NAIC Staff does not recommend removing the statement that the reporting entity may need to seek approval from the domestic regulator as this is a statement rather than an explicit requirement. NAIC Staff provides the following points for consideration:
  - Issue Paper No. 147 documents that requiring domestic regulator approval was an intentional decision because of concerns regarding the ability of smaller entities to monitor the investments in such programs on an ongoing basis.
• The current guidance in SSAP No. 105 is not an explicit requirement, but only identifies that a
domiciliary commissioner may require a company to receive initial permission before investing
in WCFI.
• These investments may not fit into the normal investment law categories.
• The Industry proposal agrees that the asset class is not for most insurers as it requires
relationships with finance agents beyond the traditional dealer insurer.
• The Industry proposal notes that the investor needs specialized knowledge, asset management
operations and the ability to book and supervise the assets.
• The Industry proposal notes that the filing fees require sizable commitments to justify the costs,
which would make it cost prohibitive for smaller players.

8. **Filing certification** – (Reference SSAP No. 105, paragraphs 14 and 15)

**SSAP No. 105** – Program requirements for a confirmed supplier receivable require the investor to certify that they
have the commercially reasonable belief that their participation in the WCFI program results in a first priority
perfected interest and required meeting Uniform Commercial Code (UCC) requirements in a legalistic manner.
Annual filings require the investor to certify that they have a commercially reasonable belief that they have
met the standard for creating a first priority security interest. There is also a requirement that the SVO deems the
investor’s belief reasonable.

**Industry proposal** – Remove requirement for legal officer to certify compliance in a obtained a first priority
perfected interest in accordance with UCC requirements for each annual submission and related SVO
requirements.

  • SVO staff has indicated that the criteria in paragraphs 14 and 15 are typically determined when
contracting a program and similar objectives can be accomplished in more ways than the UCC lien
process. Requiring the UCC lien process is overly prescriptive.
  
• The definition in SSAP No. 105 of a confirmed supplier receivable requires a first priority perfected
interest and, SVO analytical staff should be able to determine if first priority interest has been
achieved.

  ➢ NAIC Staff recommends the Working Group consider modifying the filing certification
requirements and allowing the SVO to determine if a first priority perfected interest has been obtained.

9. **Default date** – (Reference SSAP No. 105, paragraph 28)

**SSAP No. 105** – A WCFI program is in default and nonadmitted when payments are uncollected within 15 days.

**Industry proposal** – Extend default and nonadmission date to 30 days.

  ➢ NAIC Staff recommends that the Working Group consider modifying the default provisions
from 15-30 days as it is more practical to have the default date and the cure period be consistent.
Key discussion points are:
  
• Waiting 30 days for a short-term asset can be material in relation to the life of the asset.
• Fifteen (15) days was previously chosen to be consistent with settlement guidance in *SSAP No. 21—Other Admitted Assets*, which nonadmits and reclassifies receivables for securities not settled within 15 days.

• The “cure period” noted in paragraph 11.b on confirmed supplier receivables is not to exceed 30 days so it may make sense for the default date and the end of the cure period to be consistent.

**D. Change to Statutory Reporting**

10. Change Reporting Category – (Reference SSAP No. 105 – paragraph 22)

*SSAP No. 105* – Requires WCFI receivables to be on annual statement Schedule BA- Other Long-term Assets on specifically created reporting lines. Capital Adequacy (E) Task Force reviewed the asset class and requires specific (relatively low) RBC charges based on the NAIC SVO WCFI program designation.

**Industry proposal** – Move the statutory reporting of Working Capital Finance Investments from Schedule BA-Other Long-term Assets to Schedule DA, Short Term Investments because the receivables within the rated WCFI programs are required to be less than one year.

➢ **NAIC Staff does not recommend the Working Group change the reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule DA Short term Investments (points for consideration are in discussion below).** Key reasons include:

- This is an unique class. Issue Paper No. 147, documents the VOSTF recommendation for Schedule BA reporting. The Task Force discussed the relative benefits between Schedule BA and DA and concluded that WCFIs should be reported as Other Invested Assets and therefore Schedule BA provides an enhanced disclosure framework deemed more appropriate for the investment.

- This reporting was intentional because the long-term programs are designated, even though the different investments are short term.

- Annual statement lines and RBC charges have already been established and the current RBC charges based on program designation would not be functional if the reporting was on Schedule DA, because that schedule does not include designations.

**Status:**
On August 3, 2019, the Statutory Accounting Principles (E) Working Group received a referral from the Valuation of Securities (E) Task Force and directed staff to proceed with drafting revisions for subsequent exposure using the staff Summer 2019 recommendations. During this discussion additional industry proposed revisions were presented, but not captured in the direction for initial revisions to SSAP No. 105.

**For Fall 2019 National Meeting Discussion:**

NAIC staff recommends exposing the substantive revisions to *SSAP No. 105—Working Capital Finance Investments* incorporating the industry proposed language for the specific items directed by the Working Group and illustrated in the attached. The revisions in response to the industry request are summarized below. NAIC staff recommends directing Staff to prepare an issue paper for discussion at the 2020 Spring National Meeting.
1. **Functionally Equivalent Foreign Regulators** - Removed the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the U.S. Regulator. (paragraph 10.a)

2. **Commingling Prohibitions** - Removed the finance agent prohibitions on commingling. (paragraph 10.b)

3. **Investor Rights Edit** - Removed duplicative text regarding exercise of investor rights. (paragraph 11.b)

4. **Requirements for filer to Certify Perfected Interest** – Removed requirements, with revisions allowing the SVO to determine if a first priority perfected interest has been obtained. (paragraphs 14 & 15)

5. **Finance Agent Validation Requirements** – The independent review requirements were broadened to allow independent review of the finance agent by either audit or through an internal control report. (paragraph 16)

6. **Default Date** - Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days. (paragraph 28)

In accordance with the Working Group direction, the following industry requested revisions were not incorporated:

1. **Possible Domestic Regulator Approval** - The statement that the reporting entity may need to seek approval from the domestic regulator was maintained (paragraph 18). Points for consideration:

   - Issue Paper No. 147 documents that requiring domestic regulator approval was an intentional decision because of concerns regarding the ability of smaller entities to monitor the investments in such programs on an ongoing basis.
   - The current guidance in SSAP No. 105 is not an explicit requirement, but only identifies that a domiciliary commissioner may require a company to receive initial permission.
   - These investments may not fit into the normal investment law categories.
   - The industry proposal notes:
     - the asset class is not for most insurers as it requires relationships with finance agents beyond the traditional dealer insurer.
     - the investor needs specialized knowledge, asset management operations and the ability to book and supervise the assets.
     - the filing fees require sizable commitments to justify the costs, which would make it cost prohibitive for smaller players.
   - Fall 2019 industry comments noted that state approval is not a practical risk mitigant. In addition, the speaker commented that he questioned the evaluation criteria that would be used by a state.

2. **Only High-Quality Obligors** – The current requirement which restricts designations of programs and obligors to being of high quality was maintained. NAIC Staff continues to not recommend lowering the credit quality of the acceptable obligors from NAIC 1 (highest quality) and NAIC 2 (high quality) to allow NAIC designations of 3 (medium quality) and NAIC 4 (low quality). Points for consideration:

   - The descriptions of NAIC designations in the *Purposes and Procedures Manual of the Investment Analysis Office* note that both NAIC designations of 3 and 4 have speculative elements (see Authoritative Literature).
   - Assets that reflect “factored receivables” are nonadmitted in statutory accounting. This program is the sole exception to the factored receivable rule. By lowering the allowable credit standards,
an expanded class of factored receivables would be admitted, further deviating from statutory
accounting concepts.

- The SAPWG created SSAP No. 105 to allow admission for only high-quality programs, from
high quality obligors. Allowing obligors with lower credit assessments would be a fundamental
change in program requirements. (paragraphs 6 & 7)

3. **Unrated subsidiaries / Credit substitution** - NAIC Staff **does not recommend** the proposed credit
substitution methodology for unrated subsidiaries as it is overly complex, broad and difficult to apply.
Further, credit substitution does not adequately address credit risk for an unrated affiliate. SVO staff
memos also highlighted the difficulty in applying the industry proposed credit substitution methodology
(paragraph 7). Excerpts VOSTF October 2018 memo to the SAPWG:

SVO evaluated whether analytical discretion would enable it to designate WCFI programs with
unrated obligors of a rated or designated parent. SVO evaluated whether operational and
strategic linkages between a rated parent and unrated obligor can provide a basis to attribute the
credit rating of one entity to the other. **It concluded that no principle exists to permit an
assumption that a legal entity can be held responsible for the debt of another without
having contractually agreed to do so. While WCFI arrangements may be inherently
different than the credit situations SVO assesses SVO lacks the experiential basis to opine
on the idea that the difference permits attribution.**

**Industry proposal for credit substitution has two aspects:**

a. **Credit substitution for unrated subsidiary obligors of a rated obligor** – Industry proposes to
attribute the credit strength of the rated parent to the unrated subsidiary obligor without the rated
parent being a guarantor of the unrated subsidiary’s WCFI obligations. This aspect envisions the rated
entity having some of its own obligations in the program

b. **Credit Substitution of rated obligor for its unrated subsidiaries which are key transaction
participants, but not obligors.** The industry proposal is to create criteria to allow the “program” to
obtain an acceptable NAIC designation by evaluating if the unrated “key transaction participant” is
able to perform its functions. Industry proposes several different ways to attribute the rated entity’s
credit rating to the unrated entity including:

- Documented operational control of unrated obligor, or
- An important inter-relationship with unrated obligor, or
- If the unrated key transaction participants are reasonably expected to perform their functions.

**NAIC Staff Credit Substitution Recommendation – Reference SVO P&P Requirements** – The Practices and
Procedures Manual of the Investment Analysis Office (P&P) contains existing credit substitution methodology,
however the industry is proposing to diverge from the existing methodology for this asset class. **NAIC staff
recommends referencing the existing credit substitution methodology in the P&P.**

4. **Change Reporting Schedule** - NAIC Staff **does not recommend** the Working Group change the
reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule
DA – Short term Investments (paragraph 22). Points for consideration:

- This reporting was intentional because the long-term programs are designated, even though the
different investments are short term. Issue Paper No. 147, documents the VOSTF recommendation
for Schedule BA reporting. The Task Force discussed the relative benefits between Schedule BA and
DA and concluded that WCFIs should be reported as Other Invested Assets and that Schedule BA provides an enhanced disclosure framework deemed more appropriate for the investment.

- Annual statement lines and RBC charges have already been established on Schedule BA.
- Capital Adequacy (E) Task Force reviewed the asset class and requires specific designations (relatively low - just slightly higher than a bond of similar credit risk). RBC charges are based on the NAIC SVO WCFI program designation. The current RBC charges based on program designation would not be functional if the reporting was moved to Schedule DA, because that schedule does not include designations.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed substantive revisions to SSAP No. 105—Working Capital Finance Investments to incorporate industry revisions to program requirements, as previously directed by the Working Group during the Summer National Meeting. The Working Group directed NAIC staff to prepare an issue paper.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group re-exposed SSAP No. 105—Working Capital Finance Investments with a proposed/anticipated effective date of June 30, 2020 and exposed Issue Paper 16X: Working Capital Finance Investment Updates for comment. This item was exposed with a May 1, 2020 comment period deadline.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 105—Working Capital Finance Investments and Issue Paper 163: Working Capital Finance Investment Updates with an additional modification discussed on the call. The modification removed this sentence from SSAP No. 105R, paragraph 16, “Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.” Accordingly, the related discussion in Issue Paper No. 163 was also updated.

This modification was part of the original request from industry and was recommended by a regulator member of the Working Group who noted that it may be confusing to regulators and cause extra work which would be duplicative since these programs are also subject to SVO office review. Therefore, the Working Group adopted 7 of the 10 industry modifications with a June 30, 2020 effective date.

The Working Group also directed notification of the revisions to the Valuation of Securities (E) Task Force.
Statutory Issue Paper No. 163

Working Capital Finance Investment Updates

STATUS
Finalized May 20, 2020

Original SSAP: 105; Current Authoritative Guidance: SSAP No. 105R

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. This issue paper introduces substantive revisions to SSAP No. 105—Working Capital Finance Investments to change some of the existing accounting and program requirements. This item is specific for Working Capital Finance investments (WCFI) which comply with the program requirements and have been designated by the NAIC Securities Valuation Office (SVO).

SUMMARY CONCLUSION

2. The substantive revisions to SSAP No. 105 (illustrated in Exhibit A), reflect the following elements:
   a. Functionally Equivalent Foreign Regulators – Removed the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the U.S. Regulator.
   b. Commingling Prohibitions – Removed the finance agent prohibitions on commingling.
   c. Requirements for Filer to Certify First Priority Perfected Interest – Removed requirements, with revisions allowing the SVO to determine if first priority perfected interest has been obtained.
   d. Finance Agent Validation Requirements – The independent review requirements were broadened to allow independent review of the finance agent by either audit or through an internal control report.
   e. Default Date – Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days.
   f. Investor Rights Edit – Removed duplicative text regarding exercise of investor rights.

3. This issue paper provides historical information on the consideration of revisions for working capital finance program issuances acquired as investments, as well as some of the initially adopted guidance. SSAP No. 105 permits admittance of NAIC Securities Valuation Office designated WCFI programs that meet specific requirements.

Working Capital Finance Investments Overview

4. Bills receivable, in general, are an asset class that has been historically nonadmitted by statutory accounting. They were nonadmitted prior to codification and explicitly nonadmitted in SSAP No. 20—Nonadmitted Assets.
5. When SSAP No. 105 was developed, SSAP No. 20 was amended to allow working capital finance investments as admitted assets to the extent they conform to the requirements of SSAP No. 105 (see Relevant Statutory Accounting). Some of the WCFI program requirements are to provide protections that help to distinguish these programs from factoring, forfaiting, invoice discounting and other similar programs which have been historically nonadmitted in SSAP No. 20. SSAP No. 105 details that eligible confirmed supplier receivables must not: include insurance or insurance related assets; be impaired or in default at the time of purchase; or have a maturity longer than one year from the date of invoice. In addition, there are restrictions that preclude admission of affiliated WCFI investments.

6. SSAP No. 105 provides that working capital finance investments represent a confirmed short-term obligation\(^1\) to pay a specified amount owed by one party (the obligor) to another (typically a supplier of goods), generated as a part of a working capital finance investment program currently designated by the NAIC Securities Valuation Office (SVO). Pursuant to the long-term working capital finance investment program, a short-term obligation has been transferred by the entity entitled to payment (typically a supplier of goods) to a third-party investor.

7. Working capital finance investments held by a reporting entity represent a right for the reporting entity to receive future payments. This issue paper provides details on the updates to the SSAP No. 105 accounting and reporting guidelines for the right to receive payment under working capital finance programs that meet particular criteria.

**Background**

8. SSAP No. 105 requires an SVO program designation of NAIC 1 or NAIC 2 (See definitions in relevant statutory accounting) in order to admit working capital finance investments. This was an intentional choice by the Working Group and the Valuation of Securities (E) Task Force during the initial development of guidance in 2012 to limit the admissibility to high quality programs and obligors. High quality programs in existence at the time of the original development of SSAP No. 105 and some of the requirements of these programs which were administered by larger banks were reviewed.

9. During the original development of SSAP No. 105, the single group reporting entities that had been successfully investing in these types of assets for a number of years, agreed that a high level of investor sophistication to enter and monitor the transactions is required. Also, during the original development of SSAP No. 105, some regulators expressed concerns regarding the ability of smaller entities to monitor the investments in such programs on an ongoing basis. That concern was the basis of the recommendation reflected in the original Issue Paper No. 147 presented to the Working Group to note that such investments which do not fit into traditional categories, may require department of insurance approval.

10. When SSAP No. 105 was developed, the Capital Adequacy (E) Task Force also determined a capital charge for the receivables which varied based on the NAIC designations on the new Schedule BA reporting lines which were developed for these investments.

11. The subsequent industry 2019 proposal developed under discussion by the Working Group proposed to move the investments to Schedule DA — Short-term Investments. During the subsequent review, the Working Group indicated a preference to maintain the long-term programs on annual statement BA where lines and columns would allow proper reporting of the risk-based capital charge. While the program issuances are limited to short-term investments, the long-term program which continually has new balances is what receives the designation.

\(^1\) All references to short-term obligations in this issue paper refer to obligations not exceeding one year.
DISCUSSION

Development of Statutory Accounting Guidance

12. SSAP No. 105 was originally effective in 2014 and was controversial as it was developed at the request of a single life entity. At that time, some Working Group members objected to the development of a new SSAP, reporting changes and specific asset class risk-based capital (RBC) charges at the behest of a single company. The discussion at that time noted that the permitted practice concept was intended to address such situations.

13. In 2018, the reporting entity that participates in these programs requested modifications to the adopted program and submitted a proposal for consideration.

14. As of year-end 2018, WCFI reported in the annual statement Schedule BA - Other Invested Assets was limited to the same life entity that originally requested the development of SSAP No. 105. This company reported a total of $258 million in a total of seven WCFI programs for 2017 and $224 million in a total of six WCFI programs for 2018. The total of these amounts is immaterial to the reporting entity. No reporting entities disclosed any prescribed or permitted practices varying from SSAP No. 105 in annual statement Note 1 for 2017 or 2018.

15. The Valuation of Securities (E) Task Force exposed the industry proposal and held discussion on in the third quarter of 2018. The Task Force approved referral to the Statutory Accounting Principles (E) Working Group, which was also supported by the life industry at the 2019 Spring National Meeting. The referral was also forwarded to the Working Group with Valuation of Securities (E) Task Force Memos.

16. The industry proposed ten revisions to SSAP No. 105 affecting the following key aspects:
   a. Changes to program and or obligor credit quality requirements
   b. Changes to program administration and/or documentation
   c. Changes to regulatory compliance requirements
   d. Changes to statutory reporting requirements.

17. On August 3, 2019, the Working Group received the referral from the Task Force and directed NAIC staff to proceed with drafting revisions for subsequent exposure using six of the ten industry recommendations.

Review of Items Not Supported by the Working Group:

18. During the August 2019 discussion the following four industry proposed revisions were presented, but not captured in the direction for revisions to SSAP No. 105.
   a. Possible Domestic Regulator Approval – The statement that the reporting entity may need to seek approval from the domestic regulator was maintained.
   b. Only High-Quality Obligors – The current requirement which restricts designations of programs and obligors to being of high quality (NAIC 1 or NAIC 2) was maintained.
   c. Unrated subsidiaries / Credit substitution - The industry proposed credit substitution methodology for unrated subsidiaries was not incorporated in the exposed revisions. The industry proposal had two aspects:
i. Credit substitution for unrated subsidiary obligors of a rated obligor – Industry proposed to attribute the credit strength of the rated parent to the unrated subsidiary obligor without the rated parent being a guarantor of the unrated subsidiary’s WCFI obligations. This aspect envisions the rated entity having some of its own obligations in the program.

ii. Credit Substitution of rated obligor for its unrated subsidiaries which are key transaction participants, but not obligors. The industry proposal was to create criteria to allow the “program” to obtain an acceptable NAIC designation by evaluating if the unrated “key transaction participant” is able to perform its functions. Industry proposed several different ways to attribute the rated entity’s credit rating to the unrated entity including:

(a) Documented operational control of unrated obligor, or
(b) An important inter-relationship with unrated obligor, or
(c) If the unrated key transaction participants are reasonably expected to perform their functions.

d. Change Reporting Schedule - The Working Group did not change the reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule DA – Short term Investments.

19. Some of the discussion points that were discussed which resulted in the Working Group not directing the inclusion of four of the industry proposed revisions were as follows:

a. Possible Domestic Regulator Approval – The statement that the reporting entity may need to seek approval from the domestic regulator was maintained as previously noted in Issue Paper No. 147. The Issue Paper documents the possible requirement for domestic regulator approval was an intentional decision because of concerns regarding the ability of smaller entities to monitor the investments in such programs on an ongoing basis.

i. It was also noted that the current guidance in SSAP No. 105 is not an explicit requirement, but only identifies that a domiciliary commissioner may require a company to receive initial permission (see final action in paragraph 23).

ii. The agenda item noted that the industry proposal noted:

(a) that these investments may not fit into the normal investment law categories.
(b) the asset class is not for most insurers as it requires relationships with finance agents beyond the traditional dealer insurer.
(c) the investor needs specialized knowledge, asset management operations and the ability to book and supervise the assets.
(d) the filing fees require sizable commitments to justify the costs, which would make it cost prohibitive for smaller players.

iii. As a counterpoint to the decision not to change the guidance in the SSAP No. 105, the Fall 2019 industry comments noted that state approval is not a practical risk mitigant. In
addition, the speaker present at the meeting commented that he questioned the evaluation criteria that would be used by a state.

b. Only High-Quality Obligors – The current requirement which restricts designations of programs and obligors to being of high quality was maintained. The Working Group was not in favor of lowering the credit quality of the acceptable obligors from NAIC 1 (highest quality) and NAIC 2 (high quality) to allow NAIC designations of 3 (medium quality) and NAIC 4 (low quality) (See definitions in relevant statutory accounting).

i. The descriptions of NAIC designations in the *Purpose and Procedures Manual of the Investment Analysis Office* note that both NAIC designations of 3 and 4 have speculative elements.

ii. Assets that reflect “factored receivables” are nonadmitted in statutory accounting. This program is the sole exception to the factored receivable rule. By lowering the allowable credit standards, an expanded class of factored receivables would be admitted, further deviating from statutory accounting concepts.

iii. The SAPWG created SSAP No. 105 to allow admission for only high-quality programs, from high quality obligors. Allowing obligors with lower credit assessments would be a fundamental change in program requirements.

c. Unrated subsidiaries / Credit substitution – The industry proposed credit substitution methodology for unrated subsidiaries was not incorporated in the exposed revisions. The industry proposal was noted in the discussion as complex, broad and difficult to apply. Further, credit substitution does not adequately address credit risk for an unrated affiliate. SVO staff memos also highlighted the difficulty in applying the industry proposed credit substitution methodology. Excerpts from the Valuation of Securities (E) Task Force October 2018 memo to the Working Group note the following:

SVO evaluated whether analytical discretion would enable it to designate WCFI programs with unrated obligors of a rated or designated parent. SVO evaluated whether operational and strategic linkages between a rated parent and unrated obligor can provide a basis to attribute the credit rating of one entity to the other. It concluded that no principle exists to permit an assumption that a legal entity can be held responsible for the debt of another without having contractually agreed to do so. While WCFI arrangements may be inherently different than the credit situations SVO assesses SVO lacks the experiential basis to opine on the idea that the difference permits attribution.

d. Change Reporting Schedule – The Working Group did not change the reporting requirements to move the WCFI investments from Schedule BA – Other Assets, to Schedule DA – Short term Investments. Key points noted were:

i. Reporting on Schedule BA was intentional because the long-term programs are designated, even though the different investments are short-term. Issue Paper No. 147, documents the VOSTF recommendation for Schedule BA reporting. The Task Force discussed the relative benefits between Schedule BA and DA and concluded that WCFIs should be reported as Other Invested Assets and that Schedule BA provides an enhanced disclosure framework deemed more appropriate for the investment.

ii. Annual statement lines and RBC charges have already been established on Schedule BA.
iii. Capital Adequacy (E) Task Force reviewed the asset class and requires specific
designations (relatively low - just slightly higher than a bond of similar credit risk). RBC
charges are based on the NAIC SVO WCFI program designation. The current RBC charges
based on program designation would not be functional if the reporting was moved to
Schedule DA, because that schedule does not include designations which are needed for
RBC.

Review of Items Proposed for Inclusion in SSAP No. 105:

20. On December 7, 2019, the Working Group exposed substantive revisions to SSAP No. 105 to incorporate
industry revisions to program requirements, as previously directed by the Working Group during the 2019 Summer
National Meeting.

21. The substantive revisions to SSAP No. 105 that were exposed for comment reflected the following elements:

a. Functionally Equivalent Foreign Regulators - Removed the requirement that the SVO determine if
the International Finance Agent is the functional equivalent of the U.S. Regulator. Removing this
element was supported by the SVO, which noted that determining functional equivalence is not an
analytical issue.

b. Commingling Prohibitions - Removed the finance agent prohibitions on commingling. Removal of
this requirement was supported by the SVO. SVO staff noted if commingling were not a
requirement it would consider commingling risk, when present, as a structural deficiency and
balance it against the requirement that the Finance Agent be NAIC 1 or NAIC 2.

c. Investor Rights Edit - Removed duplicative text regarding exercise of investor rights. This revision
was to improve readability and eliminate redundancy.

d. Requirements for filer to Certify Perfected Interest – Removed requirements, with revisions
allowing the SVO to determine if a first priority perfected interest in accordance with uniform
commercial code (UCC) requirements for each annual submission has been obtained. In deciding
to make this revision the following key points were deemed relevant:

i. It was noted that the SVO staff has indicated that UCC first priority perfected interest
criteria are typically determined when contracting a program and similar objectives can be
accomplished in more ways than the UCC lien process. Requiring the UCC lien process
was viewed as overly prescriptive.

ii. The definition in SSAP No. 105 of a confirmed supplier receivable requires a first priority
perfected interest and, SVO analytical staff should be able to determine if first priority
interest has been achieved

e. Finance Agent Validation Requirements – The independent review requirements were broadened
to allow independent review of the finance agent by either audit or through one of two types of
internal control report. This is a lower threshold, than the existing requirements, but one that still
provides some type of independent program review.
f. Default Date - Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days. Key discussion points are:

i. Waiting 30 days for a short-term asset can be material in relation to the life of the asset.

ii. Fifteen (15) days was previously chosen to be consistent with settlement guidance in SSAP No. 21—Other Admitted Assets, which nonadmits and reclassifies receivables for securities not settled within 15 days.

iii. The “cure period” on confirmed supplier receivables is not to exceed 30 days, therefore, the Working Group agreed that it may make sense for the default date and the end of the cure period to be consistent.

22. At the 2020 Spring National Meeting, the Working Group reviewed the issue paper and the January 2020 comments on the exposed item. Comments received from industry advocated for inclusion of the four items that the Working Group opted to exclude from the additional revisions to the revised Statement. Key elements noted in the industry comments included the following:

a. Absent all 10 of the industry proposed revisions, investments in working capital finance programs will remain low.

b. Industry advocated that its proposed credit substitution mechanism to allow unrated subsidiaries was suitable for NAIC implementation to allow not only lower rated subsidiaries but also unrated subsidiaries. The commenters maintained that the absence of mention of non-rated subsidiaries as acceptable obligors, did not preclude them from allowing unrated obligors. However, the current SSAP No. 105 program requirements explicitly require obligors to be of high credit quality,

c. The industry comments advocated that lower rated investments should be allowed as the statutory risk-based capital requirements reflect investment quality decisions in capital calculations.

d. The industry comments advocated that domiciliary regulator prior approval for investment is a transfer of transaction review from staff to state insurance departments. The commenters noted that when, if regulators are concerned about the asset class, they can uniformly limit investment as a whole. Given the high costs to a small industry investor, coupled with the fact that dealers would unlikely choose to document such investments bilaterally with small industry investors, already limits access to the assets to large industry investors (see final action in paragraph 23).

e. The industry commented that Schedule BA reporting is both cumbersome and expensive and in the view of the industry commenters, the more appropriate schedule would be Schedule DA.

23. During the 2020 Spring National Meeting, after considering the interested parties’ comments, the Working Group identified the revisions as a substantive change, re-exposed revisions to SSAP No. 105, and exposed this Issue Paper. On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 105—Working Capital Finance Investments and Issue Paper 163: Working Capital Finance Investment Updates with an additional modification discussed on the call. As part of the May 20, 2020 adoption action, the Working Group and designated an effective date for the revisions of June 30, 2020.
a. The modification removed this sentence from SSAP No. 105R, paragraph 16, “Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.” Accordingly, the related discussion in Issue Paper No. 163 was also updated.

b. This modification was part of the original request from industry and was recommended by a regulator member of the Working Group who noted that it may be confusing to regulators and cause extra work which would be duplicative since these programs are also subject to SVO office review. Therefore, the Working Group adopted 7 of the 10 industry modifications.

c. The Working Group also directed notification of the revisions to the Valuation of Securities (E) Task Force.

RELEVANT STATUTORY ACCOUNTING


25. SSAP No. 20—Nonadmitted Assets was amended by SSAP No. 105 to allow working capital finance investments as admitted assets to the extent they conform to the requirements of SSAP No. 105.

4. Consistent with paragraph 2, the following assets shall be nonadmitted:

   a. Deposits in Suspended Depositories—Amounts on deposit with suspended depositories may not be fully recoverable. Any amounts not reasonably expected to be recovered shall be written off in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R). Amounts in excess of that written off shall be nonadmitted as they are not available to satisfy obligations to policyholders;

   b. Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Investments—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized as there are no underlying assets which would otherwise be admitted assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in SSAP No. 105;

   (Rest of paragraph omitted for brevity)

26. Purposes and Procedures Manual of the NAIC Investment Analysis Office provides the following on NAIC Designations:

   a. NAIC 1 is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer’s credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An NAIC 1 obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.

   b. NAIC 2 is assigned to obligations of high quality. Credit risk is low but may increase in the intermediate future and the issuer’s credit profile is reasonably stable. This means that for the present, the obligation’s protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay. An NAIC 2 obligation should be
eligible for relatively favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

c. NAIC 3 is assigned to obligations of medium quality. Credit risk is intermediate and the issuer’s credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer’s capacity to make timely payments. An NAIC 3 obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

d. NAIC 4 is assigned to obligations of low quality. Credit risk is high and the issuer’s credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer’s capacity to make timely payments. An NAIC 4 obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

Effective Date

27. 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 effective date of the substantive revisions adopted to SSAP No. 105 by the Working Group on May 20, 2020.

Statement of Statutory Accounting Principles No. 105

Working Capital Finance Investments

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for working capital finance investments held by reporting entities. This statement amends SSAP No. 20—Nonadmitted Assets (SSAP No. 20) to allow working capital finance investments as admitted assets to the extent they conform to the requirements of this statement.

SUMMARY CONCLUSION

2. Working capital finance investments represent a confirmed short-term obligation1 to pay a specified amount owed by one party (the obligor) to another (typically a supplier of goods), generated as a part of a working capital finance investment program currently designated by the NAIC Securities Valuation Office. Pursuant to the working capital finance investment program, this short-term obligation has been transferred by the entity entitled to payment (typically a supplier of goods) to a third-party investor.

3. Working capital finance investments held by a reporting entity represent a right of the reporting entity to receive future payment. This Statement provides accounting and reporting guidelines for the right to receive payment under working capital finance programs that meet particular criteria.

Working Capital Finance Program - Definitions and Conditions

4. A “working capital finance program” is an open account program under which an investor may purchase interests, or evidence thereof, in commercial non-insurance receivables. A working capital finance program is created for the benefit of a commercial investment-grade obligor and its suppliers of goods or services, and facilitated by a finance agent.

5. A working capital finance program transfers a right to payment to an investor from a short term obligation and arises from transactions among:

   a. a buyer of goods or services that becomes an obligor to the supplier of goods or services,

   b. the supplier(s) of those goods or services,

   c. a finance agent, and

   d. an investor.

6. A “working capital finance investment” is an interest in payment(s) from a confirmed supplier receivable issued pursuant to a working capital finance program. The payment (maturity) date must not exceed one year from

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1 All references to short-term obligations in this statement to refer to obligations not exceeding one year.
the date of invoice from the supplier to the obligor. This investment is created when the investor purchases from a working capital finance program that is currently designated as NAIC “1” or “2” by the NAIC Securities Valuation Office, any of the following:

a. One or more confirmed supplier receivables;

b. in case of a participation, a participation interest in one or more confirmed supplier receivables issued by the finance agent or lead lender holding confirmed supplier receivables; or

c. a certificate, note or other interest manifestation, documented in a way that is verifiable by regulators, representing a legally enforceable interest in a right to payment either directly to the investor or from a trust, other special purpose entity or pool holding confirmed supplier receivables.

7. “Obligor” is the party that purchases the goods or services that generates the original supplier receivable (and which is the payable for the Obligor). The obligor must be a single entity, which has an NAIC designation of “1” or “2” or a Credit Rating Provider equivalent. The obligor must confirm the supplier receivable described in paragraph 11 as described in the confirmation process in paragraphs 12-13.

8. “Supplier” is the party that sells the goods or services to the obligor. The supplier sells the confirmed supplier receivable in accordance with the terms of the working capital finance program designated by the NAIC Securities Valuation Office at a price agreed to by the finance agent and/or investor.

9. “Investor” is the party purchasing a working capital finance investment in accordance with the terms of the working capital finance program designated by the NAIC Securities Valuation Office.

10. The “finance agent” is a bank, financial institution, other financial intermediary, or service provider that facilitates the working capital finance program, arranges the sale, assignment or transfer of the confirmed supplier receivable to the investor for a fee and administers the payment mechanism. In the case of participation, the finance agent must inform the reporting entity (investor) of a default or event of default as soon as it becomes aware of such default or event of default. For the working capital finance program to qualify under this SSAP, the finance agent must meet the requirements of either paragraph 10.a. or 10.b.:

a. The finance agent is directly regulated by, or falls under the supervision of, a financial regulator of its domiciliary country provided that such country appears on the Purposes and Procedures Manual of the NAIC Investment Analysis Office List of Jurisdictions Eligible for Netting and that the Securities Valuation Office determines that the regulator is the functional equivalent of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation; or

b. Payments from the obligor must be paid directly to the reporting entity (investor) or into an account maintained by a regulated financial institution for the benefit of investors in the working capital finance program and, in either case, cannot flow through the finance agent and/or the beneficiary of such payment. A) there can be no commingling of payments or assets with those of the obligor, supplier, servicer or trust administrator or other investors.

11. A “confirmed supplier receivable” is a first priority perfected security interest or right to payment of a monetary obligation from the obligor arising from the sale of goods or services from the supplier to the obligor the payment of which has been confirmed by the obligor committing and stating that the obligations under the agreement and any payment shall not be affected by the invalidity, unenforceability, existence, performance or non-performance of the underlying commercial trade transaction or any related contract or undertaking nor that it will
not protest, delay, or deny, nor offer nor assert any defenses, personal or otherwise, against payment to the supplier or any party taking claims, interests, or rights to payments made by the supplier.

a. The confirmed supplier receivable must be sold, assigned or otherwise transferred in a manner that results in an absolute, irrevocable and legally enforceable obligation that has been confirmed by the Obligor.

b. In the case of a participation, the certificates or other evidence of participation provide an absolute, irrevocable, and legally enforceable obligation of the finance agent or holder of the confirmed supplier receivable to pay to the reporting entity investor all of the amounts due to it under the confirmed supplier receivable, without reduction or delay arising from any claims that the finance agent may have against the reporting entity investor. The reporting entity investor’s ability to exercise its rights as creditor, or to direct the finance agent to exercise the rights of a creditor on its behalf, shall not be subject to the discretion of the finance agent or other lenders or investors. The reporting entity investor’s ability to exercise its rights as creditor, or to direct the finance agent to exercise the rights of a creditor on its behalf, shall not be subject to, other than during a cure period not to exceed thirty days, the discretion of the finance agent or other lenders or investors.

Confirmation Process

12. In the case of a purchase, the investor shall verify, prior to the sale that the obligor has confirmed the respective amounts, payment dates and related invoice numbers’ specified dates and has waived all defenses to payment. In the case of a participation, the finance agent must verify that the obligor has confirmed the respective amounts, payment dates and related invoice reference numbers’ specified due dates, and has waived all defenses to payment in accordance with the confirmation process.

13. The obligor must commit and state that upon confirmation of a supplier receivable it is obligated to pay to the investor, the finance agent, or any third party acting as agent or trustee for the investor, a sum equal to the full amount of that confirmed supplier receivable(s) on a date certain stated in the confirmation and that it waives any right of setoff or other defenses to avoid or delay the full and timely payment of that Confirmed Supplier Receivable. The documents establishing the working capital finance program or the confirmation must state and confirm that the obligation to pay must be independent of any other contracts or claims that might be raised in defense arising from any transaction financed in connection with the WCFPWCFI program, the confirmed supplier receivable, or any other courses of performance or courses of dealing with the supplier.

14. In the case of participation, the investor must certify that it has a commercially reasonable belief that its participation interest meets the Uniform Commercial Code’s standards for creating and preserving first priority security interests in the payments due and in the confirmed supplier receivables. Commercially reasonable belief shall mean the SVO deems the investor’s belief reasonable in light of the systems, policies, or practices commonly recognized in the field of investing in participations. The investor must be able to demonstrate to a regulator or to the SVO, upon either’s request, the basis for its commercially reasonable belief that the WCF creates and preserves the investor’s ability to enforce a first priority perfected security interest in the confirmed supplier receivables.

15. In the case of a certificate, note, or other manifestation, capable of verification, representing a right to payment from a trust, other special purpose entity, or special purpose pool holding confirmed supplier receivables, the investor must certify that it has a commercially reasonable belief that the documents establishing and governing the working capital finance program create and preserve interests in the confirmed supplier receivables capable of being enforced by the trustee or other entity holding confirmed supplier receivables as first priority perfected security interests under the Uniform Commercial Code. The investor must be able to demonstrate the basis for such belief to a regulator or to the SVO upon either’s request. Commercially reasonable belief shall mean the SVO
deems the investor's belief reasonable in light of the systems, policies, and practices commonly recognized in the field of investing in securitizations, loan-backed, structured, or trust issued securities.

Program Requirements

46.14. The working capital finance program investor must provide in its annual filing with the Securities Valuation Office an annual audit of the consolidated financial statements of which the finance agent is part, which does not report any qualifications related to servicing, and one of the following:

   a. An annual independent report according to Statement on Standards for Attestation Engagements (SSAE) No. 16 (or functional equivalent), reporting on controls at a service organization related to the administration of the investment; or

   b. An annual audit of the financial statements and internal controls of the consolidated group of which the finance agent is part, which does not note any material weaknesses related to servicing working capital financial investments.

The NAIC Securities Valuation Office would review the materiality of the report findings in making their determination of the assignment of a designation.

47.15. If the credit rating of the working capital finance program or obligor falls to non-investment grade (below the equivalent of NAIC designation “1” or “2”), the reporting entity shall nonadmit, the working capital finance investments obtained under the related working capital finance program and/or the related obligor. Due to the short-term nature of these investments, once an investment is nonadmitted due to the credit rating of the working capital finance program or the obligor, those investments will continue to be nonadmitted.

48.16. Reporting entity investors must have the ability to monitor the working capital finance program and the credit-related activities of the obligor. Reporting entity investors must provide information as requested to the state of domicile indicating that they have the ability to monitor on an ongoing basis the activities of the working capital finance program. Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.

49.17. All contracts or agreements that are a part of or that together constitute a working capital finance program must provide that if a dispute arises among any of the parties under any of the contracts or agreements that are a part of or that together constitute the working capital finance program, each party agrees that the dispute will be submitted to a court of competent jurisdiction in the United States or a constituent state thereof or of an alternative dispute resolution process recognized thereby. All contracts or agreements that are a part of or that together constitute a working capital finance program must provide that any dispute arising under any of the contracts or agreements that are a part of or that together constitute the working capital finance program must be resolved pursuant to the laws of the United States or a constituent state thereof that address the substance of the dispute but excluding those laws addressing conflicts of law.

Exclusions

20.18. A working capital finance investment excludes any receivables financed through:

   a. Factoring: the purchase of receivables in bulk from a supplier where the receivables represent the payment obligations of potentially thousands of buyers to a single supplier, in which the buyers have no relationship with or contractual obligation to pay the factor and retain all legal defenses to payment they may have against the supplier;
b. Forfaiting: the purchase of one or a series of receivables from exporters by a forfaire to enable the exporter (seller) to finance a commercial transaction with a buyer in which the Obligor has no relationship with or contractual obligation to pay the forfaire and retains all legal defenses to pay it may have against the seller; or

c. Invoice discounting: the advancement of funds by a finance company to a business entity with the funds advanced limited to a defined percentage of the business entity’s eligible and outstanding receivables.

21.19. Eligible Confirmed Supplier Receivables must not:

   a. Include insurance or insurance related assets;
   b. Be impaired or in default at the time of purchase;
   c. Have a payment (maturity) date longer than one year from the date of the invoice from the Supplier to the Obligor giving rise to the confirmed supplier receivable, and the maturity date must not be subject to change or rolling; nor
   d. Include any receivable of any parent or affiliate of the reporting entity investor, and neither the Obligor nor any Supplier may be affiliated with the reporting entity investor. Working Capital Finance Investments that have obligors or vendors that are affiliated with the investor are ineligible, and therefore, nonadmitted assets.

Accounting and Reporting

22.20. The right to receive payment generated by a working capital finance investment issued under a working capital finance program is considered to meet the definition of an asset as defined in SSAP No. 4—Assets and Nonadmitted Assets, and is an admitted asset to the extent the investment conforms to the requirements set forth in this Statement and the Purposes and Procedures Manual of the NAIC Investment Analysis Office. For programs that comply with all of these elements, working capital finance investments 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. Programs that do not comply with the elements set forth in this Statement, or the provisions set forth in the Purposes and Procedures Manual of the NAIC Investment Analysis Office are nonadmitted. Working capital finance investments are reported as other invested assets in the financial statements.

23.21. A working capital finance investment shall be recorded on the trade date. At acquisition, the Working Capital Finance Investment shall be initially reported at cost, excluding brokerage and other related fees, and all other costs (internal costs, or costs paid for origination, purchase or commitment to purchase such investments), which shall be expensed as incurred.

24.22. After initial acquisition, the Working Capital Finance Investment shall be reported at amortized cost until the specified maturity date, unless the investment, or a portion thereof, is deemed uncollectible or when an other-than-temporary impairment has occurred. In the event that a working capital finance investment is purchased by a reporting entity investor at a premium (amount to be received by the entity under the confirmed supplier receivable is less than the price paid for the investment), the excess paid by the reporting entity investor in comparison to the amount receivable under the confirmed supplier receivable must be immediately expensed.
25.23. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized capital gains and losses from working capital finance investments shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7). For reporting entities not required to maintain an IMR, realized gains and losses from working capital finance investments shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

26.24. A Working Capital Finance Investment may provide for a prepayment penalty or acceleration fee in the event the working capital finance investment is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

27.25. SSAP No. 34—Investment Income Due and Accrued shall be followed for determining and recording investment income earned on working capital finance investments acquired at a discount. In accordance with SSAP No. 34—Investment Income Due and Accrued, investment income shall be reduced for amounts that have been determined to be uncollectible, however amounts more than 15 days overdue are nonadmitted.

Default

28.26. A working capital finance investment payment that is uncollected by the reporting entity within fifteen thirty days after the due date shall be considered in default and nonadmitted. If the reporting entity has any other working capital finance investment assets from the same defaulting counterparty, all other working capital finance investments from that counterparty shall be nonadmitted. All working capital finance investments from a counterparty identified in default shall be evaluated for impairment.

Impairment

29.27. 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 a confirmed supplier receivable including the payment on the established due date. Pursuant to this guidance, assessment of other-than-temporary impairment shall include an evaluation of the financial condition and short-term prospects of the obligor. If it is determined that a decline in the fair value of a working capital finance investment below book/adjusted carrying value is due to an other-than-temporary impairment, an impairment loss shall be recognized as a realized loss equal to the entire difference between the working capital finance investment’s carrying value and fair value as of the reporting period for which the assessment is made. Fair value shall be determined in accordance with SSAP No. 100R—Fair Value (SSAP No. 100R), and reflect the price to sell the asset in an orderly market between market participants. As such, the fair value shall reflect the assumptions market participants will use in pricing the asset, including assumptions about risk.

30.28. For reporting entities required to maintain an AVR/IMR, the entire amount of the realized loss from the other-than-temporary impairment shall be recorded through the AVR, in accordance with SSAP No. 7.

31.29. Upon recognition of an other-than-temporary impairment, the fair value of the working capital finance investment on the measurement date shall become the new cost basis of the working capital finance investment and the new cost basis shall not be adjusted for subsequent recoveries in fair value. Once an investment is determined to be other-than-temporarily impaired, until all expected payments are received, the reporting entity must re-evaluate the investment quarterly and reassess fair value, with recognized realized losses for the difference between the book/adjusted carrying value and the current fair value. This process shall continue until either all expected payments are received, or the entity has recognized a realized loss for the entire uncollected carrying value.
Disclosures

32-30. The financial statements shall include the following disclosures:

a. Fair value in accordance with SSAP No. 100R.

b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures (SSAP No. 27) in the annual audited statutory financial reports only.

c. Information regarding the aggregate book/adjusted carrying value of working capital finance investment by designation including gross assets with nonadmitted and net admitted amounts annually. (Note that programs designated 3-6 are nonadmitted.)

<table>
<thead>
<tr>
<th>WCFI Designation</th>
<th>Gross Asset CY</th>
<th>Non-Admitted Asset CY</th>
<th>Net Admitted Asset CY</th>
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<td>Total</td>
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</table>

d. Annual and quarterly information regarding the aggregate book/adjusted carrying value maturity distribution on the underlying working capital finance investments by the categories of maturities up to 180 days and 181 to 365 days.

e. Any events of default of working capital finance investments during the reporting period.

33-31. Refer to the Preamble for further discussion regarding disclosure requirements.

Effective Date and Transition

This statement is effective for years on or after January 1, 2014. Substantive revisions documented in Issue Paper No. 163—Working Capital Finance Investments Updates are effective for financial reporting periods on or after June 30, 2020. 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.

- Issue Paper No. 147—Working Capital Finance Investments
- Issue Paper No. 163—Working Capital Finance Investments Updates
Statement of Statutory Accounting Principles No. 105R

Working Capital Finance Investments

STATUS

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<tr>
<td>Effective Date</td>
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SCOPES OF STATEMENT

1. This statement establishes statutory accounting principles for working capital finance investments held by reporting entities. This statement amends SSAP No. 20—Nonadmitted Assets (SSAP No. 20) to allow working capital finance investments as admitted assets to the extent they conform to the requirements of this statement.

SUMMARY CONCLUSION

2. Working capital finance investments represent a confirmed short-term obligation\(^1\) to pay a specified amount owed by one party (the obligor) to another (typically a supplier of goods), generated as a part of a working capital finance investment program currently designated by the NAIC Securities Valuation Office. Pursuant to the working capital finance investment program, this short-term obligation has been transferred by the entity entitled to payment (typically a supplier of goods) to a third party investor.

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5. A working capital finance program transfers a right to payment to an investor from a short term obligation and arises from transactions among:

   a. a buyer of goods or services that becomes an obligor to the supplier of goods or services,
   b. the supplier(s) of those goods or services,
   c. a finance agent, and
   d. an investor.

6. A “working capital finance investment” is an interest in payment(s) from a confirmed supplier receivable issued pursuant to a working capital finance program. The payment (maturity) date must not exceed one year from the date of invoice from the supplier to the obligor. This investment is created when the investor purchases from a working capital finance program that is currently designated as NAIC “1” or “2” by the NAIC Securities Valuation Office, any of the following:

   a. One or more confirmed supplier receivables;
   b. in case of a participation, a participation interest in one or more confirmed supplier receivables issued by the finance agent or lead lender holding confirmed supplier receivables; or

\(^{1}\) All references to short-term obligations in this statement to refer to obligations not exceeding one year.
c. a certificate, note or other interest manifestation, documented in a way that is verifiable—by regulators, representing a legally enforceable interest in a right to payment—payment either directly to the investor or from a trust, other special purpose entity or pool holding confirmed supplier receivables.

7. “Obligor” is the party that purchases the goods or services that generates the original supplier receivable (and which is the payable for the Obligor). The obligor must be a single entity, which has an NAIC designation of “1” or “2” or a Credit Rating Provider equivalent. The obligor must confirm the supplier receivable described in paragraph 11 as described in the confirmation process in paragraphs 12-13.

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   a. The finance agent is directly regulated by, or falls under the supervision of, a financial regulator of its domiciliary country provided that such country appears on the Purposes and Procedures Manual of the NAIC Investment Analysis Office List of Jurisdictions Eligible for Netting and that the Securities Valuation Office determines that the regulator is the functional equivalent of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation; or

   b. Payments from the obligor must be paid directly to the reporting entity (investor) or into an account maintained by a regulated financial institution for the benefit of investors in the working capital finance program, and, in either case, cannot flow through the finance agent (and 2) there can be no commingling of payments or assets with those of the obligor, supplier, servicer or trust administrator or other investors.

11. A “confirmed supplier receivable” is a first priority perfected security interest or right to payment of a monetary obligation from the obligor arising from the sale of goods or services from the supplier to the obligor the payment of which has been confirmed by the obligor committing and stating that the obligations under the agreement and any payment shall not be affected by the invalidity, unenforceability, existence, performance or non-performance of the underlying commercial trade transaction or any related contract or undertaking nor that it will not protest, delay, or deny, nor offer nor assert any defenses, personal or otherwise, against payment to the supplier or any party taking claims, interests, or rights to payments made by the supplier.

   a. The confirmed supplier receivable must be sold, assigned or otherwise transferred in a manner that results in an absolute, irrevocable and legally enforceable obligation that has been confirmed by the Obligor.
b. In the case of a participation, the certificates or other evidence of participation provide an absolute, irrevocable, and legally enforceable obligation of the finance agent or holder of the confirmed supplier receivable to pay to the reporting entity investor all of the amounts due to it under the confirmed supplier receivable, without reduction or delay arising from any claims that the finance agent may have against the reporting entity investor. The reporting entity investor’s ability to exercise its rights as creditor, or to direct the finance agent to exercise the rights of a creditor on its behalf, shall not be subject to the discretion of the finance agent or other lenders or investors. The reporting entity investor’s ability to exercise its rights as creditor, or to direct the finance agent to exercise the rights of a creditor on its behalf, shall not be subject to, other than during a cure period not to exceed thirty days, the discretion of the finance agent or other lenders or investors.

Confirmation Process

12. In the case of a purchase, the investor shall verify, prior to the sale that the obligor has confirmed the respective amounts, payment dates and related invoice numbers’ specified dates and has waived all defenses to payment. In the case of a participation, the finance agent must verify that the obligor has confirmed the respective amounts, payment dates and related invoice reference numbers’ specified due dates, and has waived all defenses to payment in accordance with the confirmation process.

13. The obligor must commit and state that upon confirmation of a supplier receivable it is obligated to pay to the investor, the finance agent, or any third party acting as agent or trustee for the investor, a sum equal to the full amount of that confirmed supplier receivable(s) on a date certain stated in the confirmation and that it waives any right of setoff or other defenses to avoid or delay the full and timely payment of that Confirmed Supplier Receivable. The documents establishing the working capital finance program or the confirmation must state and confirm that the obligation to pay must be independent of any other contracts or claims that might be raised in defense arising from any transaction financed in connection with the WCFP/WCFI program, the confirmed supplier receivable, or any other courses of performance or courses of dealing with the supplier.

14. In the case of participation, the investor must certify that it has a commercially reasonable belief that its participation interest meets the Uniform Commercial Code’s standards for creating and preserving first priority security interests in the payments due and in the confirmed supplier receivables. Commercially reasonable belief shall mean the SVO deems the investor’s belief reasonable in light of the systems, policies, or practices commonly recognized in the field of investing in participations. The investor must be able to demonstrate to a regulator or to the SVO, upon either’s request, the basis for its commercially reasonable belief that the WCFP creates and preserves the investor’s ability to enforce a first priority perfected security interest in the confirmed supplier receivables.

15. In the case of a certificate, note, or other manifestation, capable of verification, representing a right to payment from a trust, other special purpose entity, or special purpose pool holding confirmed supplier receivables, the investor must certify that it has a commercially reasonable belief that the documents establishing and governing the working capital finance program create and preserve interests in the confirmed supplier receivables capable of being enforced by the trustee or other entity holding confirmed supplier receivables as first priority perfected security interests under the Uniform Commercial Code. The investor must be able to demonstrate the basis for such belief to a regulator or to the SVO upon either’s request. Commercially reasonable belief shall mean the SVO deems the investor’s belief reasonable in light of the systems, policies, and practices commonly recognized in the field of investing in securitizations, loan-backed, structured, or trust-issued securities.
Program Requirements

16.14. The working capital finance program investor must provide in its annual filing with the Securities Valuation Office an annual audit of the consolidated financial statements of which the finance agent is part, which does not report any qualifications related to servicing, and one of the following:

a. An annual independent report according to Statement on Standards for Attestation Engagements (SSAE) No. 16 (or functional equivalent), reporting on controls at a service organization related to the administration of the investment; or

b. An annual audit of the financial statements and internal controls of the consolidated group of which the finance agent is part, which does not note any material weaknesses related to servicing working capital financial investments.

The NAIC Securities Valuation Office would review the materiality of the report findings in making their determination of the assignment of a designation.

17.15. If the credit rating of the working capital finance program or obligor falls to non-investment grade (below the equivalent of NAIC designation “1” or “2”), the reporting entity shall nonadmit, the working capital finance investments obtained under the related working capital finance program and/or the related obligor. Due to the short-term nature of these investments, once an investment is nonadmitted due to the credit rating of the working capital finance program or the obligor, those investments will continue to be nonadmitted.

18.16. Reporting entity investors must have the ability to monitor the working capital finance program and the credit-related activities of the obligor. Reporting entity investors must provide information as requested to the state of domicile indicating that they have the ability to monitor on an ongoing basis the activities of the working capital finance program. Initial permission to invest in Working Capital Finance Investment Programs may be required by the domiciliary commissioner.

19.17. All contracts or agreements that are a part of or that together constitute a working capital finance program must provide that if a dispute arises among any of the parties under any of the contracts or agreements that are a part of or that together constitute the working capital finance program, each party agrees that the dispute will be submitted to a court of competent jurisdiction in the United States or a constituent state thereof or of an alternative dispute resolution process recognized thereby. All contracts or agreements that are a part of or that together constitute a working capital finance program must provide that any dispute arising under any of the contracts or agreements that are a part of or that together constitute the working capital finance program must be resolved pursuant to the laws of the United States or a constituent state thereof that address the substance of the dispute but excluding those laws addressing conflicts of law.

Exclusions

20.18. A working capital finance investment excludes any receivables financed through:

a. Factoring: the purchase of receivables in bulk from a supplier where the receivables represent the payment obligations of potentially thousands of buyers to a single supplier, in which the buyers have no relationship with or contractual obligation to pay the factor and retain all legal defenses to payment they may have against the supplier;

b. Forfaiting: the purchase of one or a series of receivables from exporters by a forfaiteur to enable the exporter (seller) to finance a commercial transaction with a buyer in which the Obligor has no
relationship with or contractual obligation to pay the forfaiter and retains all legal defenses to pay it may have against the seller; or

c. Invoice discounting: the advancement of funds by a finance company to a business entity with the funds advanced limited to a defined percentage of the business entity’s eligible and outstanding receivables.

21.19. Eligible Confirmed Supplier Receivables must not:

a. Include insurance or insurance related assets;

b. Be impaired or in default at the time of purchase;

c. Have a payment (maturity) date longer than one year from the date of the invoice from the Supplier to the Obligor giving rise to the confirmed supplier receivable, and the maturity date must not be subject to change or rolling; nor

d. Include any receivable of any parent or affiliate of the reporting entity investor, and neither the Obligor nor any Supplier may be affiliated with the reporting entity investor. Working Capital Finance Investments that have obligors or vendors that are affiliated with the investor are ineligible, and therefore, nonadmitted assets.

Accounting and Reporting

22.20. The right to receive payment generated by a working capital finance investment issued under a working capital finance program is considered to meet the definition of an asset as defined in SSAP No. 4—Assets and Nonadmitted Assets, and is an admitted asset to the extent the investment conforms to the requirements set forth in this Statement and the Purposes and Procedures Manual of the NAIC Investment Analysis Office. For programs that comply with all of these elements, working capital finance investments 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. Programs that do not comply with the elements set forth in this Statement, or the provisions set forth in the Purposes and Procedures Manual of the NAIC Investment Analysis Office are nonadmitted. Working capital finance investments are reported as other invested assets in the financial statements.

23.21. A working capital finance investment shall be recorded on the trade date. At acquisition, the Working Capital Finance Investment shall be initially reported at cost, excluding brokerage and other related fees, and all other costs (internal costs, or costs paid for origination, purchase or commitment to purchase such investments), which shall be expensed as incurred.

24.22. After initial acquisition, the Working Capital Finance Investment shall be reported at amortized cost until the specified maturity date, unless the investment, or a portion thereof, is deemed uncollectible or when an other-than-temporary impairment has occurred. In the event that a working capital finance investment is purchased by a reporting entity investor at a premium (amount to be received by the entity under the confirmed supplier receivable is less than the price paid for the investment), the excess paid by the reporting entity investor in comparison to the amount receivable under the confirmed supplier receivable must be immediately expensed.

25.23. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized capital gains and losses from working capital finance investments shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7). For reporting entities not required to
maintain an IMR, realized gains and losses from working capital finance investments shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

26.24. A Working Capital Finance Investment may provide for a prepayment penalty or acceleration fee in the event the working capital finance investment is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

27.25. SSAP No. 34—Investment Income Due and Accrued shall be followed for determining and recording investment income earned on working capital finance investments acquired at a discount. In accordance with SSAP No. 34—Investment Income Due and Accrued, investment income shall be reduced for amounts that have been determined to be uncollectible, however amounts more than 15 days overdue are nonadmitted.

Default

28.26. A working capital finance investment payment that is uncollected by the reporting entity within fifteen days after the due date shall be considered in default and nonadmitted. If the reporting entity has any other working capital finance investment assets from the same defaulting counterparty, all other working capital finance investments from that counterparty shall be nonadmitted. All working capital finance investments from a counterparty identified in default shall be evaluated for impairment.

Impairment

29.27. 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 a confirmed supplier receivable including the payment on the established due date. Pursuant to this guidance, assessment of other-than-temporary impairment shall include an evaluation of the financial condition and short-term prospects of the obligor. If it is determined that a decline in the fair value of a working capital finance investment below book/adjusted carrying value is due to an other-than-temporary impairment, an impairment loss shall be recognized as a realized loss equal to the entire difference between the working capital finance investment’s carrying value and fair value as of the reporting period for which the assessment is made. Fair value shall be determined in accordance with SSAP No. 100R—Fair Value, and reflect the price to sell the asset in an orderly market between market participants. As such, the fair value shall reflect the assumptions market participants will use in pricing the asset, including assumptions about risk.

30.28. For reporting entities required to maintain an AVR/IMR, the entire amount of the realized loss from the other-than-temporary impairment shall be recorded through the AVR, in accordance with SSAP No. 7.

31.29. Upon recognition of an other-than-temporary impairment, the fair value of the working capital finance investment on the measurement date shall become the new cost basis of the working capital finance investment and the new cost basis shall not be adjusted for subsequent recoveries in fair value. Once an investment is determined to be other-than-temporarily impaired, until all expected payments are received, the reporting entity must re-evaluate the investment quarterly and reassess fair value, with recognized realized losses for the difference between the book/adjusted carrying value and the current fair value. This process shall continue until either all expected payments are received, or the entity has recognized a realized loss for the entire uncollected carrying value.

Disclosures

32.30. The financial statements shall include the following disclosures:
a. Fair value in accordance with SSAP No. 100R.

b. Concentrations of credit risk in accordance with SSAP No. 27—*Off-Balance-Sheet and Credit Risk Disclosures* (SSAP No. 27) in the annual audited statutory financial reports only.

c. Information regarding the aggregate book/adjusted carrying value of working capital finance investment by designation including gross assets with nonadmitted and net admitted amounts annually. (Note that programs designated 3-6 are nonadmitted.)

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d. Annual and quarterly information regarding the aggregate book/adjusted carrying value maturity distribution on the underlying working capital finance investments by the categories of maturities up to 180 days and 181 to 365 days.

e. Any events of default of working capital finance investments during the reporting period.

33-31. Refer to the Preamble for further discussion regarding disclosure requirements.

**Effective Date and Transition**

34-32. This statement is effective for years on or after January 1, 2014. Substantive revisions documented in *Issue Paper No. 163—Working Capital Finance Investments Updates* are effective for financial reporting periods on or after June 30, 2020. 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*.

**REFERENCES**

**Relevant Issue Papers**

- Issue Paper No. 147—Working Capital Finance Investments
- Issue Paper No. 163—Working Capital Finance Investments Updates
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

**Issue:** Inclusion of Cash / Liquidity Pools - Cash Equivalents as Defined in SSAP No. 2R.

**Check (applicable entity):**

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**Description of Issue:** Cash pooling, also known as liquidity bundling or liquidity pools, is a special form of liquidity management in which groups combine resources in order to make a more efficient use of idle cash. A cash pool is typically a structure in which several entities’ cash accounts are aggregated for numerous purposes, including optimizing earned interest, accessing additional short-term investments markets, and improving liquidity management. The investment goal is to optimize financial results by increasing investment access and lower transaction costs that would be incurred by each individual pool participant.

Contributed cash is typically placed in short-term investments, which may not have been previously available to a single affiliated reporting entity that possesses a lower cash balance. Affiliates with lower cash balances can leverage the financial strength of other related affiliates in order to access certain markets that contain significant initial investment requirements. Additionally, by pooling resources and making fewer (and larger) investments, transaction costs are reduced, thus giving the participants a more efficient use of cash resources.

In general, pooling is restricted to groups in which several companies are organized under the management of a single corporate entity. Individual participating companies may be legally independent, however the group acts as a strategic unit, for the purposes of cash management.

Cash pooling structures are not a new market development; however, their potential uses and organizational structures can vary significantly. Under certain pool structures, positive cash balances of one member could cover the deficit cash balance of another member. In this type of structure, surplus funds are physically concentrated into a single account in order to maximize investment return while deficit accounts are covered by transfers from the cash pool. Within these structures, individual participants lose economic independence as the cash is managed centrally and may not be available to the extent desired by the participating entity. Pooling structures have also been formed for internal financing purposes as “sharing of cash” can be used to reduce reliance on external borrowing for short-term working capital needs, again potentially reducing the cash available by certain participants.

This agenda item recommends revisions to allow specific structures that strictly hold cash, cash equivalents and short-term investments and other certain criteria, but do not meet the current requirements for cash equivalent reporting, to be reported as cash equivalents under SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments.

**Existing Authoritative Literature:**

SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to
known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in

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value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

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): A question regarding cash pools was raised under the proposed short-term rolling provisions captured in agenda item 2019-20. With this question, it was noted that cash pools are not specifically addressed in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments. This agenda item proposes to incorporate specific guidance for these instruments. If revisions are adopted to clarify cash pools in scope of SSAP No. 2R, it is anticipated that revisions will also be proposed to exclude cash pools from the short-term rolling provisions, allowing qualifying cash pools to be continually reported as cash equivalents.

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


Staff Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to specify the types of cash pooling organization structures and the investments they are required to maintain in order to qualify as cash equivalents.

NAIC staff is aware a circumstance where a Limited Liability Company was used as the primary structure for a Cash / Liquidity Pool. However, NAIC staff is not proposing changes to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies as the legal structure of such pools will vary. Comments are requested regarding the need for a Cash / Liquidity Pool reference in SSAP No. 48.

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1 Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.
Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of cash pools that meet the requirements of paragraph 8 and money market mutual funds described in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

8. Cash pooling is a technique, utilized by some companies under common control by which several entities’ cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures, however only those that have obtained domiciliary regulator approval and meet the requirements may look through the ownership structure to report the assets held as cash equivalents.

   a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25.
   b. Investments held by the pool are limited to non-affiliated investments.
   c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates’ interests in the pool shall be of the same class, with equal rights, preferences and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant’s debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool’s investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).
   d. An audited U.S. GAAP annual report of the cash pool and schedules showing each affiliate’s prorated share of investments shall be provided annually to each participant as of December 31. The reporting entity shall determine if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the
definition of cash, cash equivalents, short-term investments, or if the cash pool is not supported by an audited statement, the pool does not quality within scope of this statement.

Disclosures
15. The following disclosures shall be made for short-term investments in the financial statements:
   a. Fair values in accordance with SSAP No. 100R—Fair Value;
   b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;
   c. Basis at which the short-term investments are stated.
   d. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

16. The financial statements shall disclose the reporting entity’s share of the cash pool by asset type (cash, cash equivalents, or short-term investments).

For brevity, the remaining paragraphs of SSAP No. 2R have been omitted but will be renumbered accordingly.

Staff Review Completed by:
NAIC Staff – Jim Pinegar, September 2019

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions, as illustrated above, to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to specify that cash pooling structures that meet specified criteria qualify as cash equivalents.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed this agenda item, with revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, as illustrated below, with revisions from the prior exposure shaded in gray, to reflect that certain cash / liquidity pools, meeting defined criteria, may be reported as cash, cash equivalents, or short-term investments. This item has a shortened comment period deadline ending May 1, 2020.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of cash pools that meet the requirements of paragraph 8 and money market mutual funds described in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting.
Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

11. Cash pooling is a technique utilized by some companies under common control by which several entities' cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures, however only those that have obtained domiciliary regulator approval and meet the requirements may look through the ownership structure to report the assets held as cash, cash equivalents, or short-term investments.

   a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25.
   
   b. Investments held by the pool are limited to non-affiliated investments.
   
   c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates' interests in the pool shall be of the same class, with equal rights, preferences and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant's debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool's investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).
   
   d. A reporting entity shall receive an annual report from the pool manager, which identifies the participant's investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on the schedule which represents a majority of the held assets. An audited U.S. GAAP annual report of the cash pool and schedules showing each affiliate’s prorated share of investments shall be provided annually to each participant as of December 31. The reporting entity shall independently determine if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, or if the cash pool is not supported by an audited statement, the pool does not qualify within scope of this statement.
   
   a.e. Valuation of the assets in the pool shall remain consistent with the valuations required by reported asset type as stipulated in SSAP No. 2R.

Disclosures

16.17. The following disclosures shall be made for short-term investments in the financial statements:

   a. Fair values in accordance with SSAP No. 100R—Fair Value;
Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

Basis at which the short-term investments are stated.

The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

17.18. The financial statements shall disclose the reporting entity’s share of the cash pool by asset type (cash, cash equivalents, or short-term investments).

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, as illustrated below, with revisions from the prior exposure shaded in gray, to reflect that certain cash / liquidity pools, meeting defined criteria, may be reported as cash equivalents.

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 7, and cash pooling, as detailed in paragraph 9 [the verbiage highlighted in italics and underlined, reference guidance expected to be adopted in agenda item 2019-20: Rolling Short-Term Investments] and. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

9. Cash pooling is a technique, utilized by some companies under common control by which several entities’ cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures, however only those that have obtained domiciliary regulator approval and meet the following requirements are in scope of this statement.

a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25.

b. Investments held by the pool are limited to non-affiliated investments [non-affiliated to the insurance reporting entity].
c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates’ interests in the pool shall be of the same class, with equal rights, preferences and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant’s debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool’s investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).

d. A reporting entity shall receive an annual monthly reports from the pool manager, which identifies the participant’s investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on the Schedule E – Part 2, utilizing the line number specified for “Other Cash Equivalents,” as a which represents a majority of the held assets (For example, a qualifying cash pool that contains 20% cash, 70% cash equivalents, and 10% short-term investments, the reporting entity would report their entire balance invested as a cash equivalent.) The reporting entity shall independently determine if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, the pool does not qualify within scope of this statement.

e. Valuation of the assets in the pool shall remain consistent with the valuations required by reported asset type as stipulated in SSAP No. 2R.

Disclosures
17. The following disclosures shall be made for short-term investments in the financial statements:

   e. Fair values in accordance with SSAP No. 100R—Fair Value;

   f. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

   g. Basis at which the short-term investments are stated.

   h. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

18. The financial statements shall disclose the reporting entity’s share of the cash pool by asset type (cash, cash equivalents, or short-term investments).

Effective Date and Transition
19. 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. Guidance in paragraph 6 of this statement related to terms reset at predefined dates was previously included within INT 08-10: Contractual Terms of Investments and Investor Intent and was effective for periods beginning December 5, 2008. This substantively revised statement, as detailed in Issue Paper No. 155 regarding treatment of money market mutual funds as cash equivalents, is effective on a prospective basis beginning December 31, 2017.
49.20. Revisions permitting cash liquidity pools that meet the specific criteria are effective May 20, 2020 for reporting entities with qualifying cash pools. Reporting entities with cash liquidity pools that do not meet the requirements for reporting within scope of this standard are not permitted to be reported as cash equivalents or short-term investments and shall be reported as a prescribed or permitted practice. (Prior to this adoption date, there was no guidance permitting cash liquidity pools to be captured in scope of this standard.) For reporting entities that will have to reclassify qualifying cash liquidity pools to a cash equivalent from a different investment schedule, the reporting entity may elect to complete these reclassifications effective January 1, 2021, with early adoption permitted.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Rolling Short-Term Investments

Check (applicable entity):  

<table>
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<tr>
<th>Modification of existing SSAP</th>
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<td>Interpretation</td>
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Description of Issue:
This agenda item has been drafted to consider statutory accounting guidance for short-term investment structures that are being purposely designed to mature at or around 364 days (often with affiliates), with the full expectation that the investment structure would be renewed (rolled) continuously for subsequent years. This agenda item also addresses investments reported as cash equivalents, with the same dynamic, but structured to comply with the cash equivalent timeframes. It is believed these structures occur because reporting as short-term investments (or cash equivalents) results with the following benefits:

1) More-desirable risk-based capital (RBC) charge.
2) To avoid filing with either the SVO or to avoid obtaining a rating from a credit rating provider.
3) Limited affiliate reporting.

Although there are investments (e.g., repurchase and reverse repurchase) transactions that are often expected to renew, it is not appropriate to purposely structure investments to qualify for short-term or cash equivalent reporting, with an anticipation that the investment will continuously roll forward, potentially for many years and avoid filing the security for an NAIC designation and/or reporting on the schedule with more appropriate RBC charges as a long-term investment. In order to avoid unintended consequences for desirable short-term investments, the provisions of this agenda item have been structured to specifically apply to the following:

- All affiliated SSAP No. 26R investments.
- All SSAP No. 43R investments.
- All investments that would be reported on Schedule BA if they did not qualify for cash equivalent or short-term reporting. (This includes both affiliated and non-affiliated investments.)

With these restrictions, any non-affiliated investment that would qualify within SSAP No. 26R—*Bonds* as a long-term investment would be exempt from the proposed new concepts in determining cash equivalent / short-term investment reporting. This scope of the revisions intend to prevent inadvertent application to Treasury-bills, commercial paper, certificates of deposit, etc., where a reporting entity may continuously reacquire the same, or substantially similar short-term investment immediately after maturity of a prior short-term investment. However, any affiliated SSAP No. 26R and any investment (affiliated or non-affiliated) that would be in scope of SSAP No. 43R—*Loan-Backed and Structured Securities*, or that would be reported as an “other invested asset” on Schedule BA is proposed to be subject to the additional concepts for reporting as a cash equivalent / short-term investment. (Repurchase and reverse repurchase transactions are also specifically excluded if they are admitted in accordance with SSAP No. 103R collateral requirements.)
**Proposed additional concepts for Cash Equivalents and Short-Term Investments Captured in Scope:**

- An overall principle that investments are permitted for short-term and cash equivalent reporting only if the reporting entity reasonably expects the investment duration to be realized (e.g., terminate / mature) on the designated maturity date. If the reporting entity does not expect that the investment will terminate or mature on the designated date but will be renewed / rolled beyond the cash equivalent / short-term maturity deadlines, then the investment shall not be classified within scope of SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments. Such investments shall be reported as long-term investments on the applicable reporting schedule and shall follow the provisions (including NAIC designations and RBC calculations) for a long-term investment. (Although SAP and U.S. GAAP have different definitions for “short-term” / “current asset” reporting, the concept that the duration is “reasonably expected to be realized” is consistent with the “current asset” definition under U.S. GAAP.)

- Provisions that a cash equivalent / short-term investment (unless specifically exempted) is only permitted to be reported within those classifications for one applicable reporting period. As such, if an investment is reported as a short-term investment as of Dec. 31, 2018, and the investment does not mature on the original scheduled maturity date, the reporting entity shall not be permitted to report the investment as a short-term investment on Dec. 31, 2019. (A cash equivalent would only be permitted to be reported with that distinction for one quarter, before moving to a long-term investment schedule.) For these situations, if a security is held after the initial maturity timeframes have passed, the reporting entity shall report the investment as a long-term investment on the applicable schedule and follow all provisions (including NAIC designations and RBC calculations as required) for a long-term investment. (By default, this provision incorporates a quarter (90-day) grace period, because if the security is sold in the quarter following the initial reporting date, it will not subsequently be reported as an invested asset.)

- The sale or maturity of an investment, with a reacquisition of the same or substantially similar security within a 1-year timeframe shall preclude the reporting entity from reporting the currently held security as a cash equivalent or short-term investment regardless of the maturity date. (This one-year timeframe prevents reporting of recurring “re-acquisitions” as cash equivalents or short-term investments.)

- Although wash sales, which are sales and reacquisitions within a 30-day timeframe, of cash-equivalents and short-term investments with credit assessments of NAIC 1-2 are currently excluded from the wash-sale disclosure, modifications have been proposed to require disclosure of all wash sales, regardless of NAIC designation, if the investment or transaction involves an affiliate.

**RBC Assessment of Proposed Revisions:**

**Life Reporting Entities:** For life reporting entities, if the investment is a bond, RBC is similar between all reporting schedules in accordance with NAIC designations. If the investment is not a bond, and does not have an NAIC 1 designation, and/or is not permitted to be reported as an “underlying fixed income security” pursuant to the requirements of Schedule BA, a reporting entity receives an RBC benefit by reporting the investment as a cash equivalent or short-term investment rather than as a BA investment. Also, if a reporting entity reports a “credit assessment” for short-term or cash equivalent bonds that is a better assessment than would be received if they had received an NAIC designation, a reporting entity would receive an RBC benefit by reporting the investment as a cash equivalent or short-term investment.
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<tr>
<th>Life RBC</th>
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* Bonds that are reported as cash equivalents or short-term investments receive RBC charges based on the “credit assessment” in accordance with how the company reports the investment in the Asset Valuation Reserve calculation. Although NAIC designations are not required for these investments, reporting entities are required to report them based on their own credit assessment. If a bond was reported with a higher credit assessment than what it would receive based on NAIC designation (which is required for long-term investments), then a movement from cash equivalent / short-term reporting to a long-term schedule (Schedule D-1 or Schedule BA) would have an RBC impact.

Property / Casualty and Health Reporting Entities: For property/casualty and health reporting entities, if the investment is a bond, RBC is similar between all reporting schedules in accordance with NAIC designations. If the investment is not a bond, a reporting entity receives an RBC benefit by reporting the investment as a cash equivalent or short-term investment rather than a BA investment. (P/C entities do not have the ability to report NAIC designations on Schedule BA investments for RBC purposes.) Also, if a reporting entity reports a “credit assessment” for short-term or cash equivalent bonds that is a better assessment than would be received if they had reported an NAIC designation, a reporting entity would receive an RBC benefit by reporting the investment as a cash equivalent or short-term investment.

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Bonds that are reported as cash equivalents or short-term investments receive RBC charges based on the “credit assessment” assigned in Schedule D-Part 1A. Although NAIC designations are not required for these investments, reporting entities are required to report them based on their own credit assessment. If a bond was reported with a higher credit assessment than what it would receive based on NAIC designation (which is required for long-term investments), then a movement from cash equivalent / short-term reporting to a long-term schedule (Schedule D-1 or Schedule BA) would have an RBC impact.

Existing Authoritative Literature:

SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

Footnote 1: Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

Short-Term Investments

12. All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding derivatives and those investments classified as cash equivalents) would be reported as short-term investments and qualify for RBC charges based on the credit assessment assigned in Schedule D-Part 1A.
equivalents as defined in this statement) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. All short-term investments shall be accounted for in the same manner as similar long-term investments.

14. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

**SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities** (bolding and underlining added for emphasis)

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

i. A description of the reporting entity’s objectives regarding these transactions;

ii. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

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

iv. The book value of securities sold;

v. The cost of securities repurchased; and

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

**U.S. GAAP – FASB Codification**

**Master Glossary of “Current Assets”**

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

**Activity to Date (issues previously addressed by the 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) and U.S. GAAP:**
Not Applicable – NAIC staff highlights that the distinction of “short-term” under SAP is distinctly different from U.S. GAAP. Under U.S. GAAP, a “current asset” is one that is reasonably expected to be realized in case or sold...
or consumed during the normal operating cycle of a business. As such, under U.S. GAAP investments move from a non-current (long-term) to current (short-term) classification. This does not occur under SAP, as the distinction of short-term is based on the maturity timeframe at the time of acquisition.

**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. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.

As detailed within this agenda item, the proposed revisions will restrict classification as a cash equivalent or short-term investment for all affiliated SSAP No. 26R—Bond investments, all affiliated and nonaffiliated investments in scope of SSAP No. 43R—Loan-Backed and Structured Securities and all affiliated and nonaffiliated investments that would be reported on Schedule BA in accordance with the following provisions:

- The reporting entity does not reasonably expect that the investment will actually terminate or mature within the timeframe permitted for cash equivalent or short-term investment classification.

- The investment was previously reported as a cash equivalent / short-term investment and the initial maturity timeframes have passed. For example, if an investment was reported as a short-term investment as of Dec. 31, 2018, and the investment was rolled / renewed, the reporting entity will not be permitted to report the investment as a short-term investment on Dec. 31, 2019. (A cash equivalent would only be permitted to be reported for one quarter, before moving to a long-term investment schedule.) For these situations, if a security is held after the initial maturity timeframes have passed, the reporting entity shall report the investment as a long-term investment on the applicable schedule and follow all provisions (including NAIC designations and RBC calculations as required) for a long-term investment.

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

- Wash sales, regardless of NAIC designation, that involve affiliated investments shall be disclosed.

The proposed revisions in this agenda item have been drafted to focus on affiliated bond investments (SSAP No. 26R), all loan-backed and structured security investments (SSAP No. 43R) and all investments that would be captured on Schedule BA. This approach has been used to exclude a variety of cash equivalent / short-term investments that are often purposely rolled / reacquired to ensure a continuous balance of available short-term liquidity (e.g., Treasury-bills, commercial paper, certificates of deposit, etc.) By excluding all non-affiliated “bonds” from the new guidance, the “normal” recurring short-term / cash equivalent investments are not expected to be impacted. The revisions capture both affiliated and nonaffiliated Schedule BA items, as the short-term structuring is more of an RBC focus. (NAIC staff does not believe there are many SSAP No. 43R securities that qualify as cash equivalents or short-term investments, but they have been specifically identified to prevent such classifications if the noted conditions are met.)
As a key item to note, the proposed revisions permit reporting entities that acquire short-term investments (based on maturity date) that are captured in scope and that they expect to roll (such as an affiliated short-term bond), to report the security as a long-term investment at acquisition. (With this approach, the investment would not have to change reporting schedules once it is rolled after initial acquisition.)

**Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:**

**Cash Equivalents**

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 78. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, affiliated investments that would be in scope of SSAP No. 26R—Bonds and all investments that would be in scope of SSAP No. 43R—Loan-Backed and Structured Securities or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply:

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

   b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

   New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term

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1 Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.
investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Short-Term Investments

12. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans. which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. Regardless of maturity date, affiliated investments in scope of SSAP No. 26R—Bonds and all investments that would be in scope of SSAP No. 43R—Loan-Backed and Structured Securities or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply:

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

42. All short-term investments shall be accounted for in the same manner as similar long-term investments.

43. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.
Ref #2019-20

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated involving investment transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, excluding all cash equivalents, derivative instruments as well as and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

i. A description of the reporting entity’s objectives regarding these transactions;

ii. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

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

iv. The book value of securities sold;

v. The cost of securities repurchased; and

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

Staff Review Completed by: Julie Gann – May 2019

Status:
On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 2R—Cash, Drafts and Short-term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as illustrated above, to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.

NAIC staff recommends exposure of proposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, which incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments. Items from the original August 3, 2019 exposure are highlighted below and exclude certain qualified cash pooling arrangements (as proposed in agenda item 2019-42) from the restricted cash equivalent reporting detailed in this agenda item. Note: both agenda items (2019-20 and 2019-42) are concurrently exposed and if adopted in their current form, must be adopted simultaneously. Additionally, paragraph 8 as referenced below for cash pooling reflects the modifications proposed in agenda item 2019-42.

Proposed Revisions for Fall 2019 Discussion: to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in...
value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 78. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, affiliated investments that would be in scope of SSAP No. 26R—Bonds and all investments that would be in scope of SSAP No. 43R—Loan-Backed and Structured Securities or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply:

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

   b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Additional exclusions include cash pooling arrangements permitted under paragraph 8. Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Short-Term Investments

12. **Short-term All investments are investments that do not qualify as cash equivalents** with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are

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2 Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.
not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans. Which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. Regardless of maturity date, affiliated investments in scope of SSAP No. 26R—Bonds and all investments that would be in scope of SSAP No. 43R—Loan-Backed and Structured Securities or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions applyFN:

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

42.14. All short-term investments shall be accounted for in the same manner as similar long-term investments.

43.15. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:

28.1. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated involving investment transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, excluding all cash equivalents, derivative instruments as well as and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the
On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as shown above in the “Proposed Revisions for Fall 2019 Discussion” to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Fall revisions to the prior Summer National Meeting exposure incorporate guidance to exclude qualifying cash pools from the short-term rolling provisions.

With the Fall exposure, comments were requested from regulators and industry representatives on whether other investments should be included / excluded from the short-term rolling provisions. In particular, comments are requested on whether short-term lending (both collateral loans and affiliated loans) should be permitted to be continuously rolled/renewed as short-term, whether non-affiliated SSAP No. 26R investments should be subject to the short-term rolling restrictions, and whether an assessment of “re-underwriting” could be used as support to allow the rolling of short-term investments.

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, as illustrated below, with modifications from the prior exposure shown as gray shading. This item has a shortened comment period deadline ending May 1, 2020.

The revisions incorporate additional principle concepts, if certain criteria are not met, that will restrict the classification of related party or affiliated investments as a cash equivalent or short-term investment in the scope of SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets.”

An additional disclosure has also been proposed to identify short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed). A concurrent blanks proposal will recommend a reporting code for renewed short-term investments as well as a new general interrogatory to certify that re-underwriting has occurred. (This code will also apply to nonaffiliated non-related party transactions for identification purposes.)
Proposed Revisions for Spring 2020 Discussion: to SSAP No. 2R—Cash, Cash Equivalents, Drafts and 
Short-Term Investments:

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 787, and cash pooling, as detailed in paragraph 8. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, related party or affiliated investments that would be in scope of SSAP No. 26R—Bonds, and all investments that would be in the scope of SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal:

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities permitted under Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within 1 year. These

3 Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.
investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Short-Term Investments

12. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans, which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. Regardless of the maturity date, related party or affiliated investments in scope of SSAP No. 26R—Bonds, and all investments that would be in scope of SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

14. All short-term investments shall be accounted for in the same manner as similar long-term investments.

15. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.
Disclosures

14.16. The following disclosures shall be made for short-term investments in the financial statements:

a. Fair values in accordance with SSAP No. 100R—Fair Value;

b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

c. Basis at which the short-term investments are stated.

d. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

d-e. Identification of short-term investments or substantially similar investments in which remain on the short-term schedule for more than one year

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: (No changes to prior exposure.)

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated involving-investment transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, excluding all cash equivalents, derivative instruments as well as short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

vii. A description of the reporting entity’s objectives regarding these transactions;

viii. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

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

x. The book value of securities sold;

xi. The cost of securities repurchased; and

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

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as illustrated below, with modifications from the prior exposure shown as gray shading, to incorporate additional principle concepts, that if certain criteria are not met, that will restrict the classification of related party or affiliated investments as a cash equivalent or short-term investment in the scope of SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets.” An additional disclosure identifies short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed).
Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 29, and cash pooling, as detailed in paragraph 89. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, related party or affiliated investments that would be in scope of SSAP No. 26R—Bonds of SSAP No. 43R—Loan-backed and Structured Securities, or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply, FN, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

   b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities permitted under Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

Short-Term Investments

12. Short-term All investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, reverse repurchase agreements, and...
collateral and mortgage loans, which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

13. Regardless of maturity date, related party or affiliated investments in scope of SSAP No. 26R—Bonds, SSAP No. 43R—Loan-backed and Structured Securities, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply \footnote{1} \footnote{2}, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

\footnote{1} Repurchase and \footnote{2} Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

\footnote{2} Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

42. All short-term investments shall be accounted for in the same manner as similar long-term investments.

43. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

Disclosures

44. The following disclosures shall be made for short-term investments in the financial statements:

a. Fair values in accordance with SSAP No. 100R—Fair Value;
b. Concentrations of credit risk in accordance with SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures;

c. Basis at which the short-term investments are stated.

d. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraph 30.f.

d.e. Identification of short-term investments or substantially similar investments in which remain on the short-term schedule for more than one year.

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: (No changes to prior exposure.)

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated involving-investment transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, excluding all cash equivalents, derivative instruments as well as short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

xiii. A description of the reporting entity’s objectives regarding these transactions;

xiv. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;

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

xvi. The book value of securities sold;

xvii. The cost of securities repurchased; and

xviii. The realized gains/losses associated with the securities involved.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Assessment of OTTI Based on Original Contract Terms

Check (applicable entity):

<table>
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<th>Modification of Existing SSAP</th>
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Description of Issue:
This agenda item intends to clarify the assessment of other than temporary impairment (OTTI) guidance in SSAP No. 26R—Bonds. It has been identified that there is a disconnect between SSAP No. 26R, SSAP No. 36R—Troubled Debt Restructuring and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities with how modifications to debt instruments are considered for OTTI. It has been noted that this is a long-standing disconnect that has recently been identified as a result of the number of debt restructurings that have occurred in response to COVID-19.

In short summary, existing guidance in SSAP No. 26R identifies that OTTI assessments are based on the contractual terms of a debt security in effect at the date of acquisition. However, if a debt instrument has been modified pursuant to SSAP No. 36 or SSAP No. 103 (nontroubled situations), subsequent assessments of OTTI shall be based on the modified contractual terms of the debt instrument, and not revert back to the original acquisition terms.

This agenda item intends to correct this disconnect between SSAP No. 26R, SSAP No. 36 and SSAP No. 103R.

Existing Authoritative Literature:

SSAP No. 26R—Bonds

Impairment
13. An other-than-temporary (INT 06-07) 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 a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond’s carrying value and its fair value 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/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

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

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and consider revisions to SSAP No. 26R—Bonds to clarify the interrelationship between SSAP No. 26R, SSAP No. 36 and SSAP No. 103 when there is a modification to a debt instrument.

SSAP No. 26R—Bonds

Impairment

13. An other-than-temporary (INT 06-07) 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 a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond’s carrying value and its fair value 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/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

New Footnote: If a bond has been modified from original acquisition, the guidance in SSAP No. 36—Troubled Debt Restructuring and paragraph 22 of SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the current contractual terms of the debt instrument.

Proposed edit for discussion on the May 20, 2020 conference call:

New Footnote: If a bond has been modified from original acquisition, the guidance in SSAP No. 36—Troubled Debt Restructuring and paragraph 22 of SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the modified current-contractual terms of the debt instrument.

Status:
On May 5, 2020, the Statutory Accounting Principles (E) Working Group exposed nonsubstantive revisions to incorporate a new footnote to SSAP No. 26R to clarify that if a debt instrument has been modified in accordance with SSAP No. 36—Troubled Debt Restructuring or SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, the assessment of other-than-temporary impairment shall be based on current contractual terms of the debt instrument.

On May 20, 2020, the Statutory Accounting Principles (E) Working Group adopted nonsubstantive revisions, as final, to incorporate a new footnote to SSAP No. 26R—Bonds, clarifying that if a debt instrument has been modified in accordance with SSAP No. 36—Troubled Debt Restructuring or SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, the assessment of other-than-temporary impairment shall be
based on modified contractual terms of the debt instrument. (The adopted language is shown above with a noted edit to replace the word “current” with “modified” as discussed on the May 20, 2020 conference call.)
Interpretation of the Statutory Accounting Principles Working Group

INT 20-05: Investment Income Due and Accrued

INT 20-05 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020

INT 20-05 References

• SSAP No. 34—Investment Income Due and Accrued

INT 20-05 Issue

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

2. In response to COVID-19, temporary interpretations have been considered to provide exceptions to existing statutory accounting guidance with regards to the 90-day rule for various receivables, as well as guidance on the assessment of impairment and trouble debt restructurings. In response to these interpretations, a request to provide a temporary exception to SSAP No. 34—Investment Income Due and Accrued has been requested.

3. This interpretation intends to assess the requirements to review investment income due and accrued and consider whether temporary exceptions could be granted in response to COVID-19. Issues addressed within this interpretation include:

   a. Recognition and admittance of investment income under SSAP No. 34.
   b. Review of FASB staff technical inquiries and responses on investment income.

INT 20-05 Discussion

SSAP No. 34 Provisions

4. Investment income due is defined in SSAP No. 34 as the investment income earned and legally due to be paid to the reporting entity as of the reporting date. Investment income accrued is defined as investment income earned as of the reported date but not legally due to be paid to the reporting entity until subsequent to the reporting date.

5. Pursuant to SSAP No. 34, investment income due and accrued shall be recorded as an asset and assessed for impairment in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets. Amounts determined to be uncollectible shall be written off, and then an assessment shall be made of the remaining balance to determine nonadmitted amounts. SSAP No. 34 identifies this as a two-step process as follows:

   a. Investment income due and accrued is assessed for collectibility. If in accordance with SSAP No. 5R, it is probable the investment income due and accrued balance is uncollectible, the amount
shall be written off and shall be charged against investment income in the period the determination was made.

6. Pursuant to SSAP No. 34, accrued interest on mortgage loans in default shall only be recorded if deemed collectible. If uncollectible, accrued interest shall not be recorded and any previously accrued amounts shall be written off. If a mortgage loan in default has interest 180-days past due, which is assessed as collectible, all interest shall be recorded as a nonadmitted asset.

**FASB Staff Technical Inquiry**

7. The FASB staff received a technical inquiry regarding the recognition of interest income in response to COVID-19 when a “loan payment holiday” is provided that allows the borrowers to temporarily stop payments. The FASB Staff technical inquiry on interest income recognition was discussed April 17, 2020. In the scenario considered by the FASB staff:

a. Interest is not accrued when the loan payment holiday is in effect.

b. The loan modification did not represent a troubled debt restructuring.

c. The loan modification would be accounted for as a continuation of the original lending arrangement (not as an extinguishment with a new loan recognized).

8. With this inquiry two views were presented in how interest should be recognized when a payment holiday is given and interest is not accrued:

a. View 1 – Upon modification, a new effective interest rate is determined that equates to the revised remaining cash flows to the carrying amount of the original debt and is applied prospectively for the remaining term. That is, interest income is recognized during the payment period holiday.

b. View 2 – Upon modification, the institution should recognize interest income on the loan in accordance with the contractual terms. Under this view, the institution would not recognize interest income during the payment holiday and would resume recognizing interest income when the payment holiday.

9. The FASB staff reviewed the submission and concluded both views to be appropriate.

**INT 20-05 Consensus**

10. The Working Group considered limited time collectibility assessments and admittance exceptions for investment income due and accrued and reached the following consensus:
a. Continue with existing guidance in SSAP No. 34 that investment income shall be recorded when due (earned and legally due) or accrued (earned but not legally due until after the reporting date). If investments have been impacted by forbearance or other modification provisions, a reporting entity shall assess whether the investment income has been earned in accordance with the modified terms. Investment income shall only be recognized when earned.

b. Continue with existing guidance in SSAP No. 34 to require an assessment of whether recorded investment income due and accrued is uncollectible.

i. For mortgage loans, bank loans and investment products with underlying mortgage loans impacted by forbearance or modification provisions, reporting entities may presume that borrowers and investments that were current as of Dec. 31, 2019, were not experiencing financial difficulties at the time of the forbearance or modification for purposes of determining collectibility. For these investments, further evaluation of collectibility is not required for the 1st and 2nd quarter 2020 financial statements unless other indicators that interest would not be collected are known (e.g., the entity has filed for bankruptcy).

ii. For investments not impacted by forbearance or modification provisions, this interpretation does not provide an assumption of collectibility and the provisions of SSAP No. 34 shall be followed in evaluating collectibility and assessing whether an impairment exists.

c. Provide an exception for the nonadmittance of recorded investment income due and accrued that is deemed collectible and over 90-days past due. With this exception, reported investment income interest due and accrued that becomes over 90-days past due in the 1st or 2nd quarter may continue to be admitted in the June 30th, 2020 (1st and 2nd quarter) financial statements. This exception does not encompass accrued interest on mortgage loans that are in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance. SSAP No. 37—Mortgage Loans identifies that determining that a loan is in default is per the contractual terms of the loan. For mortgage loans modified, determination of default shall be based on the modified contractual terms.

11. The Working Group considered the FASB technical guidance and reached a consensus consistent with the FASB staff on how interest should be recognized when a payment holiday is given and interest is not accrued. With this guidance, either of the following methods could be applied:

a. A new effective interest rate is determined that equates the revised remaining cash flows to the carrying amount of the original debt and is applied prospectively for the remaining term. With this approach, interest income is recognized during the payment period holiday.

b. The reporting entity should recognize interest income on the loan in accordance with the contractual terms. Under this view, the reporting entity would recognize no interest income during the payment holiday and would resume recognizing interest income when the payment holiday ends.

12. The exceptions and provisions detailed in this interpretation are applicable for the June 30th, 2020 (2nd quarter) financial statements. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements, as this interpretation will automatically expire as of September 29, 2020. This interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group’s website. This interpretation will be automatically nullified on September 29, 2020 and will be included as a

**INT 20-05 Status**

13. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.
INT 20-06 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020

INT 20-06 References

SSAP No. 64—Offsetting and Netting of Liabilities
SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
INT 01-31: Assets Pledged as Collateral

INT 20-06 Issue

1. The Federal Reserve reestablished the Term Asset-Backed Securities Loan Facility (TALF) on March 23, 2020, to support the flow of credit to consumers and businesses. The TALF program will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.

2. Under the TALF program, the Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS. Treasury, using the Exchange Stabilization Fund (ESF), will also make an equity investment in the special purpose vehicle (SPV) established by the Federal Reserve for this facility.

3. The TALF is established by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary.

4. Per review of public data available from the prior 2009 TALF program, there were a limited number of insurance reporting entities that were the actual borrower (entity that directly received the loan) under the TALF program. Rather, in most instances, insurance reporting entities were a material investor to the actual borrower. Per the TALF data, a material investor reflects the entity or individual with 10 percent or greater beneficial ownership interest in any class of securities of a borrower. Such ownership interest may be a direct, intermediate or ultimate interest. Due to the different methods of participating in the TALF program, this interpretation focuses on both reporting entity borrowers and reporting entity investors.

5. For reporting entity borrowers (entity that directly received the loan), the accounting issues addressed in this interpretation include:

   a. How the loan received, and collateral provided shall be reported within the statutory financial statements.

   b. Whether the pledged assets shall be reported as admitted assets as the collateral pledged to the TALF program is not permitted to be substituted.
6. For reporting entities that are not the direct borrowers, but represent investors to the direct borrower, the accounting issues addressed in this interpretation include:

a. How the reporting entity shall report their investment to a TALF borrower.

b. Whether the reporting entity investor is permitted to pledge assets under the TALF program, and retain admittance, when the reporting entity is not the direct borrower under the TALF program.

7. The April 9, 2020 term sheet for the 2020 TALF program:


Term Asset-Backed Securities Loan Facility

Effective April 9, 2020
(The Board of Governors of the Federal Reserve System (“Board”) and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board’s website.)

Facility:
The TALF is a credit facility authorized under section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and businesses by facilitating the issuance of asset-backed securities (“ABS”) and improving the market conditions for ABS more generally.

The TALF will serve as a funding backstop to facilitate the issuance of eligible ABS on or after March 23, 2020. Under the TALF, the Federal Reserve Bank of New York (“Reserve Bank”) will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis. The Department of the Treasury will make an equity investment of $10 billion in the SPV, as described below.

The TALF SPV initially will make up to $100 billion of loans available. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS.

Eligible Borrowers:
All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. For the purpose of this document, a U.S. company is defined as a business that is created or organized in the United States or under the laws of the United States and that has significant operations in and a majority of its employees based in the United States.

Eligible Collateral:
Eligible collateral includes U.S. dollar denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or, in the case of non-mortgage backed ABS, the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (“NRSROs”) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company, and the issuer of eligible collateral must be a U.S. company. With the exception of commercial mortgage-backed securities (“CMBS”), eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. For CMBS, the underlying credit exposures must be to real property located in the United States or one of its territories. Eligible collateral must be ABS where the underlying credit exposures are one of the following:

1) Auto loans and leases;
2) Student loans;
3) Credit card receivables (both consumer and corporate);
4) Equipment loans and leases;
5) Floorplan loans;
6) Insurance premium finance loans;
7) Certain small business loans that are guaranteed by the Small Business Administration;
8) Leveraged loans; or
9) Commercial mortgages.

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.

To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued, except for legacy CMBS.

The feasibility of adding other asset classes to the facility or expanding the scope of existing asset classes will be considered in the future.

Conflicts of interest: Eligible borrowers and issuers of eligible collateral will be subject to the conflicts of interest requirements of section 4019 of the CARES Act.

Restriction on single-asset single-borrower (“SASB”) CMBS and commercial real estate collateralized loan obligations (“CRE CLOs”): SASB CMBS and CRE CLOs will not be eligible collateral.

Restrictions on CLO loan substitution: Only static CLOs will be eligible collateral.

Collateral Valuation: Haircut schedule is below. The haircut schedule is consistent with the haircut scheduled used for the TALF established in 2008.

Pricing: For CLOs, the interest rate will be 150 basis points over the 30-day average secured overnight financing rate (“SOFR”). For SBA Pool Certificates (7(a) loans), the interest rate will be the top of the federal funds target range plus 75 basis points. For SBA Development Company Participation Certificates (504 loans), the interest rate will be 75 basis points over the 3-year fed funds overnight index swap (“OIS”) rate. For all other eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 125 basis points over the 2-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the 3-year OIS rate for securities with a weighted average life of two years or greater. The pricing for other eligible ABS will be set forth in the detailed terms and conditions. Fees: The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

Maturity: Each loan provided under this facility will have a maturity of three years.

Investment by the Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, will make an equity investment of $10 billion in the SPV.

Non-Recourse: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.

Prepayment: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.

Program Termination: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Board of Governors of the Federal Reserve System and the Department of the Treasury.

Other Terms and Conditions: More detailed terms and conditions will be provided at a later date, primarily based off of the terms and conditions used for the 2008 TALF. In addition, the Federal Reserve reserves...
the right to review and make adjustments to these terms and conditions – including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements – consistent with the policy objectives of the TALF.

**INT 20-06 Discussion**

**For Reporting Entity Borrowers - Insurance Reporting Entity Received the Loan**

8. Reporting entity borrowers shall report the cash received under the TALF program with a corresponding liability. The liability shall be captured in scope of SSAP No. 15—Debt and Holding Company Obligations and reported as “borrowed money.” The disclosures in SSAP No. 15 shall be completed. Once the cash received has been reinvested, the reporting entity shall report the acquired asset in accordance with the applicable statement of statutory accounting principle.

9. Reporting entity borrowers shall report asset-backed securities pledged to the TALF program as restricted assets with the appropriate code in the investment schedules and disclosed in accordance with SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures, and in General Interrogatory, Part 1: 25.30 – Pledged as Collateral. Assets pledged to the TALF program are subject to the underlying asset risk-based capital charge but are excluded from an additional “restricted asset” risk-based capital charge. (As a carryover from the 2009 TALF Program, existing provisions in the risk-based capital instructions instruct the removal of assets pledged to the TALF program reported as restricted assets in the General Interrogatories.)

10. Reporting entity borrowers are permitted to continue reporting pledged asset-backed securities as admitted assets in the statutory financial statements if the following two conditions are met:
   a. Asset qualified as an admitted asset before it was pledged to the TALF program.
   b. The reporting entity has not committed an uncured contract default.

11. As the TALF program specifically identifies that substitution of pledged collateral during the term of the loan will generally not be allowed, this interpretation provides an exception to existing statutory accounting requirements. Pursuant to INT 01-31: Assets Pledged as Collateral, a pledged asset shall be readily substitutable in order to be admitted in the statutory financial statements. With the exception in this interpretation, assets held by the insurance reporting entity (borrower) that are pledged to the TALF program can be admitted even though they are not generally substitutable.

12. Reporting entity borrowers shall not net the obligation to return the liability and the pledged collateral in the statutory financial statements. The criteria for a valid right of offset in SSAP No. 64—Offsetting and Netting of Assets and Liabilities has not been met for these transactions. Specifically, the reporting entity does not have the right to offset the amount owed under the TALF program and the reporting entity does not intend to setoff the amount owed. Although the collateral pledged could be claimed under the TALF program in the event that the insurer reporting entity commits a loan repayment default, the ability to claim pledged collateral does not represent a “right of setoff” with the counterparty.

13. Although the transaction is similar to a repurchase agreement accounted for as a secured borrowing, the TALF transaction is not a repurchase transaction. As such, the provisions and disclosures for repurchase agreements are not applicable.
14. In the event that a reporting entity commits a contract default, and the pledged collateral is retained under the TALF program, the reporting entity shall follow the guidance in SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, paragraph 20, in removing the pledged assets and liability from the statutory financial statements.

**For Reporting Entity Investors - Insurance Reporting Entity Does Not Receive the Loan but is an “Investor” to an Entity that was the Direct TALF Borrower**

15. Reporting entity investors shall report the investment in the borrower in accordance with the underlying nature of the investment and the relationship with the borrower. The underlying investments will be subject to the reporting and RBC requirements for the applicable SSAP and reporting schedule:

   a. If the borrower is a limited liability company (LLC), the investment shall be reported in accordance with SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.

   b. If the borrower is a private equity fund (e.g., joint venture), the investment shall be reported in accordance with SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.

   c. If the borrower is an affiliate, the investment shall be reported in accordance with SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

16. Reporting entity investors are not permitted to admit assets pledged to the TALF program if they are not the direct borrower. This is because the return of the assets would be contingent on the action of the actual borrower to the TALF program and not the reporting entity. This provision is consistent with SSAP No. 4—Assets and Nonadmitted Assets, footnote 2:

   If assets of an insurance entity are pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to SSAP No. 4, paragraph 2(c), such assets shall not be recognized as an admitted asset on the balance sheet. Additional guidance for assets pledged as collateral is included in INT 01-31.

**INT 20-06 Consensus**

17. The Working Group reached a consensus to prescribe statutory accounting guidance for insurance reporting entity involvement in the 2020 TALF Program. Pursuant to this consensus:

   a. Reporting entities borrowers who directly receive the TALF loan shall follow guidance in paragraphs 8-14 of this interpretation for the statutory accounting and reporting. As detailed in paragraph 11, this interpretation provides an exception to allow admitted asset reporting for the pledged securities although the TALF program does not permit the pledged assets to be generally substitutable.

   b. Reporting entities that do not directly receive the TALF loan, but are investors to borrowers that receive the TALF loan, shall follow the provisions in paragraphs 15-16 for the statutory accounting and reporting.
18. The provisions detailed in this interpretation are applicable for the duration of the 2020 TALF loan program.

**INT 20-06 Status**

19. No further discussion planned.
Interpretation of the Statutory Accounting Principles Working Group

INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19

INT 20-07 Dates Discussed

Email: Vote to Expose May 5, 2020; May 20, 2020

INT 20-07 References

SSAP No. 26R—Bonds
SSAP No. 36—Troubled Debt Restructuring
SSAP No. 43R—Loan-Backed and Structured Securities
SSAP No. 103R—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

INT 20-07 Issue

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay at home” orders and forced non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

2. In response to COVID-19, Congress and federal and state prudential banking regulators issued provisions pertaining to loan modifications as a result of the effects of COVID-19. These provisions are intended to be applicable for the term of the loan modification, but solely with respect to a modification, including a forbearance arrangement, interest rate modification, repayment plan, or other similar arrangements that defers or delays the repayment of principal and/or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019.

3. On April 15, the Statutory Accounting Principles (E) Working Group issued INT 20-03T: Troubled Debt Restructuring Due to COVID-19. This interpretation provides guidance for mortgage loans and bank loans, consistent with the CARES Act and an April 7 interagency statement in recognizing troubled debt restructurings in response to COVID-19. Although the original comment letter received from interested parties proposed an expansion to all SSAP No. 26R and SSAP No. 43R debt securities, during the April 15 discussion, the comments presented from interested parties clarified their request to expand the interpretation was primarily related to private placement debt securities. The Working Group requested that interested parties provide more detail on this request.

4. On April 23, the interested parties submitted a comment letter requesting expansion consideration to all debt instruments in scope of SSAP No. 26R and SSAP No. 43R. In making these expanded requests, the interested parties’ comment letter stated that from a practical standpoint, actual relief will almost exclusively apply to private placement debt securities. However, by referencing “all debt securities,” it will not be necessary to provide a precise definition of a private placement debt security. In addition to considering edits for troubled debt restructuring, the comment letter also requested exceptions to impairment recognition for these securities.

5. The issues addressed in this interpretation include:

a. Should exceptions be provided to the determination of troubled debt restructurings and impairment for all debt securities in response to COVID-19?
b. Should exceptions be considered in the determination of troubled debt restructurings for non-public debt instruments in which the reporting entity is a direct, active, participant in the modification negotiations?

c. Should exceptions be considered to assist with the determination of insignificant modifications in accordance with SSAP No. 36, paragraph 10?

INT 20-07 Discussion

Consideration of Exceptions for All Debt Securities

6. After evaluating the April 23 interested parties’ comment letter, this interpretation considers statutory accounting exceptions to minimize documentation and assessment requirements for specific debt securities. However, due to the importance of state regulators having accurate and reliable financial statement information, this interpretation does not propose the following:

a. Exceptions to the recognition of a troubled debt restructuring for debt securities with modifications that result in non-insignificant concessions to a debtor that is experiencing financial difficulties.

b. Exceptions to the assessment or recognition of impairment for debt instruments.

7. With the conclusion in paragraph 6, this interpretation does not eliminate a reporting entity’s responsibility to recognize modifications in debt instruments that to a debtor that is experiencing financial difficulties that qualify as concessions under SSAP No. 36. Furthermore, this interpretation does not delay the assessment and recognition of impairment for debt instruments that are not captured in scope of INT 20-04. As detailed above, these exceptions are not granted due to the importance of state regulators having timely, accurate and reliable financial information.

Consideration of Exceptions if the Reporting Entity is a Direct, Active Participant in Negotiating Modifications

8. Consideration was given as to whether exceptions should be provided for troubled debt restructuring and impairment assessments for situations in which the reporting entity is a direct, active participant in negotiating debt instrument modifications. However, due to the vast nature of non-public instruments that are currently classified as debt instruments that are designed in response to specific insurance reporting entity needs (such as collateralized fund obligations, principal protected notes, and other non-traditional securitizations), using direct, active participation as the sole threshold in determining whether exceptions should be granted was viewed as too expansive to ensure appropriate recognition of non-insignificant concessions and/or known impairments in the statutory financial statements.

Consideration of Provisions to Assist with Existing Troubled Debt Restructuring Guidance

9. Pursuant to existing guidance in SSAP No. 36, not all modifications are considered a troubled debt restructuring. In order to be troubled debt restructuring, a creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise. As such, in order to be considered a troubled debt restructuring, the debtor must be having financial difficulties and the modification must be considered a concession. Pursuant to paragraph 10 of SSAP No. 36, a restructuring that results in only a delay in payment that is insignificant is not a concession. The guidance also indicates that the following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:
a. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due.

b. The delay in timing of the restructured payment period is insignificant to any one of the following:
   i. frequency of payments due under the debt
   ii. debt’s original contractual maturity,
   iii. debt’s original expected duration.

10. Although this interpretation does not support exceptions that would result with “significant” modifications (concessions) not being recognized, from information received, differing assessments of what could be considered insignificant, and the required documentation, may be prohibitive in providing modifications. Particularly, it has been noted that the assessments are subject to auditor assessment and there are concerns that a modification considered insignificant by a reporting entity may be subsequently assessed as a significant modification by the reporting entity’s auditor.

**Practical Expedients to Assessing Concessions**

11. This interpretation, as a means of assisting with troubled debt restructuring assessments, provides limited-time practical-expedient determinants that can be used in accordance with existing SSAP No. 36 provisions in determining whether a modification shall be considered a troubled debt restructuring. These provisions are intended to assist reporting entities and auditors when considering whether a modification is insignificant. If a modification is considered insignificant, then the modification is not a concession, and recognition of a troubled debt restructuring, and disclosure is not required. If a modification does not meet the practical expedient provisions provided within this interpretation, the modification shall not automatically be considered a “non-insignificant” modification (concession). Rather, the reporting entity can continue to apply the existing guidance in SSAP No. 36 in assessing whether the modification is insignificant and is therefore not a concession. Modifications that qualify as concessions (do not qualify as insignificant) are required to follow the existing guidance in SSAP No. 36 as a troubled debt restructuring.

12. Specifically, this interpretation provides the following limited-time practical expedients:

   a. Paragraph 10.a. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay is insignificant to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results with a change that reflects a 10% or less shortfall amount in the contractual amount due.

   b. Paragraph 10.b. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay in timing of the restructured payment period is insignificant to the frequency of payments due under the debt, debt’s original contractual maturity or the debt’s original expected duration. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring does not result in an extension of the maturity of the debt by more than three years.
13. For the duration of this interpretation, debt security restructurings in response to COVID-19 that solely impact covenant requirements are not considered troubled debt restructurings.

**Practical Expedients on Debt Extinguishments and Exchanges**

14. In addition to the limited-time practical expedients to SSAP No. 36, this interpretation provides an exception to assess modifications as an exchange of debt instruments under paragraph 22 of SSAP No. 103R—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities. Pursuant to the guidance in SSAP No. 103, debt instruments that are exchanged with substantially different terms are reported as an extinguishment and a new debt instrument. Pursuant to the provisions in this interpretation:

   a. Modifications that reflect a 10% or less change in contractual cash flows considered insignificant pursuant to paragraph 12.a. do not need to be further evaluated to determine whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. As such, these investments shall not be reported as an extinguishment and a new debt instrument.

**INT 20-07 Consensus**

15. The Working Group reached a consensus in response to requests to consider exceptions to statutory accounting guidance for troubled debt restructurings and impairment for all debt instruments. Pursuant to this consensus:

   a. This interpretation does not provide exceptions to the recognition of a troubled debt restructuring for debt securities with modifications that result in non-insignificant concessions to a debtor that is experiencing financial difficulties.

   b. This interpretation does not provide exceptions to the assessment or recognition of impairment for debt instruments. Pursuant to the guidance in SSAP No. 26R, after a modification for a debt instrument, assessment of OTTI shall be based on the current terms of the debt instrument.

16. In response to assessments on the application of existing SSAP No. 36 provisions, particularly in determining whether a modification is a concession (insignificant), this consensus provides the following limited-time practical expedients in determining whether a modification is a concession under SSAP No. 36:

   a. Paragraph 10.a. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay is insignificant to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results with a change that reflects a 10% or less shortfall amount in the contractual amount due.

   b. Paragraph 10.b. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay in timing of the restructured payment period is insignificant to the frequency of payments due under the debt, debt’s original contractual maturity or the debt’s original expected duration. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring does not result in an extension of the maturity of the debt by more than three years.
17. For the duration of this interpretation, debt security restructurings in response to COVID-19 that solely impact covenant requirements are not considered troubled debt restructurings.

18. In response to assessments on the application of existing SSAP No. 103R provisions, particularly in determining whether a modification that is not a troubled debt restructuring needs to be assessed as an exchange, this consensus provides the following exceptions to SSAP No. 103R:

   a. Modifications that reflect a 10% or less change in contractual cash flows considered insignificant under this interpretation do not need to be further evaluated to determine whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. As such, these investments shall not be reported as an extinguishment and a new debt instrument.

   b. Modifications in response to COVID-19 that exceed the practical expedient of a 10% shortfall in contractual cash flows permitted in this interpretation that were assessed and deemed insignificant under paragraph 10 of SSAP No. 36 shall not be considered an exchange of debt instruments with substantially different terms under SSAP No. 103, paragraph 22. (Under SSAP No. 103, an exchange of debt instruments (in a nontroubled debt situation) is accomplished with debt instruments that are substantially different if the present value of cash flows under the terms of the new instruments is at least 10% different from the present value of the remaining cash flows under the terms of the original instrument.) Reporting entities shall work with auditors and regulators with the application of paragraph 10 of SSAP No. 36 to confirm that a change in contractual cash flows in excess of 10% qualifies as insignificant.

19. The Working Group highlights that modifications that would be considered troubled debt restructurings, particularly as they provide a non-insignificant concession, may be presented to the domiciliary state regulatory for a permitted practice exception to prevent troubled debt restructuring recognition and disclosure. However, the Working Group concluded that the need for reliable and accurate financial information does not permit exceptions that would allow wide-spread non-insignificant restructurings to occur and not be recognized on the statutory financial statements.

20. This interpretation is effective for the specific purpose to provide practical expedients in assessing whether modifications in response to COVID-19 are insignificant under SSAP No. 36 and in assessing whether a change is substantive under SSAP No. 103R. This interpretation will only be applicable for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. For clarity, this effective timeframe specifies when modifications in response to COVID-19 can be incorporated using the provisions of this interpretation. Once incorporated, the provisions of this interpretation will continue for the duration of the modification.

**INT 20-07 Status**

21. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.
Application of the INT 20-07 Consensus

Example 1: Payment Holiday with Extension of Payment Term for SSAP No. 26R Instrument

A. Insurer modifies a debt instrument captured in scope of SSAP No. 26R to provide a payment holiday for 6-months in response to COVID-19. For the duration of the payment holiday, no payments are due, however the original maturity of the debt instrument has been extended from 10 years to 10 years and 6 months, with all terms and conditions remaining the same except for the payment holiday.

B. The amount of restructuring is considered insignificant as it results in a less than 10% shortfall in the contractual amount due.

C. At the time of the restructuring, fair value has dropped below amortized cost.

D. At the time of the restructuring, the reporting entity believes it is probable that the reporting entity will collect all amounts due in accordance with the modified terms of the debt instrument. Furthermore, the reporting entity does not intend to sell the instrument.

Example 1 - Application of INT 20-07

1. As this modification only extends the duration 6-months and results in a less than 10% shortfall in the contractual amount due, pursuant to the practical expedients in INT 20-07, the modification is considered insignificant and not a concession under SSAP No. 36. As this modification is not a concession, accounting and reporting as a troubled debt restructuring is not required.

2. As this modification is less than 10% of the contractual cash flows, pursuant to the practical expedients in INT 20-07, further assessment is not required to determine whether the modification is more than minor under SSAP No. 103R. As such, the modification shall not be reported as an extinguishment and a new debt instrument.

3. As the reporting entity believes it is probable that they will collect all amounts due in accordance with the modified terms of the debt instrument, no other-than-temporary impairment recognition is required under SSAP No. 26R. Future assessments of impairment will be based on the modified terms of the debt instrument.

Example 2: Reduction of Covenant Terms for SSAP No. 43R Instrument

A. Insurer modifies a debt instrument captured in scope of SSAP No. 43R to eliminate covenant terms in response to COVID-19. For the remainder of the maturity of the debt instrument, the covenant terms will reflect the modification incorporated in response to COVID-19. There has been no changes to the debt instrument with the exception of the covenant requirements.

B. At the time of the restructuring, fair value has dropped below amortized cost.

C. At the time of the restructuring, the reporting entity has the intent and ability to hold debt instrument to recover the amortized cost basis. Additionally, the reporting entity has not identified that a non-interest related decline exists.
Example 2 - Application of INT 20-07

1. As this modification only pertains to covenant components (and not the amount or timing of payments), pursuant to the practical expediets in INT 20-07, the modification is considered insignificant and not a concession under SSAP No. 36. As this modification is not a concession, accounting and reporting as a troubled debt restructuring is not required.

2. As this modification does not change the contractual cash flows, pursuant to the practical expediets INT 20-07, further assessment is not required to determine whether the modification is more than minor under SSAP No. 103R. As such, the modification shall not be reported as an extinguishment and a new debt instrument.

3. As the reporting entity has the intent and ability to hold the debt security to recover the amortized cost basis, and they have not identified a non-interest related decline, an other-than-temporary impairment is not required under SSAP No. 43R.

Example 3: Reduction in Interest Rate and Covenants for SSAP No. 26R Debt Security

A. Insurer modifies a debt instrument captured in scope of SSAP No. 26R in response to COVID-19 to eliminate interest payments for a 12-month timeframe, and to eliminate covenant requirements for the same 12-month timeframe. This change will represent an 11% shortfall of the contractual amount due.

B. At the time of the restructuring, fair value has dropped below amortized cost.

C. At the time of the restructuring, the reporting entity believes it is probable that the reporting entity will collect all amounts due in accordance with the modified terms of the debt instrument. Furthermore, the reporting entity does not intend to sell the instrument.

Example 3 - Application of INT 20-07

1. As this modification results with a 11% shortfall in the contractual amount due, the reporting entity cannot assume the change is insignificant, and therefore not a concession, under the practical expedients provided within this interpretation.

2. The reporting entity may continue to assess whether this modification is an insignificant change under paragraph 10 of SSAP No. 36. (If the reporting entity elects not to further assess for insignificance, then would proceed with considering the change as a concession.) If the reporting entity concludes that the change is insignificant, and therefore not a concession, then recognition as a troubled debt restructuring is not required. If the change is assessed as insignificant, although the change in cash flows exceeds 10%, the instrument does not need to be assessed as an exchange of debt instruments pursuant to SSAP No. 103R, paragraph 22. An OTTI is not required at the time of the modification if the reporting entity has the intent and ability to hold to recover the modified amortized cost basis and if the reporting entity has not identified that a non-interest related decline exists. Future assessments of impairment will be based on the modified terms of the debt instrument.

3. If the reporting entity concludes that the change is not insignificant under paragraph 10 of SSAP No. 36, then the modification is a concession and further assessment as a troubled debt restructuring is required. Assuming there is no collateral, a realized loss shall be recognized for the difference between fair value and amortized cost. Subsequent to this realized loss recognition, future assessments of impairment will be based on the modified terms of the debt security.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded May 5, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Richard Ford (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Tom Dudek (NY); Joe DiMemmo (PA); Jamie Walker (TX); and Amy Malm (WI).

1. Exposed Agenda Item 2020-14, INT 20-05, INT 20-06, INT 20-07 and INT 20-08

The Working Group conducted an e-vote to consider exposure of agenda item 2020-14: Assessment of OTTI Based on Original Contract Terms; Interpretation (INT) 20-05: Investment Income Due and Accrued; INT 20-06: Participation in the 2020 TALF Program; INT 20-07: Troubled Debt Restructuring for Certain Debt Instruments Due to COVID-19; and INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends for a one-week public comment period ending May 14. A summary of the exposed interpretations is as follows:

1) Agenda Item 2020-14 – This agenda item proposes nonsubstantive revisions to address a long-standing disconnect in the assessment of other-than-temporary impairment (OTTI) after there has been a modification to a debt security captured in scope of SSAP No. 26R—Bonds. The current guidance requires OTTI assessment based on contract terms at the date of acquisition. This agenda item incorporates minor revisions to clarify that subsequent to modification under SSAP No. 36—Troubled Debt Restructuring or SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, future assessments of OTTI shall be based on the current contractual terms of the debt instrument.

2) INT 20-05 – This guidance proposes limited-time exceptions to the collectability and nonadmittance guidance in SSAP No. 34—Investment Income Due and Accrued, and it also considers technical guidance for the recognition of investment income issued by the Financial Accounting Standards Board (FASB) when there is a payment holiday and interest is not accrued. The proposed exceptions provide a collectability assessment exception for certain items modified in response to COVID-19, and it proposes an exception to the nonadmittance provisions for all items that are deemed collectable and are over 90 days past due.

3) INT 20-06 – This guidance proposes provisions for reporting entities participating in the federal Term Asset-Backed Securities Lending Facility (TALF) program. The guidance addresses both direct borrowers and reporting entities that participate as an investor to a direct borrower. The guidance proposes a statutory accounting exception for direct borrowers who pledge assets to the TALF program to allow admittance of the pledged assets, as the TALF program does not permit substitutions to the collateral.

4) INT 20-07 – This guidance proposes limited-time practical expedients in determining whether a restructuring reflects a “concession” under paragraph 10 of SSAP No. 36. Under existing statutory accounting guidance, a restructuring that is insignificant is not a concession; therefore, it is not a troubled debt restructuring. The guidance proposes a 10% threshold for the shortfall in the contractual amount due and a 6-month delay in payments as practical expedients for the existing guidance. Under the proposed provisions, if a modification falls within these parameters, it would be considered insignificant and not a concession. The guidance also proposes to clarify that if a modification is below 10%, then further analysis would not be needed under SSAP No. 103R to determine if the modification is substantive and does not require extinguishment with recognition of a new security.

5) INT 20-08 – This guidance proposes provisions on how to account for premium refunds in response to COVID-19. Due to the different ways in which these refunds can be provided, the proposed guidance addresses a variety of methods. For premium refunds that are outside policy terms, the proposed guidance identifies that these shall be reported as a reduction of premium and not as an expense. The proposed guidance also directs an aggregate disclosure of all refunds in response to COVID-19 to allow for easy identification of the full impact in the statutory financial statements.
Ms. Walker made a motion, seconded by Ms. Mears, to expose agenda item 2020-14, INT 20-05, INT 20-06, INT 20-07 and INT 20-08. The motion passed without opposition, with 12 members voting.

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

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Statutory Accounting Principles (E) Working Group
E-Vote
April 17, 2020

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded April 17, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Doug Bartlett (NH); Joe DiMemmo (PA); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Exposed Agenda Item 2020-13

The Working Group conducted an e-vote to consider exposure of agenda item 2020-13: Health Industry Request on 2020 Health Insurance Assessment, for a one-week public comment period ending April 24. Agenda item 2020-13 addresses an April 2020 request from America's Health Insurance Plans (AHIP) (Attachment One-E1) to the Working Group regarding SSAP No. 106—Affordable Care Act Section 9010 Assessment. The federal Affordable Care Act (ACA) Section 9010 fee is also known as the health insurance tax (HIT). The payable amount is assessed on applicable 2019 premium, and it is due once the reporting entity provides health insurance in January 2020. The amount due is then remitted in September 2020 to the U.S. Department of the Treasury.

The exposed recommendation is to reject the request to defer liability recognition of the ACA fee due in September 2020 and move the agenda item to the rejected listing. The rejection would not result in any statutory accounting revisions.

The agenda item notes, “This request has the potential to materially distort the financial statements, as a known liability would not be fully recognized. In times of financial stress, it is important to be able to accurately assess the financial solvency of reporting entities. With the potential impact of the financial statements, any consideration for such a request warrants domiciliary state regulator review. Any state specific considerations would be either permitted practices (individual requests) or prescribed practices (state bulletins, etc.). If granted by the domestic state, such practices would be disclosed in the financial statements.”

Ms. Mears made a motion, seconded by Ms. Walker, to expose agenda item 2020-13. The motion passed unanimously, with 11 members voting.

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

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SSAP 106 – Affordable Care Act Section 9010 Assessment  
AHIP Request to Amend due to Covid-19

- SSAP 106 relates to what has been known as the health insurance tax (HIT); with changes in law, the tax was paid in 2014-2016, 2018, and is to be paid for the last time in 2020; it will be repealed in 2021 and, as a result, SAPWG has a pending proposal to supersede SSAP 2016 effective in 2021

- In the meantime, for amounts to be paid in 2020 based on data collected in 2019, SSAP 106 requires the following:
  - In 2019, insurers reflect the estimate to be paid in 2020 by a monthly reclassification from unassigned surplus to special surplus (i.e., total surplus is not reduced)
  - At the beginning of 2020, the entire balance in the special surplus is reclassified back to unassigned surplus with no effect on total surplus; that amount is then accrued as a liability and a corresponding expense, which reduces unassigned (and total) surplus
  - After items 1. and 2. above have been accomplished, the special surplus account has a zero balance; unassigned surplus is reduced by the full amount of the tax, which will remain as a liability on the balance sheet until it is paid to the government in September 2020

- The concern: AHIP members anticipate surplus strain due to the pandemic and its work with providers and subscribers to support their efforts to alleviate its impacts, which will be exacerbated by the mismatch in the timing of revenue and expense for 2020 interim reporting:
  - Insurers will show the full expense and resulting surplus hit of the tax at the beginning of 2020
  - But they will not realize the revenues and profits from the business that is subject of the tax until they are earned pro rata throughout the year (the HIT is priced into rates)
  - Magnitude: for some members, can be 10% of group-wide surplus during early 2020; would gradually diminish over the year

- Proposal:
  - Amend SSAP 106 to permit insurers to accrue the tax liability on a monthly or quarterly basis; during interim months of 2020, the portion of the estimated tax that has not yet been accrued would remain in special surplus to clearly document its designated purpose
  - Alternatively, to defer the expense until payment is made

- Additional considerations:
  - Impacts interim results for 2020 only; no impact on year-end reporting or RBC
  - Sets no precedent for SSAP 106; the tax is (and the SSAP will be) repealed effective 2021
  - Urgency in that the current filing deadline for 1Q 2020 is May 15, and next SAPWG call is currently scheduled for May 20
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call April 15, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); Kathy Belfi and William Arfanis (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Tom Dudek (NY); Joe DiMemmo and Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating was: Greg Lathrop (OR).

1. Reviewed Comments and Considered Adoption of Temporary Exceptions to Statutory Accounting

Julie Gann (NAIC) stated that the intention of this call is to consider four interpretations that provide exceptions to current statutory accounting guidance and require a super majority vote for adoption.

The Working Group held a public hearing to review comments on previously exposed items (Attachment One-F1).

a. Agenda Item 2020-12 and INT 2020-01T

Mr. Bruggeman directed the Working Group to agenda item 2020-12 and Interpretation (INT) 2020-01T: Reference Rate Reform. Jim Pinegar (NAIC) stated that this non-substantive agenda item is a result of Accounting Standards Update (ASU) 2020-04, Reference Rate Reform, which provides optional expedient guidance, allowing for the continuation of certain contracts that are modified in response to reference rate reform. Additionally, it provides waivers from derecognizing hedging transactions, and it provides some exceptions for assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates. Mr. Pinegar stated that interested parties commented on two items. Interested parties wanted to ensure that ASU 2020-04 was broadly adopted, and they expressed concerns regarding the sunset date of Dec. 31, 2022. Mr. Pinegar stated that additional language was proposed affirming that all contracts within the scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract, shall apply to all Statements of Statutory Accounting Principles (SSAPs). He stated that the sunset date matched the date in ASU 2020-04; however, the Financial Accounting Standards Board (FASB) continues to monitor the transition, and it may modify its guidance, if needed. If the FASB takes such action, it is anticipated that the Working Group will consider a similar response.

Angelica Tamayo-Sanchez (New York Life Insurance Company), representing interested parties, stated appreciation for ensuring that INT 2020-01T was consistent with ASU 2020-04, as the potential contract modifications are broad and may encompass all SSAPs. She stated that in terms of the sunset date, the FASB indicates that it will review for possible modifications, and it appreciates that the Working Group will review if a similar action is necessary.

Mr. Hudson made a motion, seconded by Ms. Weaver, to adopt agenda item 2020-12 and INT 2020-01T, with the modification as proposed by NAIC staff, for statutory accounting (Attachment One-F2 and Attachment One-F3). The motion passed unanimously.

b. INT 2020-02T

Mr. Bruggeman directed the Working Group to INT 2020-02T: Extension of Ninety-Day Rule for the Impact of COVID-19. Jake Stultz (NAIC) stated in response to COVID-19 that this nonsubstantive interpretation provides exceptions to the 90-day rule for uncollected premium balances, bills receivable and amounts due from agents under SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers, and high deductible policies under SSAP No. 65—Property and Casualty Contracts. He stated that previous extensions to SSAP No. 6 in response to catastrophes have generally been for an additional 60 days, resulting in a total of 150 days before nonadmission. However, due to the fact that COVID-19 is a longer lasting and broader catastrophe, the recommendation proposed allows a total of approximately 200 days before requiring nonadmission. The 200-day allowance would apply to the first and second quarters of 2020, as the interpretation would expire prior to third quarter financial reporting.
Robin Marcotte (NAIC) stated that interested parties requested the scope of INT 2020-02T be expanded to include SSAP No. 51R—Life Contracts regarding life deferred and uncollected premiums, SSAP No. 47—Uninsured Plans for uninsured plan receivables, such as administrative services contracts, and SSAP No. 84—Health Care and Government Insured Plan Receivables regarding pharmaceutical rebate receivables and risk sharing receivables. She stated that additional interested party requests included: 1) extending the exception to the 90-day rule from the end of the second quarter to the end of the third quarter; 2) including policies written or renewed after the declaration of emergency, and not only to the policies that were current as of the date of emergency; and 3) allowing the extension of the 90-day rule to apply to polices in effect prior to the expiration of the state of emergency that later become past due for 180 days before non-admission. She stated that NAIC staff did not recommend extending INT 2020-02T through the third quarter, but they recommend that the Working Group retain the existing first and second quarter timeframe with an assurance to consider whether an extension is necessary in August 2020. She stated that NAIC staff also did not recommend that the interpretation provide provisions allowing the admittance of a receivable that was previously nonadmitted because it was 90 days past due prior to the COVID-19 pandemic. Additionally, if the working Group supports consideration of exceptions for SSAP No. 84, specifically risk sharing and pharmacy rebates, it is recommended that a separate discussion occur, as the admittance process and calculation of those items is significantly different than receivables from policyholders, and the admissibility criteria for these items is more complex.

Mr. Stultz stated that upon review of the feedback from interested parties, NAIC staff support including SSAP No. 47 and SSAP No. 51R in the interpretative accounting guidance. Clarifying language was also suggested to include policies written or renewed on or after March 13 in paragraphs 3.a. and 3.c. Additional modified language was proposed to ensure that INT 2020-02T would have consistent expiration language with INT 2020-04T: Mortgage Loan Impairment Assessment due to COVID-19. Mr. Stultz stated that while the interpretation is written to expire prior to the third quarter, it is anticipated that future discussions will occur regarding possible extensions.

D. Keith Bell (Travelers Insurance), representing interested parties, stated their appreciation for the quick issuance of this interpretation and the Working Group’s commitment to review in August for a possible extension. He stated that other areas, including paragraphs 3.b. and 3.d., within the interpretation should have similar language to include other policies written or renewed on or after March 13. Mr. Bruggeman stated that the phrase, “on or after March 13, 2020,” would be included in paragraphs 3.a through 3.d. Mr. Stultz and Ms. Marcotte concurred with adding the language to ensure consistency throughout the guidance.

Albert Thomas Finnell (Finnell & Company), representing America’s Health Insurance Plans (AHIP), stated that due to the COVID-19 pandemic, health insurers are facing financial strain through waiving copays, deductibles, and covering COVID-19 testing. These issues affect the timeliness and ultimate collectability of certain receivables. Mr. Finnell stated that while health insurers are requesting relief regarding pharmaceutical rebate and risk sharing receivables covered in SSAP No. 84, addressing those issues in a separate agenda item would be more appropriate. He stated that additional data will be gathered, and relief will likely be requested in terms of loans and advances to providers, which is also addressed in SSAP No. 84. He stated that a letter has been submitted requesting relief on SSAP No. 106—Affordable Care Act Section 9010 Assessment, and he noted that interested parties are prepared to discuss those proposed edits with the Working Group once it has considered the request.

Ms. Malm made a motion, seconded by Ms. Belfi, to adopt INT 2020-02T, with the modifications to add certain receivables from SSAP No. 47 and SSAP No. 51R to the scope of the standard and include language confirming that policies written or renewed on or after March 13 are in scope of the interpretation (Attachment One-F4). The motion passed unanimously. Additionally, direction was given to NAIC staff to collaborate with industry on an agenda item covering SSAP No. 84.

c. INT 2020-03T

Mr. Bruggeman directed the Working Group to INT 2020-03T: Troubled Debt Restructuring Due to COVID-19. Julie Gann (NAIC) stated that this interpretation clarified that modifying mortgage loan terms in response to COVID-19 shall follow the provisions detailed in the March 22, “Joint Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” in determining whether the modification shall be reported as a troubled debt restructuring within SSAP No. 36—Troubled Debt Restructuring. Subsequent to the initial exposure, the proposed interpretation was revised to include the provisions from Section 4013 of the March 27 Coronavirus Aid, Relief, and Economic Security (CARES) Act, which affirmed that the interpretation is only applicable for the term of the loan modification. Additionally, the exposed interpretation was revised to reflect the updated interagency statement issued after the CARES Act on April 7. Ms. Gann stated that the CARES Act and proposed interpretation provide guidance for modifications that include a forbearance arrangement, interest rate modification, a repayment plan, and other similar arrangements that defer or delay the
payment of principal or interest. She stated that under existing U.S. generally accepted accounting principles (GAAP) and SSAP No. 36, a restructuring of a mortgage loan does not automatically result in the classification of a troubled debt restructuring. SSAP No. 36 defines the criteria for troubled debt restructuring, which generally includes the requirement of the borrower experiencing financial difficulties and the loan modification resulting in a significant change in terms. Ms. Gann stated that the proposed interpretation was initially exposed to only include mortgage loans. She stated that interested parties requested the expansion of the scope to include all debt instruments in SSAP No. 26R—Bonds and SSAP No. 43R—Loan-Backed and Structured Securities. She, in response to these comments, stated that proposed revisions include bank loans as defined in SSAP No. 26R; however, NAIC staff did not recommend including all debt instruments within scope of the interpretation. She stated that the CARES Act and the interagency statement is specific in that the loans addressed within their guidance are from financial institutions, and they are specific to loans from borrowers. She stated that the CARES Act and interagency statements reference banking agencies in collecting data on modified loans for regulatory purposes. She stated, in response to additional industry comments, that additional edits were proposed to clarify that the troubled debt restructuring relief is only applicable for the term of the modification. Additionally, in response to comments by interested parties regarding SSAP No. 34—Investment Income Due and Accrued, NAIC staff are awaiting additional technical guidance from the FASB; as such, NAIC staff have not yet proposed interpretative guidance to SSAP No. 34. Ms. Gann stated that the proposed effective date is consistent with the CARES Act, and it would be applicable for the period beginning on March 1 and ending on either Dec. 31 or the date that is 60 days after the date on which the national emergency concerning COVID-19 has terminated.

Bob Ridgeway (AHIP) inquired as to whether an extension would be possible in the event that COVID-19 loan modification occurred after Dec. 31. Ms. Gann stated that regardless if the CARES act is extended, the Working Group has the option to review this interpretation for possible extension. Mr. Bruggeman stated that due to the unknown end date of COVID-19, all related interpretations will be continually reviewed for possible extension.

Diane Bellas (Allstate), representing interested parties, stated that while insurance companies can assist with the economic recovery, additional accounting and reporting obstacles remain. She stated that the relief provided in the interpretations do provide some capital relief necessary to assist with the long-term economic recovery. She stated that while the revised interpretations were helpful, additional barriers within the regulatory framework should be reviewed. She stated that interested parties wish to review risk-based capital (RBC) and the asset valuation reserve (AVR) with the Capital Adequacy (E) Task Force. She stated that interested parties wish to discuss admissibility of investments with a going concern with the Working Group.

Daniel P. Allen (MassMutual), representing interested parties, expressed agreement with the recent modifications to the interpretation, which incorporate the revised April 7 joint interagency statement as a result of the CARES Act. He stated that while the scope of the interpretation covered mortgage loans, additional consideration should be considered to include all debt instruments covered in SSAP No. 26R and SSAP No. 43R, as these investments will likely require modifications as a result of COVID-19. He stated that interested parties were pleased to see that bank loans were included in the revised interpretation; however, due to insurers having significant private placement debt portfolios, temporary relief should be extended to include these investment classes, as these items will likely require similar loan modifications. He stated that the effective date of INT 2020-03T does match the CARES Act, but he requested clarification as to whether the exceptions for loan modifications would extend beyond the projected scheduled termination date. Mr. Bruggeman inquired as to whether there was any specific language or request regarding the expansion of scope or timing of the interpretation. Mr. Allen stated that private placement loans were a significant concern, but he requested clarification regarding whether a modification would remain exempt from SSAP No. 36 in the event that it was extended beyond the effective date of the interpretation. Mr. Bruggeman stated that the scope of this interpretation was to clarify mortgage loans modified as a result of COVID-19, and they were not to be considered a troubled debt restructuring. Ms. Gann stated that the effective dates match the CARES Act; however, the modification must occur in the defined time frame.

Bruce Oliver (Mortgage Bankers Association) stated that the interpretation adopts the CARES Act’s effective date; however, the joint interagency statement does not have an effective date. He stated that clarification should be added since the interpretation references both items. Mr. Bruggeman stated that this interpretation is in response to the national emergency, and should any modifications be required 60 days after the termination of national emergency, an insurer should consult with his/her domestic regulator for possible exception allowance.

Brian Keating (Guardian Life Insurance), representing interested parties, stated that private placement loans represent a significant portion of an insurance company’s portfolio, at times up to 15–20% of invested assets. Due to the COVID-19 pandemic, several requests for loan relief or modifications have been received, especially those from the hospitality industry. Mr. Keating stated that in an effort to be equitable, the bank loan relief provided in the interpretation should be extended to
insurance lenders despite the joint interagency statement not specifically referencing private placement loans. The interagency statement covers loan modifications as a result of the COVID-19 pandemic, and it would presumably allow insurance companies to apply such guidance for investments covered in SSAP No. 26R and SSAP No. 43R. Mr. Keating stated that modification requests include covenant waivers, delayed payment schedules, and that insurers have a direct relationship with the borrowers, which is similar to a typical financial institution.

Ms. Gann stated that, consistent with the interagency statement, several loan modifications are anticipated in response to the COVID-19 pandemic, and they would likely not fall into the scope of troubled debt restructuring as defined in SSAP No. 36. This is because a loan modification that is insignificant, or if the borrower is not experiencing financial difficulty, is not considered as troubled debt restructuring under existing guidance. Ms. Gann stated that the interpretation removes the analysis requirement to determine if a troubled debt restructuring has occurred. She stated that if private placement loans were to be considered for exception guidance, information would be requested from interested parties regarding the scope of loan modifications being requested and granted. Particularly, she inquired as to whether the private placement modifications would likely be considered troubled debt restructurings because they would be significant to the original loan terms. Mr. Bruggeman stated that the interpretation does not prohibit loan modification from being granted, and since insurance companies are typically issuing long-term debt, it is possible that a modification would likely not be significant enough to be determined a restructured troubled debt.

Ms. Sanchez stated that the U.S. GAAP troubled debt restructuring guidance covers both mortgage loans and debt instruments, and the joint interagency statement would presumably apply to both asset classes. However, the interpretation only applies to mortgage and bank loans. Ms. Gann stated that the troubled debt restructuring guidance in SSAP No. 36 is consistent with U.S. GAAP; however, the focus of INT 2020-03T, which provides exceptions to the requirements of SSAP No. 36, is specific to mortgage and bank loans. However, if requested by industry or the Working Group, a separate agenda item could be prepared to review other types of asset classes, specifically private placement debt. Ms. Gann stated that if a private placement modification was to occur, without the interpretation exception, the lender would follow the provisions of SSAP No. 36 to determine whether the modification should be considered a troubled debt restructuring. As noted, the guidance in SSAP No. 36 does not automatically result in a troubled debt restructuring, but assessment has to occur regarding whether the borrower is experiencing financial difficulties and whether the modification is considered insignificant.

Mr. Hudson made a motion, seconded by Ms. Mears, to adopt INT 2020-03T with the modifications to: 1) include the CARES Act, the April 7 updated joint interagency statement, and a reference to bank loans; and 2) clarify that the effective date of the interpretation mirrors the timeframe of the CARES Act (Attachment One-F5). In addition, direction was given to NAIC staff to collaborate with interested parties to evaluate potential temporary troubled debt restructuring relief guidance for private placement loans and other similar debt products. The motion passed unanimously.

d. INT 2020-04T

Mr. Bruggeman directed the Working Group to INT 2020-04T. Ms. Gann stated that INT 2020-04T addresses the impact of mortgage loan forbearance or prudent modifications on the statutory accounting and reporting requirements for mortgage loans, as well as investments with underlying mortgage loans. INT 2020-04T allows for a temporary, limited-time statutory exception for the assessment of impairment due to loan modifications being granted for mortgage loans and investment products with underlying mortgage loans. This exception would only defer the assessment of impairment due to situations caused by the forbearance or modification of mortgage loan payments, and it would not delay the recognition of other-than-temporary impairments if the entity decided to sell the investment and/or if provisions other than the limited-time forbearance or modifications of mortgage loans payments caused the entity to identify that they would not recover the reported carrying value of the investment. Ms. Gann stated that in response to industry comments, revisions have been proposed to include bank loans in scope of INT 2020-04T; however, all other debt instruments covered in SSAP No. 26R and SSAP No. 43R were not added. She stated that additional comments were received regarding the applicability to SSAP No. 34, but NAIC staff proposed waiting on expected FASB technical guidance on the topic. Similar to INT 2020-02T, INT 2020-04T is effective for the first and second quarters of 2020. However, the Working Group will assess in August 2020 to determine if an extension if necessary. She stated, in response to industry questions, that an edit has been proposed to clarify that impairment assessments after the effective date of INT 2020-04T would be based on the contractual terms of the mortgage loan or investment after reflecting any modification. Mr. Bruggeman confirmed that while INT 2020-02T and INT 2020-04T cover the first and second quarters of 2020, it is the intent of the Working Group to review both for possible extensions.

Ms. Sanchez stated that additional consideration is requested on all debt instruments, especially private placement loans. She stated that insurance companies could be giving forbearances to debt holders due to the COVID-19 pandemic which, without
temporary relief, could require impairment assessments. She inquired as to why the effective date of INT 2020-04T did not match INT 2020-03T, which allows modifications 60 days after the end of the national emergency. Mr. Bruggeman stated that impairment assessments are performed at a certain point in time, and rather than extending the temporary relief granted in INT 2020-04T at this time, the Working Group will review for possible extension in August. The effective dates in INT 2020-04T are more in line with the evaluations required for financial statement reporting. Ms. Gann stated that INT 2020-03T was in direct response to the CARES Act, and the effective dates of INT 2020-02T and INT 2020-04T are flexible, allowing for earlier or later termination depending on the timing of the national emergency. Ms. Sanchez stated interested parties stand ready to work with NAIC staff and the Working Group on an agenda item regarding SSAP No. 34, concerning interest due and accrued. She stated that every investment class will likely be affected by variations in cash flow due to the COVID-19 pandemic and interpretative guidance would be beneficial.

Mr. Lathrop stated that Oregon is supportive of extending the effective dates of INT 2020-02T and INT 2020-04T to include the third and fourth quarters of 2020. He stated that several states have issued moratoriums on tenant evictions, and they may issue moratoriums on foreclosures. He stated Oregon’s Insurance Division believes there will be an extended economic recovery, likely warranting extension of the temporary exceptions provided in these interpretations.

Ms. Belfi made a motion, seconded by Ms. Weaver, to adopt INT 2020-04T, with the modifications to include bank loans as proposed by NAIC staff, for statutory accounting (Attachment One-F6). The motion passed unanimously.

2. Discussed Other Matters
   a. Premium Refunds

Ms. Marcotte stated that in response to questions from industry and state insurance regulators, NAIC staff are planning an agenda item to discuss the accounting and reporting of premium refunds due to the COVID-19 pandemic. Birny Birnbaum (Center for Economic Justice [CEJ] and the Consumer Federation of America [CFA]) stated that insurance companies are utilizing a variety of techniques to issue refunds, ranging from a premium credit to a cash refund. Due to these variations, uniform reporting is encouraged.

   b. SSAP No. 106

Mr. Bruggeman stated that NAIC staff have prepared an agenda item in response to a request received from industry regarding the insurer provider fee captured in SSAP No. 106. A subsequent e-vote to expose the agenda item is anticipated.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
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April 2, 2020

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: Interpretations (INTs) of the NAIC Statutory Accounting Principles Working Group (the Working Group) Exposed for Comment with Comments due April 2

Dear Mr. Bruggeman:

Interested parties thank you, the Working Group and NAIC staff for responding quickly to the issues that are arising as a result of the rapid spread of the Coronavirus Disease 2019 (COVID-19). As several states and cities have issued “stay at home” orders and forced all non-essential businesses to temporarily close, there has been a significant increase in unemployment and the potential permanent closure of many businesses. We appreciate the Working Group’s efforts to head-off problems resulting from the impact of COVID-19 on economic conditions and for the opportunity to comment on the draft INTs that were exposed for comment to address these issues via email vote on March 26, 2020.

**INT 20-01T: ASU 2020-04 - Reference Rate Reform**

This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of *ASU 2020-04 – Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued ASU 2020-04 in March 2020 as optional, transitional and expedient guidance as a result of reference rate reform.

The accounting issues are:

Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?

Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?

Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?
Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?

For Issue 1, the Working Group came to the tentative consensus that ASU 2020-04 shall be adopted for statutory accounting with only minor modifications noted below. The Working Group tentatively agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:

a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.

b. Allows hedging relationships to continue without de-designation upon a change in certain critical terms.

c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.

d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.

e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.

f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

For Issue 2, the Working Group came to the tentative consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the tentative consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

For Issue 3, the Working Group came to the tentative consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states that only modifications which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a tentative consensus that if an eligible lease is affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

For Issue 4, the Working Group came to the tentative consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:
a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than de-designate the hedging relationship.

b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.

c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.

d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

Additionally, for GAAP purposes, if an entity has not adopted the amendments in ASU 2017-12, *Derivatives and Hedging*, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group tentatively concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.

Interested parties agree with the concepts proposed in item 2020-04 on Reference Rate Reform (the “exposure draft”) and we believe that it will provide significant relief to all companies that have entered into contracts that reference LIBOR (or another reference rate expected to be discontinued due to reference rate reform).

We recommend that Issues 2 and 3 be combined into a single broad consensus that applies to all contract modifications due to reference rate reform and allows the optional expedient to be accounted for as continuations of existing contracts without requiring remeasurement of the contracts. ASU 2020-04 did this with examples at ASC 848-20-35-3 and then broadly at ASC 848-20-35-4:

**848-20-35-3** This Subtopic provides optional expedients for accounting for modifications of contracts accounted for in accordance with the following Topics that meet the scope of paragraphs 848-20-15-2 through 15-3:

a. Topic 310 on receivables
b. Topic 470 on debt
c. Topic 840 or 842 on leases.

**848-20-35-4** If a contract is not within the scope of the Topics referenced in paragraph 848-20-35-3, an entity shall have the option to account for and present a modification that meets the scope of paragraphs 848-20-15-2 through 15-3 as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination required under the relevant Topic or Industry Subtopic. Paragraph 848-20-55-2 includes examples that illustrate the application of that guidance.
Adopting the ASU broadly for contract modifications will prevent unintentionally omitting optional expedients. For example, interested parties noted SSAP 26R Bonds, paragraph 22 addresses exchanges and conversions and requires the fair value of a bond surrendered be the cost basis of the new contract. SSAP 103R Transfers and Extinguishments, paragraph 130 notes that “exchanges of debt instruments or...modifications are considered extinguishments if the exchange or modification results with substantially different terms or is considered more than minor.” Modifications of bonds' contractual interest rates due to rate reform should not result in remeasurement. This is one example of an unintentional omission that can result without a broad provision for contract modifications.

A specific area of concern for all insurers, which was expressed to the FASB as well, is related to the sunset provision in the exposure draft, which terminates the relief outlined in the exposure draft after December 31, 2022. We are concerned that including a hard termination date after which the relief outlined in the exposure draft would not be available would put significant pressure on the markets unnecessarily. We do not believe that the December 31, 2022 deadline for all market participants to complete the modification of all contracts that reference LIBOR (or another reference rate expected to be discontinued due to reference rate reform) is realistic, or necessary. Although the FASB did not change the date of the sunset provision, they did state in the Basis for Conclusion that the FASB will monitor the market-wide IBOR transitions and will consider whether future developments warrant any changes, including changes to the end date of the application of the amendments in the ASU.

Interested parties request the NAIC to consider extending the date or allowing for future changes to the end date due to the uncertainty regarding when LIBOR will cease.

**INT 20-02T: Extension of Ninety-Day Rule for the Impact of COVID-19**

The emergence of a previously unknown virus began spreading among humans between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay at home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

In response to the sudden impact to the economy and its effect on the timeliness of payments by policyholders, the Working Group considered whether a temporary extension of the 90-day rule, extending the nonadmission guidance for premium receivables due from policyholders or agents and for amounts due from policyholders for high deductible policies to September 28, 2020, for policies in U.S. jurisdictions that have been impacted by COVID-19 should be granted.

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 and for amounts due from policyholders for high deductible policies, as follows:

a. For policies in effect and current prior to the date as of the declaration of a state of emergency by the U.S. federal government on March 13, 2020, insurers may wait until September 28, 2020 before nonadmitting premiums receivable from policyholders or
agents as required per SSAP No. 6, paragraph 9.

b. For high deductible policies in effect and current prior to the date as of the declaration of a state of emergency by the U.S. federal government on March 13, 2020, insurers may wait until September 28, 2020 before nonadmitting amounts due from policyholders for high deductible policies as required per SSAP No. 65, paragraph 37.

c. Existing impairment analysis remains in effect for these affected policies.

Due to the short-term nature of the applicability of this extension, which expires September 28, 2020, this interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group’s website. This interpretation will be automatically nullified on September 29, 2020 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

In discussing the draft wording of INT 20-02, interested parties focused on two areas of concern: scope of the items covered by the INT and timing of the extension of the 90-day rule. We discuss each separately below.

**Scope of Items Covered by the INT**

We note that the proposed INT 20-02 “scopes-in” certain types of receivables subject to the 90-day rule to which the extension will apply by reference to SSAPs, specifically, SSAP No. 6, Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers, and SSAP No. 65, Property and Casualty Contracts. However, there are other receivables which are only covered in other SSAPs which are relevant and significant to health plans and which are also subject to the 90-day rule:

a. SSAP No. 47, *Uninsured Plans.* For Administrative Services Contract (ASC) business, health carriers have separate contracts with providers and customers and are obligated to pay providers out of their own funds before receiving reimbursement from the group. The provider contracts specifically state that health carriers will reimburse providers for services rendered regardless if the subscriber is covered by a self-funded or underwritten plan. Many health care providers have already received requests from their large ASC customers to allow them to delay payment to the carrier for claim reimbursements for up to 90 days.

b. SSAP No. 84, *Health Care and Government Insured Plan Receivables.* This SSAP provides accounting guidance relative to a number of types of receivables that are relevant and significant for health plans, of which three types are subject to the 90-day rule for purposes of determining if the asset will be treated as an admitted asset in statutory reporting. Interested parties request that two of those types of receivables, Pharmaceutical Rebate Receivables and Risk-Sharing Receivables, be “scoped-in” to INT 20-02. Anticipated changes in subscriber needs and utilization, combined with sub-optimal working environments at home for many health carriers’ staff who are involved with accounting and billing matters, presages difficulties in assuring that these receivables will hew to normal levels seen in non-crisis times.

c. SSAP No.6 paragraph 2 states that “This statement does not address uncollected and deferred premiums for Life considerations”. Interested parties request that life premiums be included in the scope.
Bringing the items specified in each of paragraphs a, b and c above in scope would then subject them to the same 90-day extension as other premium receivables currently described in the proposed INT 2020-02, and for which the same edits suggested by interested parties in the section below, Timing of the Extension of the 90-Day Rule, would apply.

**Timing of the Extension of the 90-Day Rule**

Interested parties spent some time discussing the wording that addresses how the extension of the 90-day rule is to be applied. Some interpreted the wording to only allow an extension of the rule for contracts that are issued between the date of the declaration of a state of emergency (March 13, 2020) and March 30, 2020, approximately 180 days before the final date of September 28, 2020 allowed for the extension in the draft INT.

To clarify the intent of allowing an extension of the 90-day rule for receivables that become over 90 days past due during the state of emergency, we recommend the following edits as marked below:

As a result of the declaration of a state of emergency by the U.S. federal government on March 13, 2020, 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 and for amounts due from policyholders for high deductible policies, as follows:

a. For policies in effect and current prior to the expiration date as of the declaration of a state of emergency declared by the U.S. federal government on March 13, 2020 and that later become past due, insurers may wait until September 28, 2020 an additional 90 days over and above the 90 days before nonadmitting premiums receivable from policyholders or agents as required per SSAP No. 6, paragraph 9 before nonadmitting premiums receivable from policyholders or agents.

b. For high deductible policies in effect and current prior to the expiration date as of the declaration of a state of emergency declared by the U.S. federal government on March 13, 2020 and that later become past due, insurers may wait until September 28, 2020 an additional 90 days over and above the 90 days before nonadmitting as amounts due from policyholders for high deductible policies required per SSAP No. 65, paragraph 37 before nonadmitting amounts due from policyholders for high deductible policies.

c. Existing impairment analysis remains in effect for these affected policies.

Interested parties recommend similar wording be added to include SSAP Nos. 47 and 84 in the scope of the INT 20-02 as well as life premiums.

Given the complexity of describing how the extension of the 90-day rule is to be applied and companies’ ability to apply an overly prescriptive extension, we ask the Working Group to consider a more practical approach that would suspend the 90-day rule for the identified SSAPs for 2nd and 3rd quarter 2020 reporting, or longer depending on the impact of COVID-19. This approach would be easier for all to understand and companies to apply.
INT 20-03T: Troubled Debt Restructuring Due to COVID-19

The Working Group reached a tentative consensus to clarify that a modification of mortgage loan terms in response to COVID-19 shall follow the provisions detailed in the March 22, 2020 “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” (detailed in paragraph 6) in determining whether the modification shall be reported as a troubled debt restructuring within SSAP No. 36.

This interpretation is effective for the specific purpose to address loan modifications in response to COVID-19. This interpretation will be considered for nullification when no longer applicable.

INT 20-04T: Mortgage Loan Impairment Assessment Due to COVID-19

In response to COVID-19, Congress and Federal and state prudential banking regulators have considered provisions pertaining to mortgage loans as a result of the effects of the COVID-19. These provisions are intended to be applicable for the term of the loan modification, but solely with respect to a modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019.

The Working Group reached a tentative consensus for limited time exceptions to defer assessments of impairment for mortgage loans and investments which predominantly hold underlying mortgage loans which are impacted by forbearance or modifications in response to COVID-19. These exceptions are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As such, the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements.

For modification programs designed to provide temporary relief for borrowers current as of December 31, 2019, the reporting entities may presume that borrowers are current on payments and are not experiencing financial difficulties at the time of the modification for purposes of determining impairment status and thus no further impairment analysis is required for each loan modification in the program. The exceptions granted in this interpretation are detailed as follows:

a. **SSAP No. 37—Mortgage Loans:** Provide a limited-time exception for assessing impairment under SSAP No. 37, paragraph 16, for mortgage loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a mortgage loan is OTTI.

b. **SSAP No. 30—Common Stock:** Provide a limited-time exception for assessing OTTI under SSAP No. 30, paragraph 10, and INT 06-07 due to fair value declines for SEC registered
funds that have underlying mortgage loans that have been deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, recognition of the OTTI shall continue to be required. As these investments are reported at fair value, declines in fair value would continue to be reported as unrealized losses.

c. **SSAP No. 43R—Loan-backed and Structured Securities**: Provide a limited-time exception for assessing OTTI under SSAP No. 43R, paragraphs 30-36, due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, then recognition of an OTTI shall continue to be required.

d. **SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies**: Provide a limited-time exception for assessing OTTI under SSAP No. 48 due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the entity intends to sell the security. Additionally, an OTTI shall be assessed if factors other than the mortgage loan forbearance or modification have resulted with a decline that is considered other than temporary, or the reporting entity does not believe it is probable they will collect the carrying amount of the investment.

As detailed in paragraph 10, the exceptions granted in this interpretation are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements, this interpretation will automatically expire as of September 29, 2020. This interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group’s website. This interpretation will be automatically nullified on September 29, 2020 and will be included as a nullified INT in Appendix H—Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

Interested parties appreciate the opportunity to comment on INT 20-03T, *Troubled Debt Restructuring Due to Covid-19*, and INT 02-04T, *Mortgage Loan Impairment Assessment Due to COVID-19*. We also appreciate the NAIC addressing these important topics so quickly given the effects COVID-19 has had on the economy and your consideration of how insurers may modify investments in their portfolios to mitigate adverse effects on borrowers. Given that insurers are large investors in the capital markets, we believe it is imperative that we be provided similar accounting relief for our investment portfolios as banks have been afforded in order to contribute to the ultimate economic recovery after COVID-19.

We agree that the relief provided by the various Banking regulators, and affirmed by the FASB, in their “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” (“Interagency Statement”) should be applicable to insurers for statutory reporting. Since U.S. GAAP accounting rules on troubled debt restructurings apply to debt investments as well, industry’s interpretation is that the Interagency Statement applies to debt investments and not just loans.
We note that Section 4013 of the “Coronavirus Aid, Relief, and Economic Security Act” or “CARES Act” seems to provide relief from the requirements of U.S. GAAP with respect to modifications which goes beyond the relief provided in the Interagency Statement. Additional clarity is needed with respect to the scope and application of the provisions in Section 4013 of the CARES Act. To the extent the provisions of this Federal Law change or supersede the guidance provided in the Interagency Statement, we believe the NAIC should amend or replace the guidance in INT 20-03T and 20-04T to align with such enacted law.

Because we view INT 20-03T and INT 20-04T to be interrelated, we offer the following comments for both INTs:

Scope of the INTs:

Interested parties believe the scope of both INT’s should be expanded to include debt investments (i.e., all those investments in the scope of SSAP No. 26R and SSAP 43R). Debt investments are a significant portion of insurers’ investment portfolios and we believe including them in the scope of the INTs will afford companies more of an opportunity to contribute to economic recovery after COVID-19.

The intent of the Interagency Statement was to encourage financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because they are experiencing short-term financial or operational problems due to the effects of COVID-19. Industry’s interpretation is that the scope of the Interagency Statement applied to debt investments, not just loans, since debt instruments, such as bonds, are also within the scope of ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors. As currently drafted, INT 20-03T is limited to mortgage loans, which is inconsistent with the scope of SSAP No. 36, Troubled Debt Restructuring. When insurers apply SSAP No. 36 today they apply it not only to loans, but also to debt investments. Interested parties request that the scope of INT 20-03T be broadened to include all lending activity in the scope of SSAP No. 36, which for insurers include debt investments (SSAP No. 26R and SSAP 43R) that are a significant portion of insurers’ investment portfolios, as long as a borrower was current on amounts due at the time of the modifications, relief provided by a lender was temporary and directly related to COVID-19, and the relief provided was insignificant. This is also consistent with U.S. GAAP, which requires FASB Topic 310-40 (Troubled Debt Restructurings for Creditors) to be applied to loans and debt. In summary, broadening the scope of INT 20-03T would be consistent with how insurers apply SSAP 36 and with the requirements of U.S. GAAP.

In addition, INT 20-04T, as currently written, is limited to mortgage loans or investments that are predominantly impacted by underlying mortgage loans. Insurers may provide the same type of temporary relief to various borrowers in other areas of their investment portfolios (i.e., non-mortgage loan related), including bank loans and debt investments. The intent of such modifications or relief is to mitigate adverse effects on borrowers due to COVID-19. As a result, we believe the scope of INT 20-04T also should be expanded to all investments in the scope of SSAP No. 26R and SSAP 43R.

Including SSAP No. 26R and SSAP 43R investments in the scope of both INTs would result in insignificant modifications for borrowers that are current at the time of the modification and that provide relief due to COVID-19 not being considered TDRs. Additionally, such modifications should not
trigger impairments; however, impairment assessments should not be delayed if relief/modifications provided by lenders are not directly related to COVID-19.

We would also like to confirm that any COVID-19 related modifications entered into while the Interpretation is in effect (at least until December 31, 2020) will not be considered TDRs or impairments for as long as the modification is in force.

Non-admitting Accrued Interest:

The Interagency Statement also discusses “past due” amounts and notes that amounts should not be reported as past due if the lender has granted a deferral or forbearance due to COVID-19 modifications discussed above. We believe that the relief in the Interagency Statement should be applicable to insurers for statutory reporting. Interested parties believe INT 20-04T should be expanded to address accrued interest income. That is, interest amounts accrued for mortgage loans that are deemed collectible, however are 180 days past due (based on the past due definition in SSAP No. 37) because of modifications discussed in this letter, should continue to be admitted assets. Additionally, accrued interest related to SSAP No. 26R and SSAP 43R investments where relief was provided due to COVID-19 also would continue to be admitted if more than 90 days past due (as defined in SSAP No. 34).

As the Interpretation is effective until nullified by the NAIC, interested parties seek to clarify that loans granted a short-term payment deferral that ends after the nullification would be admitted during the entire term of the short-term payment deferral, even if the deferral period ends after the Interpretation is nullified.

Limited Exception: 1st and 2nd Quarter- INT 20-04T

INT 20-04T provides for a limited exception for considering whether it is “probable” an investor would receive its contractual principal and interest payments when the investor provides temporary relief related to COVID-19. The limited exception is for only 1st and 2nd quarter statutory reporting. As insurers are a key lender to many businesses through commercial mortgage loans, bank loans, other SSAP No. 26R investments, SSAP 43R, and the many other types of investments discussed in INT 20-04T, to mitigate adverse effects to borrowers and help future recovery in the economy after COVID-19, interested parties believe relief should be provided beyond the 1st and 2nd quarters. As no one is able to predict the length of economic recovery, we believe providing an exception until at least 12/31/2020 would match the expected timeframe that insurers believe they will be addressing issues.”. At the very least, we believe the limited exception period should be revisited and re-assessed with industry prior to the date expiring.

In addition, interested parties interpreted INT 20-04T to mean that, if a modification were made in the 1st or 2nd quarter, and, the modified terms are insignificant and extend beyond the 2nd quarter, the 9/30/2020 expiration date in the INT would not be relevant. That is, IPs seek to clarify that loans granted a temporary modification during the exception period, but such modification period extends beyond the exception would continue to have the INT applied. We suggest clarification be provided in the INT to this point.

* * *
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
April 2, 2020

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

By e-mail to Julie Gann, Robin Marcotte, Jim Pinegar, Fatima Sediqzad and Jake Stultz


Dear Chairman Bruggeman:

America’s Health Insurance Plans (AHIP) is pleased to comment on the above referenced proposed Interpretation of the NAIC’s Statutory Accounting Principles Working Group (SAPWG).

First, we would like to take the opportunity to commend the NAIC and SAPWG on their swift action in dealing with the COVID-19 pandemic. We thank you for recognizing the difficulties with which consumers and insurance carriers are grappling, as well as the critical need for regulatory flexibility in these uncertain times. State regulators are being stretched to the limit, as are our members. We wanted to express our appreciation for your continued recognition of these difficulties and efforts to streamline and coordinate, even as you deal with the same inordinate time and resource challenges in the regulatory community.

We also want to thank you and NAIC staff for your time in conferring with us by phone on March 30. As we indicated on that call, and while AHIP is responding to INT 20-02 herein, we do not plan to respond to the other proposed SAPWG interpretations currently out for exposure which pertain to COVID-19, i.e., INT 20-01, INT 20-03 and INT 20-04. Also to follow-up on our call, AHIP will be providing you with separate letters in the near term with respect to concerns presented to health insurance plans from COVID-19 and the related impact of certain provisions of SSAP No. 84, Health Care and Government Insured Plan Receivables, and SSAP No. 106, Affordable Care Act Section 9010 Assessment.

With that, we have the following comments regarding the proposed extension of the Ninety-Day Rule:

- Given the pervasive economic impacts the crisis is having on firms and individuals, we expect temporary but potentially significant increases in past due receivables of health plans. Thus, AHIP strongly supports the concept of an extension of the Ninety-Day Rule due to COVID-19.
• While AHIP desires an extension that will remain in place longer than the proposed September 28 expiration of INT 20-02 as a “just-in-case measure”, we understand that SAPWG anticipates gauging the necessity for further extension as the expiration date nears and, if necessary, will consider at that time. We believe that such monitoring and willingness to consider a further extension in light of circumstances seen on the ground at that time to be an imperative.

• We note that the proposed INT 20-02 “scopes-in” certain types of receivables subject to the Ninety-Day Rule to which the extension will apply by reference to SSAPs, specifically, SSAP No. 6, Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers, and SSAP No. 65, Property and Casualty Contracts. However, there are other receivables which are only covered in other SSAPs which are relevant and significant to health plans and which are also subject to the Ninety-Day Rule:

  i. SSAP No. 47, Uninsured Plans: For Administrative Services Contract (ASC) business, health carriers have separate contracts with providers and customers and are obligated to pay providers out of their own funds before receiving reimbursement from the group. The provider contracts specifically state that health carriers will reimburse providers for services rendered regardless of whether the subscriber is covered by a self-funded or underwritten plan. Some AHIP members have already received requests from their large ASC customers to allow them to delay payment to the carrier for claim reimbursements for up to 90 days.

  ii. SSAP No. 84, Health Care and Government Insured Plan Receivables: This SSAP provides accounting guidance relative to a number of types of receivables that are relevant and significant for health plans, of which three types are subject to the Ninety-Day Rule for purposes of determining if the asset will be treated as an admitted asset in statutory reporting. AHIP requests that two of those types of receivables, Pharmaceutical Rebate Receivables and Risk-Sharing Receivables, be “scoped-in” to INT 20-02.1

Anticipated changes in subscriber needs and utilization, combined with sub-optimal working environments at home for many of our members’ staff who are involved with accounting and billing matters, presage difficulties in assuring that these receivables will hew to normal levels seen in non-crisis times. With these receivables scoped-in to INT 20-02, they would be subject to the same proposed extension provisions as for other receivables applicable to the Ninety-Day Rule.

1 The third type of receivable covered by SSAP No. 84 which is also subject to the Ninety-Day Rule is Loans and Advances to Providers. AHIP is not requesting that such balances be scoped-in to the proposed INT 20-02 at this time. However, AHIP has other comments unrelated to the application of the Ninety-Day Rule to Loans and Advances to Providers which we will forward in a separate letter.
Finally, AHIP has concerns with the Staff-drafted language in paragraphs 3a and 3b of INT 20-02. AHIP supports the substance of the Industry Interested Parties group’s suggested language, and would propose language consistent with theirs, such as the following:

For policies in effect and current prior to the expiration date as of the declaration of a state of emergency declared by the U.S. federal government on March 13, 2020 and that later become past due, insurers may wait until September 28, 2020 an additional 90 days over and above the 90 days before nonadmitting premiums receivable from policyholders or agents as required per SSAP No. 6, paragraph 9 before nonadmitting premiums receivable from policyholders or agents.

* * * * * * *

AHIP appreciates this opportunity to comment and would be glad to address any questions you or other SAPWG members may have at your convenience.

Sincerely,

America’s Health Insurance Plans

Bob Ridgeway
Bridgeway@AHIP.org
501-333-2621
April 2, 2020

Mr. Dale Bruggeman  
Chairman, Statutory Accounting Principles (E) Working Group  
Sent via e-mail: jgann@naic.org, jpinegar@naic.org, fseiizad@naic.org, jstultz@naic.org

Dear Chairman Bruggeman:

On behalf of the undersigned companies, thank you for your leadership in exposing INT 20-02, which extends the 90-day rule for admitted assets. As you are aware, dozens of states have issued guidance designed to give premium relief for their customers during the COVID-19 pandemic. Consequently, health insurers will experience delays in securing payment from our customers. We hope that this working group can give us the support we need to adequately plan for late premium payments.

While our companies are doing everything it can ease the financial impact of the pandemic to our clients and customers, we should not be penalized for receivables paid in excess of 90-days. While relief through the end of second quarter could be helpful, we believe that date will not give us sufficient time to admit expected assets. Therefore, we request that SAPWG extend the time frame contemplated in INT 20-02 from the end of the second quarter to the end of the third quarter. We believe this is the most likely scenario based on current estimates and will give our companies the certainty and direction it needs to plan during this pandemic. We hope you will agree this is a reasonable solution to unprecedented circumstances, and we strongly encourage the adoption of INT 20-02 with the amendment suggested by the undersigned insurers.

Thank you for considering our comments, as well as the comments of America’s Health Insurance Plans with which we are aligned. If you need additional information, please feel free to contact us.

Sincerely,

Amy Lazzaro  
VP, Regulatory Affairs, Cigna

Christine Cappiello  
VP, State Government Affairs, Anthem

Randi Reichel  
VP, Regulatory Affairs, UnitedHealth Group

Gregg Martino  
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MartinoG@aetna.com
March 30, 2020

Statutory Accounting Principles (E) Working Group
Attn: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Response to Exposure Draft INT 20-04T

Dear Mr. Bruggeman:

I am reaching out in response to the SAPWG’s Exposure Draft INT 20-4: Mortgage Loan Impairment Assessment Due to COVID-19. Specifically, I have a clarifying question and observation.

The Exposure Draft states the exceptions granted are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements. Further, it states the exceptions are not applicable in the September 30, 2020 (3rd quarter) financial statements and the interpretation will automatically expire as of September 29, 2020.

As such, as impairment is a ‘point-in-time’ assessment as of the balance sheet date, it is my understanding that loan modifications meeting the conditions set out in this Exposure Draft can therefore be modified up to September 29, 2020 in order for these exceptions to apply (i.e., not cut-off post June 30, 2020).

Further, we expect that certain of our impacted borrowers may not proactively request relief (modification) in the next few months. As such, if we believe it is possible that a borrower would not ask for relief until after the cut-off date above (e.g., during Q4 2020), it would seem this would encourage companies to proactively modify a larger number of loans now to avoid a more problematic accounting implication later. Any guidance or clarification on this observation would be appreciated. In addition, we would ask that you consider extending the guidance until the later of the cut-off date above or until COVID-19 is no longer considered a national emergency.

Thanks for your attention and consideration to these observations.

Sincerely,

Bud Graessle
VP, Controller, Treasurer, and Senior Accounting Officer
Bud.Graessle@OneAmerica.com

Cc: Steven Holland, OneAmerica VP of Commercial Mortgage Loans and Real Estate

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

Issue: Reference Rate Reform

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Description of Issue:
The Financial Accounting Standards Board (FASB) issued ASU 2020-04 Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting as a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or dedesignation if certain criteria are met.

Reference rate reform typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it would no longer require banks to continue rate submissions after 2021 – thus, likely sunsetting both the use and publication of LIBOR. An important item to note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform. For simplicity, LIBOR will be the sole IBOR referenced throughout this agenda item.

With a significant number of financial contracts referencing LIBOR, its discontinuance will require organizations to reevaluate and modify any contract which does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.

The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing such contracts and treating the modified contract as an entirely new contract or hedging relationship would 1) not provide decision-useful information to financial statement users and 2) require a reporting entity to incur significant costs in the financial statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

Stakeholders indicated that due to the significant volume of affected contracts and other arrangements, together with a compressed time frame for making contract modifications, the application of existing accounting standards...
on assessing modifications versus extinguishments could be costly and burdensome and financial reporting results should reflect the intended continuation and true economics of such arrangements. It is important to note this as the optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04 are applicable for all entities, however, are only effective as of March 12, 2020 through December 31, 2022.

Finally, while numerous alternative reference rates are available, the Federal Reserve has identified the Secured Overnight Financing Rate (SOFR) as its preferred alternative to LIBOR. SOFR is calculated using actual transactions and is considered a broad measure of the cost of borrowing cash overnight, fully collateralized by risk-free treasury securities. LIBOR, on the other hand, is set by a panel of banks submitting estimates of what they think their borrowing costs are and represents a benchmark rate that leading global banks charge each other for short-term loans, thus incorporating a degree of credit risk into the reference rate. Unlike SOFR, LIBOR is determined by the equilibrium between supply and demand in the funds market.

**General Principles:**

For contract modifications, hedging relationships, and other transactions affected by reference rate reform, the amendments provide temporary guidance that achieves the following:

1. Simplifies accounting analyses under current GAAP for contract modifications.
2. Allows hedging relationships to continue without dedesignation upon a change in certain critical terms.
3. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
4.Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.
5. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.

The overall scope is that for the modification of a contract (hedging or other) to be eligible for the accounting exceptions provided in ASU 2020-04, the contract must reference LIBOR, or a reference rate that is expected to be discontinued as a result of reference rate reform.

In relation to hedge accounting, without this accounting exception, a change in a contract’s reference rate could disallow the application of certain hedge accounting guidance, and certain hedging relationships may not qualify as highly effective during the period of the market-wide transition to a replacement rate. The inability to apply hedge accounting solely because of reference rate reform would result in financial reporting outcomes that do not reflect entities’ intended hedging strategies when those strategies continue to operate as effective hedges. ASU 2020-04 provides optional expedients that enable reporting entities to continue to apply hedge accounting for hedging relationships in which the critical terms change, but due to reference rate reform may no longer indicate the hedge is effective. The relief is temporary and cannot be applied to contract modifications that occur after December 31, 2022, or hedging relationships initiated or evaluated after that date. This is because the amendments in ASU 2020-04 are intended to provide relief related to the accounting requirements in GAAP due to the effects of the market-wide transition away from IBORs, the relief provided by the amendments is temporary in its application in alignment with the expected market transition period.

**Contract Modifications:**

First, the scope of ASU 2020-04 is intended to distinguish contract modifications that occur solely because of reference rate reform from other contract modifications that occur in the ordinary course of business, or for reasons unrelated to reference rate reform. Again, the scope of contract modifications that are eligible for the optional expedience (and not required to be remeasured) shall only include changes that are being made to the terms that
include the direct replacement of a reference rate or the potential to replace a reference rate from one variable rate to another variable rate. Other contemporaneously modified terms must also be related to the replacement of a reference rate because of reference rate reform. Solely modifying a term or a reference rate not affected by reference rate reform does not qualify for the expedience or the accounting exceptions provided in this update.

For qualifying contract modifications, the guidance generally allows a reporting entity to account for and report such modifications as an event that does not require the contract termination and remeasurement—thus the modifications are to be reported as a continuation of the existing contract. For the purpose of the amendments in ASU 2020-04, the terms that are permitted to be modified could be those in which affect or have the potential to affect the amount or timing of future cash flows or may include modifications of terms such as fallback provisions in a contract that are triggered upon a contingent event (such as the discontinuance of a reference rate). However, accounting for these changes as a continuation of the existing contract is only allowed if the modifications were required as a result of reference rate reform. Finally, minor contemporaneous changes to terms that do not affect or have the potential to affect the amount or timing of future cash flows are also permitted by ASU 2020-04.

For Receivable or Debt Contracts – A reporting entity shall account for the qualified contract modifications as a minor change, resulting in the modification being accounted for prospectively as a continuation of the exiting contract, while using the new reference rate/termin in the agreement.

For Leases – A reporting entity shall not reassess the lease classification, remeasure lease payments, or make other assessment, but rather the lease is accounted for prospectively as a continuation of the existing contract.

Overall Hedge Accounting:

The amendments in ASU 2020-04 provide several exceptions and optional expedients for applying hedge accounting guidance. If certain criteria are met, for hedging relationships, the guidance in ASU 2020-04 allows an entity to change the reference rate and certain other critical terms related to reference rate reform without having to redesignate the relationship and hedging transaction.

Summarized below are the four primary considerations for hedge accounting. Note, the exceptions noted below only relate to critical term changes as a result of reference rate reform. Thus, a contemporaneous change in other terms, not as a result of reference rate reform, does not qualify for the exception and optional expedient guidance herein.

1. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than redesignate the hedging relationship.
2. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.
3. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.
4. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

The temporary guidance in ASU 2020-04 only applies to eligible hedging relationships that currently exist or are entered into prior to December 31, 2022.

Fair Value Hedges

For fair value hedges, in which the designated benchmark interest rate is LIBOR, a reporting entity may change the hedged risk to another permitted benchmark interest rate without redesignating the relationship, as long as the
hedge is expected to remain highly effective in offsetting changes in fair value attributed to the revised hedged risk. The amendments in ASU 2020-04 require that an entity recognize in current earnings any change in fair value attributable to a change in an eligible benchmark interest rate.

Current GAAP allows an entity to apply the shortcut method for assessing hedge effectiveness of fair value hedges if certain conditions are met. For fair value hedges applying the shortcut method, the amendments in ASU 2020-04 provide an optional expedient to allow an entity to continue to use the shortcut method if the reference rate in the hedging instrument is replaced by another eligible benchmark interest rate. For an entity that qualifies for and elects to use the optional expedient, the entity would continue to use the shortcut method and recognize the changes in fair value of the hedging instrument as a fair value hedge basis adjustment of the hedged asset or hedged liability.

**Cash Flow Hedges**

For a cash flow hedge to qualify for hedge accounting, an entity must assert that the hedged forecasted transaction is probable of occurring. A change in the probability of the forecasted transaction may require that an entity discontinue hedge accounting and may affect the timing of recognizing in current earnings amounts previously deferred in accumulated other comprehensive income.

The amendments in ASU 2020-04 clarify that if the designated hedged risk in a hedged forecasted transaction references LIBOR or another rate that is expected to be discontinued because of reference rate reform, an entity may assert that the hedged forecasted transaction remains probable of occurring if the reference rate is replaced with another rate. However, the amendments require that an entity assess whether the underlying hedged forecasted transaction remains probable of occurring. A change to the designated hedged interest rate risk does not require a redesignation of a cash flow hedge of a forecasted transaction if the hedge is remains highly effective – that is if the entity can assert that the underlying cash flows remain probable, regardless of how the hedged risk and hedged forecasted transaction are documented.

Additionally, there may be periods of time during the transition to replacement rates in which a cash flow hedge would not be considered highly effective because of the basis differences between the reference rates in the hedging instrument and the reference rates in the hedged forecasted transaction. In these cases, if a hedging relationship qualifies for cash flow hedge accounting, all changes in the fair value of the derivative designated as the hedging instrument shall be deferred into accumulated other comprehensive income and recognized in earnings when the hedged forecasted transaction affects earnings. Despite the potential of a hedge not being considered highly effective (solely as a result of reference rate reform), the ASU designates that the reporting entity shall not discontinue hedge accounting and redesignate the hedging transaction. Again, the temporary relief provided cannot be applied to contract modifications after December 31, 2022, or with hedging relationships entered into or evaluated after that date.

NAIC Staff Final Hedge Comments:
For GAAP purposes, if an entity has not adopted the amendments in ASU 2017-12, Derivatives and Hedging, it is precluded from being able to utilize certain expedients for hedge accounting. Only the hedge documentation requirements were adopted for statutory accounting purposes, while the remainder of the items are still outstanding. **For statutory accounting, NAIC staff support allowing all available expedient methods permitted if an entity has elected ASU 2017-12 for GAAP purposes.**

**Other Items:**

ASU 2020-04 also allows an entity to make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held-to-maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020.
Note that, debt classification such as held-to-maturity, available-for-sale, or trading are not concepts employed by statutory accounting and thus are not applicable.

**Existing Authoritative Literature:**

ASU 2020-04 has affects related to several different Statements of Statutory Accounting Principles, each will be individually addressed.

**SSAP No. 15—Debt and Holding Company Obligations**

NAIC Staff comment – Debt and service agreement modifications as a result of reference rate reform should not rise to the level requiring a reversal and rebooking of the liability. SSAP No. 15, states such liabilities should only be derecognized if extinguished. A reference rate modification should not be interpreted as necessarily requiring re-recognition. Nonetheless, for clarity and consistency with ASU 2020-04, NAIC staff recommend the Working Group adopt this temporary guidance as appropriate for SSAP No. 15.

11. A reporting entity shall derecognize a liability if, and only if, it has been extinguished. A liability has been extinguished if either of the following conditions is met:

   a. The reporting entity pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes delivery of cash, other financial assets, goods or services, or reacquisition by the debtor of its outstanding debt securities; or

   b. The reporting entity is legally released from being the primary obligor under the liability, either judicially or by the creditor.

15. Modifications to or exchanges of line-of-credit or revolving-debt arrangements, including the accounting for unamortized costs at the time of the change, fees paid to or received from the creditor and third-party costs incurred shall be expensed when incurred.

**SSAP No. 22R—Leases**

NAIC Staff comment – lease modifications, solely caused by reference rate reform and ones eligible for optional expedience (modifications only being made to the terms that include the direct replacement of a reference rate or the potential to replace a reference rate from one variable rate to another variable rate) likely do not rise to the level of a modification requiring recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, NAIC staff recommend the Working Group adopt this temporary guidance as appropriate for SSAP No. 22R.

**Modification**

17. An entity shall account for a modification to a contract as a separate contract (that is, separate from the original contract) when both of the following conditions are present:

   a. The modification grants the lessee an additional right of use not included in the original lease (for example, the right to use an additional asset).

   b. The lease payments increase commensurate with the standalone price for the additional right of use, adjusted for the circumstances of the particular contract. For example, the standalone price for the lease of one floor of an office building in which the lessee already leases other floors in that building may be different from the standalone price of a similar
floor in a different office building, because it was not necessary for a lessor to incur costs that it would have incurred for a new lessee.

18. An entity shall account for initial direct costs, lease incentives and any other payments made to or by the entity in connection with a modification to a lease in the same manner as those items would be accounted for in connection with a new lease.

Accounting and Reporting by Lessees

19. All leases shall be considered operating leases, which means that rental expense is recognized over the lease term, without recognition of a right-to-use asset or lease liability. Rent on operating leases, reflecting all lease considerations in paragraph 20, shall be charged to expense on a straight-line basis over the lease term. Statutory accounting rejects the recognition of a right-to-use lease asset and the associated lease liabilities.

20. The consideration in the contract for a lessee includes all of the following payments that will be made during the lease term:

a. Any fixed payments (for example, monthly service charges) or in substance fixed payments, less any incentives paid or payable to the lessee.

b. Any other variable payments that depend on an index or a rate, initially measured using the index or rate at the commencement date.

SSAP No. 86—Derivatives

NAIC Staff comment – The modifications in ASU 2020-04 most primarily address hedge accounting and the allowance for a reporting entity to change the reference rate and other critical terms related to reference rate reform without having it redesignate the hedging relationship. While alternative benchmark interest rates were previously addressed in agenda item 2018-46 – Benchmark Interest Rate, the accounting for hedged transactions is noted below, with applicable areas bolded for emphasis.

Relevant/Applicable of Overview of existing SAP Accounting – SSAP No. 86

12. “Benchmark Interest Rate” is a widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions. In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate. In the United States, the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate, the Fed Funds Effective Rate Overnight Index Swap Rate, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate, and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate are considered to be benchmark interest rates.

Derivatives Used in Hedging Transactions

20. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet...
the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply
hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded
as unrealized gains or unrealized losses (referred to as fair value accounting).

21. Entities shall not bifurcate the effectiveness of derivatives. A derivative instrument is either classified
as an effective hedge or an ineffective hedge. Entities must account for the derivative using fair value
accounting if it is deemed to be ineffective or becomes ineffective. Entities may redesignate a derivative in
a hedging relationship even though the derivative was used in a previous hedging relationship that proved
to be ineffective. A change in the counterparty to a derivative instrument that has been designated
as the hedging instrument in an existing hedging relationship would not, in and of itself, be
considered a termination of the derivative instrument. An entity shall prospectively discontinue hedge
accounting for an existing hedge if any one of the following occurs:

   a. Any criterion in paragraphs 24-36 is no longer met;

   b. The derivative expires or is sold, terminated, or exercised (the effect is recorded as realized
      gains or losses or, for effective hedges of firm commitments or forecasted transactions, in
      a manner that is consistent with the hedged transaction – see paragraph 22);

   c. The entity removes the designation of the hedge; or

   d. The derivative is deemed to be impaired in accordance with paragraph 17. A permanent
decline in a counterparty’s credit quality/rating is one example of impairment required by
paragraph 17, for derivatives used in hedging transactions.

22. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash
flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow
of the hedged asset, liability, firm commitment or forecasted transaction are recorded. Upon termination
of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the
hedged item and be recognized in income in a manner that is consistent with the hedged item
(alternatively, if the item being hedged is subject to IMR, the gain or loss on the hedging derivative
may be realized and shall be subject to IMR upon termination.) Entities who choose the alternative
method shall apply it consistently thereafter.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E)
Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item
2018-46 – Benchmark Interest Rate, incorporated revisions to SSAP No. 86, adding the Securities Industry
and Financial Markets (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight
Index Swap (OIS) Rate as acceptable benchmark interest rates for hedge accounting. Prior to this change, only
LIBOR and the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) were considered
acceptable benchmark interest rates.

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

Convergence with International Financial Reporting Standards (IFRS): IFRS has taken a similar approach
when considering Reference Rate Reform’s impact on IFRS 9 (Financial Instruments), IAS 39 (Recognition and
Measurement), and IFRS 7 (Financial Instruments – Disclosures).

Staff Recommendation: Staff recommends that the Working Group move this item to the active listing,
categorized as nonsubstantive and expose temporary (optional) expedient and exception interpretative
guidance, with a sunset date of December 31, 2022. These optional expedients would allow entities (under
certain circumstances) to avoid having to remeasure contracts or reassess a previous accounting
determination for hedged items. With this guidance, reporting entities would be allowed to make specific contract modifications and account for them on a prospective basis. Further, entities would be allowed to continue applying hedge accounting for hedging relationships affected by reference rate reform. Note: NAIC staff support adoption of this ASU, with the only modification related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

The proposed extension temporarily overrides guidance in SSAP No. 15, SSAP No. 22R and SSAP No. 86 for affected policies, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Feedback is requested from regulators if a disclosure of the volume of contracts affected by LIBOR would be beneficial. While ASU 2020-04 did not contain significant disclosure requirements, the results of any SAP disclosure would not be able to ascertain the magnitude of the contract value affected by electing the optional expedient and exception guidance, however, could contain the items such as contact count and notional value.

Staff Review Completed by: Jim Pinegar, NAIC Staff – March 2020

Status:
On March 26, 2020, the Statutory Accounting Principles (E) Working Group conducted an email vote to expose INT 20-01T: ASU 2020-04 - Reference Rate Reform.

On April 15, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, Interpretation 20-01: ASU 2020-04 – Reference Rate Reform allowing temporary (optional) expedient and exception interpretative guidance, with a sunset date of December 31, 2022. These optional expedients would allow entities (under certain circumstances) to avoid having to remeasure contracts or reassess a previous accounting determination for hedged items.
Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-01: ASU 2020-04 - Reference Rate Reform

INT 20-01 Dates Discussed

Email Vote to Expose March 26, 2020; April 15, 2020

INT 20-01 References

Current:
SSAP No. 15—Debt and Holding Company Obligations
SSAP No. 22R—Leases
SSAP No. 86—Derivatives

This INT applies to all SSAPs with contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.

INT 20-01 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of ASU 2020-04 – Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued ASU 2020-04 in March 2020 as optional, transitional and expedient guidance as a result of reference rate reform.

2. Reference rate reform typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it will no longer require banks to continue LIBOR submissions after 2021 – likely sunsetting both the use and publication of LIBOR. An important note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform.

3. With a significant number of financial contracts solely referencing IBORs, their discontinuance will require organizations to reevaluate and modify any contract that does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a redesignation of the transaction.

4. The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing such contracts and treating the modified contract as an entirely new contract or hedging relationship would
1) not provide decision-useful information to financial statement users and 2) require a reporting entity to incur significant costs in the financial statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

5. Guidance in ASU 2020-04 allows a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or redesignation if certain criteria are met.

6. The optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04 are applicable for all entities. However, they are only effective as of March 12, 2020 through December 31, 2022. This is because the amendments in ASU 2020-04 are intended to provide relief related to the accounting requirements in generally accepted accounting principles (GAAP) due to the effects of the market-wide transition away from IBORs. The relief provided by the amendments is temporary in its application in alignment with the expected market transition period. However, the FASB will monitor the market-wide IBOR transition to determine whether future developments warrant any changes, including changes to the end date of the application of the amendments in this ASU. If such an update occurs, the Working Group may also consider similar action. It is not expected that the Working Group will take action prior to or in the absence of a FASB amendment.

7. The accounting issues are:
   a. Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?
   b. Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?
   c. Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?
   d. Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?

**INT 20-01 Discussion**

8. For Issue 1, the Working Group came to the consensus that ASU 2020-04 shall be adopted, to include the same scope of applicable contracts or transactions for statutory accounting with the only modification related to a concept not utilized by statutory accounting, as noted below. The Working Group agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:
   a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.
      i. All contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.
   b. Allows hedging relationships to continue without redesignation upon a change in certain critical terms.
   c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.

e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.

f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

9. For Issue 2, the Working Group came to the consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

10. For Issue 3, the Working Group came to the consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a consensus that if an eligible lease affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

11. For Issue 4, the Working Group came to the consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:

   a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than desiginate the hedging relationship.

   b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.

   c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.

   d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

12. Additionally, for GAAP purposes, if an entity has not adopted the amendments in ASU 2017-12, Derivatives and Hedging, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.
INT 20-01 Status

13. No further discussion is planned.
Interpretation of the Statutory Accounting Principles Working Group


INT 20-02 Dates Discussed

Email Vote to Expose March 26, 2020; April 15, 2020

INT 20-02 References

SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers (SSAP No. 6)
SSAP No. 47—Uninsured Plans (SSAP No. 47)
SSAP No. 51—Life Contracts (SSAP No. 51)
SSAP No. 65—Property and Casualty Contracts (SSAP No. 65)

INT 20-02 Issue

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This has led to a significant increase in unemployment and, in certain states, mandatory closure of many businesses. Total economic damage is still being assessed however, the total impact is likely to exceed $1 trillion in the U.S. alone. This interpretation is intended to cover policies impacted by COVID-19.

2. Should a temporary extension of the 90-day rule, extending the nonadmission guidance for premium receivables due from policyholders or agents and for amounts due from policyholders for high deductible policies, and for uncollected uninsured plan receivables (excluding Medicare and similar government plans) be granted for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements, for policies in U.S. jurisdictions that have been impacted by COVID-19?

INT 20-02 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 and for amounts due from policyholders for high deductible policies and amounts due from non-government uninsured plans, as follows:

   a. For policies in effect and current prior to the date as of the declaration of a state of emergency by the U.S. federal government on March 13, 2020 and policies written or renewed on or after March 13, insurers may follow the timeline described in paragraph 5 before nonadmitting premiums receivable from policyholders or agents as required per SSAP No. 6, paragraph 9.

   b. For uncollected uninsured plan receivables (excluding Medicare and similar government plans) which were current prior to the date of the declaration of a state of emergency by the U.S. federal government on March 13, 2020 and policies written or renewed on or after March 13, insurers may follow the timeline described in paragraph 5 before nonadmitting these balances as required per SSAP No. 47, paragraph 10.a.
c. For life premium due and uncollected which were current prior to the date of the declaration of a state of emergency by the U.S. federal government on March 13, 2020, and policies written or renewed on or after March 13, insurers may follow the timeline described in paragraph 5 before nonadmitting these balances as required per SSAP No. 51R, paragraph 12.

d. For high deductible policies in effect and current prior to the date of the declaration of a state of emergency by the U.S. federal government on March 13, 2020 and policies written or renewed on or after March 13, insurers may follow the timeline described in paragraph 5 before nonadmitting amounts due from policyholders for high deductible policies as required per SSAP No. 65, paragraph 37.

e. Existing impairment analysis remains in effect for these affected policies.

4. The Working Group noted that a 60-day extension had been granted previously for regionally significant catastrophes, including 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, INT 17-01: Extension of Ninety-Day Rule for the Impact of Hurricane Harvey, Hurricane Irma and Hurricane Maria, and INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael. This recommendation is for a longer period than the extensions that have been granted in the past as COVID-19 is a nationally significant event due to the expected overall impact to the U.S. economy.

5. Due to the short-term nature of this extension, which is only applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only for the categories of assets listed in paragraph 3, this interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group’s website. This INT will allow assets that meet the definition of paragraph 3 to be admitted assets even if they are greater than 90 days past due. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements, this interpretation will automatically expire as of September 29, 2020. This interpretation will be automatically nullified on September 29, 2020 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

INT 20-02 Status

6. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.
Interpretation of the Statutory Accounting Principles Working Group

INT 20-03: Troubled Debt Restructuring Due to COVID-19

INT 20-03 Dates Discussed

Email Vote to Expose March 26, 2020; April 15, 2020

INT 20-03 References

SSAP No. 36—Troubled Debt Restructuring

INT 20-03 Issue

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

2. In response to COVID-19, Congress and Federal and state prudential banking regulators have considered provisions pertaining to mortgage loans as a result of the effects of the COVID-19. These provisions are intended to be applicable for the term of the loan modification, but solely with respect to a modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019.

3. Furthermore, guidance has been issued by the Financial Condition (E) Committee to all U.S. insurers filing with the NAIC in an effort to encourage insurers to work with borrowers who are unable to, or may become unable to meet their contractual payment obligations because of the effects of COVID-19. As detailed in that guidance, the Committee, which is the NAIC parent committee of all the solvency policy making task forces and working groups of the NAIC, supports the use of prudent loan modifications that can mitigate the impact of COVID-19.

4. This interpretation considers the interagency guidance issued by Federal and state prudential banking regulators on March 22, 2020 addressing whether the modification of mortgage loan or bank loan terms in response to COVID-19 shall be considered a troubled debt restructuring.

INT 20-03 Discussion

5. SSAP No. 36—Troubled Debt Restructuring provides guidance, predominantly adopted from U.S. GAAP, in determining whether a debt restructuring is considered a troubled debt restructuring. Additionally, SSAP No. 36 provides accounting and disclosure guidance when a troubled debt restructuring has been deemed to occur. Pursuant to existing guidance in SSAP No. 36, a debt restructuring is not necessarily considered a troubled debt restructuring and a creditor must assess whether the debtor is experiencing financial difficulties. The guidance also indicates that a delay in payment that is insignificant is not a concession

6. On March 22, 2020, the Federal and state prudential banking regulators issued a joint statement that included guidance on their approach to the accounting for loan modifications in light of the economic impact of the
coronavirus pandemic. The guidance was developed in consultation with the staff of the FASB who concur with the approach and indicated that they stand ready to assist stakeholders with any questions. This interagency statement is provided below and is accessible through the FASB response via the following link:

https://fasb.org/cs/Satellite?c=FASBContent_C&cid=1176174374016&pagename=FASB%2FFASBContent_C%2FNewsPage

Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the State Banking Regulators (hereafter, the agencies), are issuing this interagency statement to provide additional information to financial institutions who are working with borrowers affected by the Coronavirus Disease 2019 (also referred to as COVID-19). The United States has been operating under a presidentially declared emergency since March 13, 2020, and financial institutions and their customers are affected by COVID-19. The agencies understand that this unique and evolving situation could pose temporary business disruptions and challenges that affect banks, credit unions, businesses, borrowers, and the economy. The agencies will continue to communicate with the industry as this situation unfolds, including through additional statements, webinars, frequently asked questions, and other means, as appropriate.

Working with Customers

The agencies encourage financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. The agencies view loan modification programs as positive actions that can mitigate adverse affects on borrowers due to COVID-19. The agencies will not criticize institutions for working with borrowers and will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructurings (TDRs). The agencies will not criticize financial institutions that mitigate credit risk through prudent actions consistent with safe and sound practices. The agencies consider such proactive actions to be in the best interest of institutions, their borrowers, and the economy. This approach is consistent with the agencies’ longstanding practice of encouraging financial institutions to assist borrowers in times of natural disaster and other extreme events. The agencies also will not criticize institutions that work with borrowers as part of a risk mitigation strategy intended to improve an existing non-pass loan.

Accounting for Loan Modifications

Modifications of loan terms do not automatically result in TDRs. According to U.S. GAAP, a restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies have confirmed with staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Working with borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered TDRs. For modification programs designed to provide temporary relief for current borrowers affected by COVID-19, financial institutions may presume that borrowers that are current on payments are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program.
Modification or deferral programs mandated by the federal or a state government related to COVID-19 would not be in the scope of ASC 310-40, e.g., a state program that requires all institutions within that state to suspend mortgage payments for a specified period.

The agencies’ examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs. Regardless of whether modifications result in loans that are considered TDRs or are adversely classified, agency examiners will not criticize prudent efforts to modify the terms on existing loans to affected customers.

In addition, the FRB, the FDIC, and the OCC note that efforts to work with borrowers of one-to four family residential mortgages as described in the modification section of this document, where the loans are prudently underwritten, and not past due or carried in nonaccrual status, will not result in the loans being considered restructured or modified for the purposes of their respective risk-based capital rules.

Past Due Reporting

With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan’s payment date is governed by the due date stipulated in the legal loan documents. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral.

Nonaccrual Status and Charge-offs

Each financial institution should refer to the applicable regulatory reporting instructions, as well as its internal accounting policies, to determine if loans to stressed borrowers should be reported as nonaccrual assets in regulatory reports. However, during the short-term arrangements discussed in this statement, these loans generally should not be reported as nonaccrual. As more information becomes available indicating a specific loan will not be repaid, institutions should refer to the charge-off guidance in the instructions for the Consolidated Reports of Condition and Income.

Discount Window Eligibility

Institutions are reminded that loans that have been restructured as described under this statement will continue to be eligible as collateral at the FRB’s discount window based on the usual criteria.

7. On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The provisions in Section 4013 specifically address temporary relief from troubled debt restructurings:

SEC. 4013. TEMPORARY RELIEF FROM TROUBLED DEBT RESTRUCTURINGS.

(a) DEFINITIONS.—In this section:

(1) APPLICABLE PERIOD.—The term “applicable period” means the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.

(2) APPROPRIATE FEDERAL BANKING AGENCY.—The term “appropriate Federal banking agency”—(A) has the meaning given the term in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813); and (B) includes the National Credit Union Administration.
(b) SUSPENSION.—

(1) IN GENERAL.—During the applicable period, a financial institution may elect to— (A) suspend the requirements under United States generally accepted accounting principles for loan modifications related to the coronavirus disease 2019 (COVID–19) pandemic that would otherwise be categorized as a troubled debt restructuring; and (B) suspend any determination of a loan modified as a result of the effects of the coronavirus disease 2019 (COVID–19) pandemic as being a troubled debt restructuring, including impairment for accounting purposes.

(2) APPLICABILITY.—Any suspension under paragraph (1)—

(A) shall be applicable for the term of the loan modification, but solely with respect to any modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019; and

(B) shall not apply to any adverse impact on the credit of a borrower that is not related to the coronavirus disease 2019 (COVID–19) pandemic.

(c) DEFERENCE.—The appropriate Federal banking agency of the financial institution shall defer to the determination of the financial institution to make a suspension under this section.

(d) RECORDS.—For modified loans for which suspensions under subsection (a) apply—

(1) financial institutions should continue to maintain records of the volume of loans involved; and

(2) the appropriate Federal banking agencies may collect data about such loans for supervisory purposes.

8. On April 7, 2020, the Federal and state prudential banking regulators issued a revised joint statement to reflect the issuance of the CARES Act:


Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)

The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB) (hereafter, the agencies), in consultation with the state financial regulators, are issuing this revised interagency statement to provide additional information to financial institutions that are working with borrowers affected by the Coronavirus Disease 2019 (also referred to as COVID19). The United States has been operating under a presidentially declared emergency since March 13, 2020 (National Emergency). The agencies understand that this unique and evolving situation could pose temporary business disruptions and challenges that affect banks, credit unions, businesses, borrowers, and the economy.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. As discussed in more detail below, the CARES Act creates a forbearance program for federally backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the National Emergency, and provides financial institutions the option to temporarily suspend certain requirements under U.S. generally accepted accounting principles (GAAP) related to troubled debt restructurings (TDR) for a limited period of time to account for the effects of COVID-19.
The agencies originally issued a statement on March 22, 2020, to encourage financial institutions to work prudently with borrowers and to describe the agencies’ interpretation of how current accounting rules under U.S. GAAP apply to certain COVID-19-related modifications. This revised interagency statement clarifies the interaction between the March 22, 2020, interagency statement and section 4013 of the CARES Act, Temporary Relief from Troubled Debt Restructurings (section 4013), as well as the agencies’ views on consumer protection considerations. The agencies will continue to communicate with the industry as this situation unfolds, including through additional statements, webinars, frequently asked questions, and other means, as appropriate.

Working with Customers: General Safety and Soundness Considerations

The agencies encourage financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. The agencies view loan modification programs as positive actions that can mitigate adverse effects on borrowers due to COVID-19. The agencies will not criticize institutions for working with borrowers in a safe and sound manner. As described below, institutions generally do not need to categorize COVID-19-related modifications as TDRs, and the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs.

The agencies will not criticize financial institutions that mitigate credit risk through prudent actions consistent with safe and sound practices. The agencies consider such proactive measures to be in the best interest of institutions, their borrowers, and the economy. This approach is consistent with the agencies’ longstanding practice of encouraging financial institutions to assist borrowers in times of natural disaster and other extreme events although the agencies recognize that the effects of this event are particularly extreme and broad-based. The agencies also will not criticize institutions that work with borrowers as part of a risk mitigation strategy intended to improve an existing non-pass loan.

Financial institutions have broad discretion to implement prudent modification programs consistent with the framework included in this statement.

Accounting and Reporting Considerations

As provided for under the CARES Act, a financial institution may account for an eligible loan modification either under section 4013 or in accordance with ASC Subtopic 310-40. If a loan modification is not eligible under section 4013, or if the institution elects not to account for the loan modification under section 4013, the financial institution should evaluate whether the modified loan is a TDR.

**Accounting for Loan Modifications under Section 4013**

To be an eligible loan under section 4013 (section 4013 loan), a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020 (applicable period).

Financial institutions accounting for eligible loans under section 4013 are not required to apply ASC Subtopic 310-40 to the section 4013 loans for the term of the loan modification. Financial institutions do not have to report section 4013 loans as TDRs in regulatory reports. However, consistent with section 4013, financial institutions should maintain records of the volume of section 4013 loans. Data about section 4013 loans may be collected for supervisory purposes. Institutions do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, or loan extensions). For the most recent information on reporting requirements for section 4013 loans, refer to the Federal Financial Institutions Examination Council Instructions.
Accounting for other Loan Modifications Not under Section 4013

There are circumstances in which a loan modification may not be eligible under Section 4013 or in which an institution elects not to apply Section 4013. For example, a loan that is modified after the end of the applicable period would not be eligible under Section 4013. For such loans, the guidance below applies.

Modifications of loan terms do not automatically result in TDRs. According to ASC Subtopic 310-40, a restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies have confirmed with staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs under ASC Subtopic 310-40. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Accordingly, working with borrowers who are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19 generally would not be considered TDRs. More specifically, financial institutions may presume that borrowers are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program, if:

- The modification is in response to the National Emergency;
- The borrower was current on payments at the time the modification program is implemented; and
- The modification is short-term (e.g., six months).

Government-mandated modification or deferral programs related to COVID-19 would not be in the scope of ASC Subtopic 310-40, for example, a state program that requires institutions to suspend mortgage payments within that state for a specified period.

Credit Risk

The agencies’ examiners will exercise judgment in reviewing loan modifications and will not automatically adversely risk rate credits that are affected by COVID-19. All loan modifications should comply with applicable laws and regulations and be consistent with safe and sound practices (including maintenance of appropriate allowances for loan and lease losses or allowances for credit losses, as applicable). Regardless of whether modifications result in loans that are considered TDRs, section 4013 loans, or are adversely classified, agency examiners will not criticize prudent efforts to modify the terms on existing loans to affected customers.

Regulatory Capital

The FRB, the FDIC, and the OCC note that efforts to work with borrowers of one-to-four family residential mortgages as described above, where the loans are prudently underwritten, and not 90 days or more past due or carried in nonaccruing status, will not result in the loans being considered restructured or modified for the purposes of their respective risk-based capital rules.

Past Due Reporting

With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan’s payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral.
Nonaccrual Status and Charge-offs

Each financial institution should refer to the applicable regulatory reporting instructions, as well as its internal accounting policies, to determine if loans to stressed borrowers should be reported as nonaccrual assets in regulatory reports. However, during the short-term arrangements discussed in this statement, these loans generally should not be reported as nonaccrual. As more information becomes available indicating a specific loan will not be repaid, institutions should refer to the charge-off guidance in the instructions for the Consolidated Reports of Condition and Income.

Discount Window Eligibility

Institutions are reminded that loans that have been restructured as described under this statement will generally continue to be eligible as collateral at the FRB’s discount window based on the usual criteria.

Working with Customers: Consumer Protection Considerations

The agencies encourage financial institutions to consider prudent arrangements that can ease cash flow pressures on affected borrowers, improve their capacity to service debt, increase the potential for financially stressed residential borrowers to keep their homes, and facilitate the financial institution’s ability to collect on its loans. Additionally, such prudent arrangements may mitigate the long-term impact of this emergency on consumers by avoiding delinquencies and other adverse consequences.

When working with borrowers, lenders and servicers should adhere to consumer protection requirements, including fair lending laws, to provide the opportunity for all borrowers to benefit from these arrangements. When exercising supervisory and enforcement responsibilities, the agencies will take into account the unique circumstances impacting borrowers and institutions resulting from the National Emergency. The agencies will take into account an institution’s good-faith efforts demonstrably designed to support consumers and comply with consumer protection laws. The agencies expect that supervisory feedback for institutions will be focused on identifying issues, correcting deficiencies, and ensuring appropriate remediation to consumers. The agencies do not expect to take a consumer compliance public enforcement action against an institution, provided that the circumstances were related to the National Emergency and that the institution made good faith efforts to support borrowers and comply with the consumer protection requirements, as well as responded to any needed corrective action.

INT 20-03 Consensus

9. The Working Group reached a consensus to clarify that a modification of mortgage loan or bank loan terms in response to COVID-19 shall follow the provisions detailed in the April 7, 2020 “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” (detailed in paragraph 8) and the provisions of the CARES Act (detailed in paragraph 7) in determining whether the modification shall be reported as a troubled debt restructuring within SSAP No. 36.

10. This interpretation is effective for the specific purpose to address loan modifications in response to COVID-19. Consistent with the CARES act, this interpretation is only applicable for the term of the loan modification, but solely with respect to any modification, including a forbearance arrangement, interest rate modification, a repayment plan and other similar arrangement that defer or delays the payment of principal or interest for a loan that was not more than 30 days past due as of December 31, 2019. As determined in the CARES Act, this interpretation will only be applicable for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.
INT 20-03 Status

11. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.
Interpretation of the Statutory Accounting Principles Working Group

INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19

INT 20-04 Dates Discussed

Email Vote to Expose March 26, 2020; April 15, 2020

INT 20-04 References

SSAP No. 26R—Bonds
SSAP No. 30—Common Stock
SSAP No. 37—Mortgage Loans
SSAP No. 43R—Loan-backed and Structured Securities
SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies

INT 20-04 Issue

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

2. In response to COVID-19, Congress and Federal and state prudential banking regulators have considered provisions pertaining to loans as a result of the effects of the COVID-19. While primarily related to mortgage loans, these provisions are intended to be applicable for the term of a loan modification, but solely with respect to a modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019.

3. Furthermore, guidance has been issued by the Financial Condition (E) Committee to all U.S. insurers filing with the NAIC in an effort to encourage insurers to work with borrowers who are unable to, or may become unable to meet their contractual payment obligations because of the effects of COVID-19. As detailed in that guidance, the Committee, which is the NAIC parent committee of all the solvency policy making task forces and working groups of the NAIC, supports the use of prudent loan modifications that can mitigate the impact of COVID-19.

4. This interpretation intends to address the impact of loan forbearance or prudent modifications on the statutory accounting and reporting requirements for bank loans, mortgage loans, as well as investments with underlying mortgage loans. Particularly, this interpretation considers whether a temporary, limited-time statutory exception for the assessment of impairment shall be granted for bank loans, mortgage loans and investment products with underlying mortgage loans. This exception would only defer the assessment of impairment due to situations caused by the forbearance or modification of mortgage loan payments and would not delay the recognition of other than temporary impairments if the entity made a decision to sell the investment and/or if provisions other than the limited-time forbearance or modifications of mortgage loans payments caused the entity to identify that they would not recover the reported carrying value of the investment.
INT 20-04 Discussion

5. Although a variety of structures have the potential to be impacted by the economic stimulus provisions, this interpretation is limited to investments specifically identified. Except for the specific inclusion of bank loans, this interpretation does not include investments captured in scope of SSAP No. 26R—Bonds or investments captured in the identified standards that are not predominantly impacted by underlying mortgage loans with forbearance or modification provisions in response to COVID-19. Investments in scope of this interpretation include:

   a. SSAP No. 26R—Bonds: Bank loans in scope of SSAP No. 26R

   b. SSAP No. 37—Mortgage Loans: All mortgage loans in scope of SSAP No. 37.

   c. SSAP No. 30—Common Stock: SEC registered investments with underlying mortgage loans (e.g., mortgage-backed mutual funds).

   d. SSAP No. 43R—Loan-backed and Structured Securities: Securities in scope of SSAP No. 43R with underlying mortgage loans. This includes residential and commercial mortgage-backed securities (RMBS & CMBS), and credit risk transfers (CRTs) issued through government sponsored enterprises (GSEs). Other investments in scope of SSAP No. 43R are also captured within this interpretation if the underlying investments predominantly reflect mortgage loan products.

   e. SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies: Investments in scope of SSAP No. 48 that have underlying characteristics of mortgage loans. These investments could include private equity mortgage loan funds.

Bank Loans

6. Bank loans, if meeting certain parameters, are in scope of SSAP No. 26R—Bonds. Bank loans per SSAP No. 26R, are defined as fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans can be issued directly by a reporting entity or acquired through an assignment, participation or syndication. The guidance in SSAP No. 26R states an other-than-temporary impairment shall be considered to have occurred if it is probable the reporting entity will be unable to collect amounts due according to the contract terms of a debt security in effect at the date of issue/acquisition. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. The impairment guidance applicable to bank loans states that if it is probable or if repayment does not occur according to the terms of the original contract (i.e. payment timing and amounts), an impairment shall be considered to have occurred.

Mortgage Loans

7. Mortgage loans are in scope of SSAP No. 37—Mortgage Loans and reported on Schedule B: Mortgage Loans. The guidance in SSAP No. 37, paragraph 16 identifies that a mortgage loan shall be considered impaired when mortgage loan payments are not received in accordance with the contractual terms of the mortgage agreement. As such, a deference or modification of mortgage loan payments (whether interest or principal) would ordinarily trigger an impaired classification and require impairment assessment under SSAP No. 37. The guidance in SSAP No. 37 utilizes a valuation allowance to recognize unrealized losses from impairment assessments and permits subsequent reversals of unrealized losses reflected in the valuation allowance based on subsequent assessments. If an impairment is deemed other than temporary, the unrealized loss is realized without the potential for subsequent recoveries.
SEC Registered Funds with Underlying Mortgage Loans

8. The scope of *SSAP No. 30—Common Stock* includes SEC registered open-end investment companies (mutual funds), closed-end funds and unit investment trusts, regardless of the types or mix of securities owned by the fund. Investments in scope of this statement include mortgage-backed mutual funds and other such investments. Items in scope of SSAP No. 30 are reported on Schedule D-2-2: Common Stock. These investments are reported at fair value, with changes in fair value recognized as unrealized gains or losses. The guidance in SSAP No. 30 requires recognition of an other than temporary impairment (OTTI) (realized loss) if a reporting entity decides to sell the security at an amount below its carrying value or if the decline in fair value is determined to be other than temporary pursuant to *INT 06-07: Definition of Phrase “Other Than Temporary.”* As investments in scope of SSAP No. 30 are reported at fair value, subsequent recoveries (or losses) in fair value, after recognition of an OTTI, are recognized as unrealized gains or losses until sold or additional OTTI recognition.

Loan-Backed and Structured Securities with Underlying Mortgage Loans

9. The scope of *SSAP No. 43R—Loan-backed and Structured Securities* includes residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) and credit risk transfers (CRTs) issued through government sponsored enterprises (GSEs). (These are commonly referred as Structured Agency Credit Risk Securities (STACRs), which are issued by Freddie Mac, and Connecticut Avenue Securities (CAS), which are issued by Fannie Mac.) Other mortgage loan products that meet the structural requirements as a LBSS can also be captured in scope of SSAP No. 43R. Investments in scope of this statement securities are reported on Schedule D-1: Long-Term Bonds. Pursuant to the guidance in SSAP No. 43R, paragraphs 30-36, if a fair value of a LBSS is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Recognition of an OTTI is then contingent on the reporting entity intentions:

a. If the entity intends to sell the security, an OTTI shall be considered to have occurred. In these situations, the entity shall recognize a realized loss for the difference between the amortized cost basis and fair value. These realizes losses are not permitted to be reversed.

b. If the entity does not intend to sell the security, the entity shall assess whether it has the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an OTTI shall be considered to have occurred. In these situations, the entity shall recognize a realized loss for the difference between the amortized cost basis and fair value. These realizes losses are not permitted to be reversed.

c. Regardless if the entity does not have the intent to sell or has the intent and ability to hold, if the entity does not expect to recover the entire amortized cost basis of the security, an OTTI shall be considered to have occurred. In these situations, the entity shall recognize a realized loss for the difference between the amortized cost basis and the present value of cash flows expected to be collected.

Other Invested Assets with Underlying Mortgage Loans

10. The scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies* includes investments that may have underlying characteristics of mortgage loans. These items are reported on Schedule BA: Other Long-Term Invested Assets. These investments could include private equity mortgage loan funds as well mortgage or hybrid real estate investment trusts (REITs). The guidance in SSAP No. 48, paragraph 19 requires recognition of an OTTI if it is probable that the reporting entity will be unable to recover the carrying amount of the investment or sustain earnings to justify the carrying amount of the investment. The existing
guidance already indicates that a depressed fair value below the carrying amount or the existence of operating losses are not necessarily indicators of a loss that is other than temporary.

**INT 20-04 Consensus**

11. The Working Group reached a consensus for limited time exceptions to defer assessments of impairment for bank loans, mortgage loans and investments which predominantly hold underlying mortgage loans, which are impacted by forbearance or modifications in response to COVID-19. These exceptions are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As such, the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements.

12. For modification programs designed to provide temporary relief for borrowers current as of December 31, 2019, the reporting entities may presume that borrowers are current on payments are not experiencing financial difficulties at the time of the modification for purposes of determining impairment status and thus no further impairment analysis is required for each loan modification in the program. The exceptions granted in this interpretation are detailed as follows:

a. **SSAP No. 26R—Bonds:** Provide a limited-time exception for assessing impairment under SSAP No. 26, paragraph 13, for bank loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a bank loan is OTTI.

b. **SSAP No. 37—Mortgage Loans:** Provide a limited-time exception for assessing impairment under SSAP No. 37, paragraph 16, for mortgage loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a mortgage loan is OTTI.

c. **SSAP No. 30R—Common Stock:** Provide a limited-time exception for assessing OTTI under SSAP No. 30, paragraph 10, and INT 06-07 due to fair value declines for SEC registered funds that have underlying mortgage loans that have been deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, recognition of the OTTI shall continue to be required. As these investments are reported at fair value, declines in fair value would continue to be reported as unrealized losses.

d. **SSAP No. 43R—Loan-backed and Structured Securities:** Provide a limited-time exception for assessing OTTI under SSAP No. 43R, paragraphs 30-36, due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the reporting entity intends to sell the security. If the entity has made a decision to sell the security, then recognition of an OTTI shall continue to be required.

e. **SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies:** Provide a limited-time exception for assessing OTTI under SSAP No. 48 due to fair value declines in investments that have underlying mortgage loans deferred or modified in response to COVID-19 unless the entity intends to sell the security. Additionally, an OTTI shall be assessed if factors other than the mortgage loan forbearance or modification have resulted with a decline that is
considered other than temporary, or the reporting entity does not believe it is probable they will collect the carrying amount of the investment.

13. Subsequent to modifications or restructurings that impact original contractual terms of items in scope of this interpretation, future assessments of impairment shall be based on the modified terms.

14. As detailed in paragraph 11, the exceptions granted in this interpretation are applicable for the March 31st and June 30th, 2020 (1st and 2nd quarter) financial statements and only in response to bank and mortgage loan forbearance or modifications granted in response to COVID-19. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements, this interpretation will automatically expire as of September 29, 2020. This interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group’s website. This interpretation will be automatically nullified on September 29, 2020 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

**INT 20-04 Status**

15. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded March 26, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); Kathy Belfi (CT); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Tom Dudek (NY); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Exposed Agenda Item 2020-12, INT 20-01, INT 20-02, INT 20-03 and INT 20-04

The Working Group conducted an e-vote to consider exposure of agenda item 2020-12: Reference Rate Reform, Interpretation (INT) 20-01: ASU 2020-04 - Reference Rate Reform, INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19, INT 20-03: Troubled Debt Restructuring Due to COVID-19, and INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19 for a one-week public comment period ending April 2. A summary of the exposed interpretations are as follows:

1) Agenda Item 2020-12 and INT 20-01: Reference Rate Reform – This guidance proposes to adopt ASU 2020-04: Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting, for statutory accounting. This guidance provides optional transition and expedient provisions to assist with the conversion from referencing the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) and moving toward alternative reference rates that are more observable or transaction based. The guidance proposed to be adopted from ASU 2020-04 is that a qualifying modification as a result of reference rate reform should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination.

2) INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19 – This guidance proposes a limited-time exception to the 90-day rule for nonadmittance required in Statement of Statutory Accounting Principles (SSAP) No. 6—Uncollectible Premium Balance, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers and SSAP No. 65—Property and Casualty Contracts for high deductible policies.

3) INT 20-03: Troubled Debt Restructuring Due to COVID – This guidance proposes to clarify that a modification of mortgage loan terms in response to COVID-19 shall follow the provisions detailed in the March 22, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” in determining whether the modification shall be reported in accordance with SSAP No. 36—Troubled Debt Restructuring.

4) INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19 – This guidance proposes limited-time exceptions for impairment assessments due to situations caused by the forbearance or modification of mortgage loan payments related to COVID-19 for the following SSAPs: SSAP No. 30R—Unaffiliated Common Stocks, SSAP No. 37—Mortgage Loans, SSAP No. 43R—Loan-Backed and Structured Securities, and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.

Mr. Smith made a motion, seconded by Ms. Malm, to expose agenda item 2020-12, INT 20-01, INT 20-02, INT 20-03 and INT 20-04. The motion passed without opposition, with 13 members voting.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call March 18, 2020. The following Working Group members participated: Dale Bruggeman, Chair (OH); Carrie Mears, Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); Kathy Belfi and William Arfanis (CT); Ryllyn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Tom Dudek (NY); Joe DiMemmo and Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. **Adopted its Jan. 8 and 2019 Fall National Meeting Minutes**

Ms. Walker made a motion, seconded by Ms. Malm, to adopt the Working Group’s Jan. 8 (Attachment One-H1) and Dec. 7, 2019, (see NAIC Proceedings – Fall 2019, Accounting Practices and Procedures (E) Task Force, Attachment One) minutes. The motion passed unanimously.

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

The Working Group held a public hearing to review comments (Attachment One-H2) on previously exposed items.

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

   a. **Agenda Item 2018-26**

Mr. Bruggeman directed the Working Group to agenda item 2018-26: SCA Loss Tracking – Accounting Guidance (Attachment One-H3). Fatima Sediqzad (NAIC) stated that this non-substantive agenda item adopts language that reported equity losses of a subsidiary, controlled and affiliated entity (SCA) would not go negative, thus stopping at zero; however, any guaranteed liabilities would be reported to the extent that there is a financial guarantee or commitment.

   b. **Agenda Item 2018-38**

Mr. Bruggeman directed the Working Group to agenda item 2018-38: Prepayment to Service and Claims Adjusting Providers (Attachment One-H4). Robin Marcotte (NAIC) stated that this non-substantive agenda item expands language emphasizing that loss and loss adjusting expense liabilities shall be established regardless of payments to third parties, except for capitated health claim payments. Furthermore, prepayments to third-party administrators (TPAs) that are not for claims or loss adjusting expenses are miscellaneous underwriting expenses.

   c. **Agenda Item 2019-32**

Mr. Bruggeman directed the Working Group to agenda item 2019-32: Look-Through with Multiple Holding Companies (Attachment One-H5). Ms. Sediqzad stated that this non-substantive agenda item emphasized existing guidance stating that a look-through is permitted through more than one downstream holding company if each entity complies with the look-through requirements of *Statement of Statutory Accounting Principles (SSAP) No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

   d. **Agenda Item 2019-35**

Mr. Bruggeman directed the Working Group to agenda item 2019-35: Update Withdrawal Disclosures (Attachment One-H6). Ms. Marcotte stated that this non-substantive agenda item updates withdrawal disclosures that were previously developed by the Financial Stability (EX) Task Force. This agenda item made minor consistency and cross-reference edits in various SSAPs.
e. **Agenda Item 2019-43**

Mr. Bruggeman directed the Working Group to agenda item 2019-43: *ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging* (Attachment One-H7). Jim Pinegar (NAIC) stated that this non-substantive agenda item addressed the complexity of accounting for certain financial instruments that are not prevalent in the insurance industry. However, it provided the opportunity to address principle concepts regarding the accounting for instruments with characteristics of both liability and equity. This agenda item requires that issued, free-standing financial instruments with characteristics of both a liability and equity shall be reported as a liability, to the extent that they represent an unconditional obligation to the issuer.

f. **Agenda Item 2019-45**

Mr. Bruggeman directed the Working Group to agenda item 2019-45: *ASU 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit* (Attachment One-H8). Mr. Pinegar stated that this non-substantive agenda item addressed the financial statement presentation of an unrecognized tax benefit. However, as an unrecognized tax benefit does not meet the more-likely-than-not recognition threshold, current statutory accounting guidance requires immediate expensing of the item. Mr. Pinegar stated that interested parties proposed one minor clarification change, and NAIC staff supported adoption with the edits proposed.

g. **Agenda Item 2019-48**

Mr. Bruggeman directed the Working Group to agenda item 2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers (Attachment One-H9). Jake Stultz (NAIC) stated that this non-substantive agenda item adds reference of reciprocal jurisdictions as a result of the Executive (EX) Committee and Plenary adoption revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786).

h. **Agenda Item 2019-46**

Mr. Bruggeman directed the Working Group to agenda item 2019-46: *ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities* (Attachment One-H10). Mr. Pinegar stated that Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* detailed the financial statement presentation required for non-for-profit entities. He stated that requirements included the presentation of two classes of net assets. He stated that non-substantive revisions to Appendix D—Nonapplicable GAAP Pronouncements are to reject ASU 2016-14.

3. **Adopted Revisions to Statutory Accounting with Minimal Discussion**

The Working Group held a public hearing to review comments (Attachment One-H2) on previously exposed items.

a. **Agenda Item 2019-08**

Mr. Bruggeman directed the Working Group to agenda item 2019-08: Reporting Deposit-Type Contracts. Mr. Pinegar stated that this non-substantive agenda item originated to gather information on deposit-type contracts that were reported in the annual statement Exhibit 5 – Aggregate Reserves for Life Contracts or Exhibit 6 – Aggregate Reserves for Accident and Health Contracts. He stated that the long-standing industry practice is to classify and report contracts in the appropriate schedule at policy inception and not move reporting schedules throughout the policy lifecycle. Accordingly, the exposed footnote for Exhibit 5 would capture contracts that no longer contain a mortality risk. Mr. Pinegar stated that the agenda item also sought feedback regarding the instructions for classifying deposit-type contracts in Exhibit 7 – Deposit-Type Contracts; however, if warranted, that may be addressed in a separate agenda item.

John Bauer (Prudential), representing interested parties, stated that they recommend adoption of this agenda item.

Ms. Belfi made a motion, seconded by Ms. Weaver, to adopt the recommendation to add a footnote for annual statement Exhibit 5, noting that no updates were required for statutory accounting (Attachment One-H11). The motion passed unanimously.
b. **Agenda Item 2019-40**

Mr. Bruggeman directed the Working Group to agenda item 2019-40: Reporting of Installment Fees and Expenses. Ms. Marcotte stated that exposed non-substantive edits address potential diversity in the application of the *SSAP No. 53—Property Casualty Contracts—Premiums* installment fee guidance. She stated that the recommendation in the agenda item was to clarify that the installment fee and service charges guidance should be applied narrowly to the specific situation described and not analogized to exclude other fees from premium. Furthermore, diversity in reporting was noted regarding installment fee expenses, even though the annual statement provides for reporting these items in underwriting expenses. This agenda requested input regarding the reporting of installment fee expenses. Mr. Marcotte stated that interested parties suggested a one-word edit, and NAIC staff were supportive of the suggested edit.

Ms. Marcotte stated that notifications of the exposure were sent to the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group. However, comments were not expected to be received until after the Summer National Meeting. She noted that, if warranted, comments can be addressed in a separate agenda item as they are received regarding installment fee expenses.

Richard Poniatowski (Travelers), representing interested parties, stated that they agreed with the language proposed for SSAP No. 53.

Mr. Hudson made a motion, seconded by Ms. Mears, to adopt the exposed agenda item with minor changes from interested parties, clarifying language in SSAP No. 53 stating that the existing installment fee revenue guidance should be narrowly applied (Attachment One-H12). The motion passed unanimously.

c. **Agenda Item 2019-33**

Mr. Bruggeman directed the Working Group to agenda item 2019-33: SSAP No. 25 – Disclosures. Julie Gann (NAIC) stated that this non-substantive agenda item was drafted to data-capture disclosures from *SSAP No. 25—Affiliates and Other Related Parties*. She noted that disclosures from SSAP No. 25 are currently completed in a narrative format. With the proposal to data-capture disclosures, the state insurance regulators can aggregate and query various related party relationships. She noted that interested parties proposed minor modifications, one of which was supported by NAIC staff. The Blanks (E) Working Group has a concurrent exposure to ensure reporting for year-end 2020.

Mr. Smith made a motion, seconded by Mr. Dudek, to adopt the exposed agenda item with minor changes from interested parties, detailing the data-capture of certain SSAP No. 25 disclosures, which are currently completed in narrative form (Attachment One-H13). The motion passed unanimously.

d. **Agenda Item 2019-39**

Mr. Bruggeman directed the Working Group to agenda item 2019-39: Acceptable Collateral for Derivatives. Mr. Pinegar stated that the intent of this agenda item was to facilitate a discussion to determine if a reporting entity should receive credit for initial margin pledged to them in central clearinghouse transactions. However, discussions with interested parties found that utilization of initial margin is not only a rare event, but additional compensating controls are in place to ensure variation margin compliance. Furthermore, non-cash collateral is often utilized for posting the initial margin and, as such, that collateral should remain on the books of the provider as they maintain the full rights of ownership. Mr. Pinegar stated that due to these facts, NAIC staff believe that the third-party derivative exposure is appropriately captured in existing reporting, and he recommended disposal of this agenda item.

Josh Bean (Transamerica), on behalf of interested parties, stated support for disposal of the agenda item, as they believe the derivative activity in central clearinghouse activities is appropriately captured in existing reporting framework.

Mr. Moser made a motion, seconded by Mr. Hudson, to dispose of this agenda item without statutory revision (Attachment One-H14). The motion passed unanimously.

4. **Reviewed Comments and Considered Exposure of Agenda Items with Minimal Discussion**

The Working Group held a public hearing to review comments (Attachment One-H2) on previously exposed items.
Mr. Smith made a motion, seconded by Mr. Hudson, to expose all items for comment with a distinction of the differing exposure periods for each item. The motion passed unanimously.

a. Agenda Item 2019-04

Mr. Bruggeman directed the Working Group to agenda item 2019-04: SSAP No. 32 – Investment Classification Project. Mr. Pinegar stated that the intent of the agenda item was to revise SSAP No. 32—Preferred Stock pursuant to the investment classification project. The revisions include definitions, measurement and impairment guidance. Mr. Pinegar stated that with this and prior exposures, comments were received regarding the proposed definitions (e.g., whether redemption is within control of the holder). He stated that while the original terminology proposed by NAIC staff reflects the common terminology used by industry and U.S. Generally Accepted Accounting Principles (GAAP), a potential reclassification of certain preferred stock could occur if adopted, which was not the intent of the project. He stated that NAIC staff agreed to the terminology and phraseology suggested by interested parties. The addition of a footnote was also added to cover certain joint venture or partnership entities in which issue instruments were identical to preferred stock but used differing legal naming conventions. He stated that NAIC staff support for the exposure of the issue paper and the revised SSAP No. 32R—Preferred Stock to reflect the proposed edits of all interested parties. This agenda item has a comment deadline of May 29.

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

b. Agenda Item 2019-38

Mr. Bruggeman directed the Working Group to agenda item 2019-38: Financing Derivatives. Ms. Gann stated that this non-substantive agenda item addresses the reporting of financing derivatives, which represents situations where the premium due, as a result of acquiring or writing a derivative, is paid throughout the derivative term or at maturity. She stated that the agenda item proposes the elimination of the allowance of net reporting, with a requirement for gross reporting for derivatives purchased or sold. She stated that the proposed revisions to SSAP No. 86—Derivatives would require gross reporting of derivatives without the effect of financing premiums due or payable, and they would present the true financial asset and liability position associated with the use of derivatives. She noted that proposed concepts included in the agenda item suggest revisions to a Blanks proposal to capture additional information regarding any derivative financing components. She stated that the interested parties’ comments requested an effective date of Jan. 1, 2021, and other editorial changes. NAIC staff were supportive of the effective date and edits proposed, and they recommended exposure of the agenda item. Finally, with exposure, a referral would be sent to the Capital Adequacy (E) Task Force for consideration of these risked-based capital (RBC) changes.

Mr. Bruggeman stated that he appreciated staff and interested parties’ continual, collaborative effort on this agenda item to ensure that the appropriate reporting occurs without incurring any unintended consequences from this reporting change, and they confirmed that the exposure deadline for this item was May 29.

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

c. Agenda Item 2019-14

Mr. Bruggeman directed the Working Group to agenda item 2019-14: Attribution of Goodwill. Ms. Gann stated that this non-substantive agenda item is a disclosure item for when a reporting entity purchases a holding company and said company owns multiple entities. The goodwill from the acquisition of the holding company shall be allocated to each entity at the time of purchase. She stated that comments received from interested parties on this item were combined with comments received for agenda item 2019-12: ASU 2014-17, Business Combinations – Pushdown Accounting regarding pushdown accounting. She stated that this agenda item does not necessarily pertain to pushdown accounting and, it is only intended to require disclosure of the goodwill attributed to the underlying holding companies in which pushdown accounting has not been applied. For clarification, an edit was proposed to ensure that pushdown is omitted from the disclosure requirements; however, she stated that once pushdown has been addressed the applicability of the attributed goodwill disclosure may be reassessed. This agenda item has a comment deadline of May 29.

D. Keith Bell (Travelers), representing interested parties, stated that they did not understand the intent nor the proposal, and they requested a conference with NAIC staff for further discussion. He stated that if an entity is sold, the associated goodwill should be removed. Ms. Gann stated that the intent of this agenda item was to assist NAIC staff and state insurance regulators with the identification of the amount of goodwill that should be removed upon the sale of an SCA, as that information is not currently available.
Mr. Bruggeman declared his understanding that U.S. GAAP allows instances where goodwill is associated with a business unit and perhaps not with a legal entity, and he encouraged the NAIC staff and interested parties’ continued collaboration on this agenda item.

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

d. Agenda Item 2019-20

Mr. Bruggeman directed the Working Group to agenda item 2019-20: Rolling Short-Term Investments. Mr. Pinegar stated that this non-substantive agenda item was originally exposed to address certain investments that were structured as short-term investments, with those investments being rolled or renewed and remaining on a short-term schedule for multiple years. As the original agenda item captured both affiliated and unaffiliated investments, he stated that interested parties requested separating the discussion of both types of investments. NAIC staff agreed with the separation, as unaffiliated investments do occur in an arm’s length transaction, indicating that each party can independently review and elect not to renew an investment. With this independence, renewal or rolling of the investments and subsequent reporting as a short-term investment was likely appropriate. Additionally, certain affiliated transactions could, under certain circumstances, also operate independently as if both parties were unaffiliated. Mr. Pinegar stated that related operating units may have various review mechanisms to allow arm’s length review. He stated that this agenda item proposed additional guidance allowing certain affiliated or related party investments to be rolled or renewed if certain criteria are met. He stated that the criteria required the investment to be appropriately re-underwritten with adequate documentation, and each party must have the ability to independently review the terms and terminate the transaction prior to renewal. Additionally, a concurrent Blanks exposure includes a reporting code to identify short-term investments that remain on the short-term schedule for more than one year, and a general interrogatory has been proposed requiring certification that, if related party transactions have been renewed, appropriate re-underwriting has occurred. Mr. Pinegar stated that if adopted in current form, a referral will be sent to the Financial Analysis (E) Working Group and the Financial Analysis Solvency Tools (E) Working Group notifying them of the new reporting code, which captures renewed affiliated investments, and urging assistance to analysts and examiners on how to use the new data. This agenda item has a comment deadline of May 1.

Mr. Bruggeman confirmed that for efficiency in reporting, the code used to identify renewed short-term investment would apply to all investments and not solely affiliated investments. He stated that this code would allow state insurance regulators to identify such investments, at which time additional underwriting documentation could be requested.

Stephanie Rengstorff (Nationwide), on behalf of interested parties, appreciated NAIC staff’s collaboration on this agenda item, as liquidity management, through the efficient use of capital, is a critical function in terms of servicing policyholders. She stated that the proposed edits and disclosures were a welcome change, and she will provide feedback on subsequent exposure.

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

e. Agenda Item 2019-42

Mr. Bruggeman directed the Working Group to agenda item 2019-42: Cash Equivalent – Cash & Liquidity Pools. Mr. Pinegar stated that this non-substantive agenda item arose as a result of the short-term rolling agenda item (Ref #2019-20), in which interested parties commented that cash pools were not appropriately scoped out of the proposed short-term restriction guidance. He stated that cash pools are techniques in which affiliates combine excess cash in order to earn additional interest, access additional short-term investment markets, and improve liquidity management. He stated that this agenda item originally proposed to allow cash pools that meet certain requirements to be reported as cash equivalents. He stated that interested parties provided responses that requested consideration on three items. First, interested parties requested that the reporting of cash pool assets be allowed on the schedule that most closely reflects the assets held by the pool (i.e., cash, cash equivalents, or short-term investments). Mr. Pinegar stated that NAIC staff originally proposed reporting as a cash equivalent for simplicity, but they were supportive of the request, noting that RBC and other analysis techniques combine these assets and that reporting on one schedule versus another should not cause any adverse effects. Second, NAIC staff were supportive of interested parties’ request to remove the U.S. GAAP audit of the liquidity pool, noting that the footnote disclosure, which details the assets held by investment type, would be subject to an independent audit under statutory accounting principles (SAP). Mr. Pinegar stated that NAIC staff did not concur with the third request of allowing for optionality in reporting asset valuations. He noted that current guidance requires that all short-term investments be accounted for in the same manner as similar long-term investments.
and NAIC staff believe assets should not be accounted for differently simply because they are in a liquidity pool. This agenda item has a comment deadline of May 1.

Diane Bellas (Allstate), representing interested parties, expressed appreciation to the Working Group for separating this agenda item, noting that cash and liquidity pools are an important function of many insurance entities, and support for the shortened exposure period.

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

f. **Agenda Item 2019-25**

Mr. Bruggeman directed the Working Group to agenda item 2019-25: Working Capital Finance Investments. Ms. Marcotte noted that the materials contain the proposed substantive revisions, incorporating the industry proposed language for the six specific items directed by the Working Group at the 2019 Summer National Meeting to SSAP No. 105—Working Capital Finance Investments. She stated that NAIC staff recommended exposure of the SSAP and related Issue Paper No. 16x—Working Capital Finance Investment Updates. An effective date of June 30 was proposed for discussion, which, if preferred, would require comment from the Working Group by May 1.

Michael M. Monahan (American Council of Life Insurers—ACLI) stated that interested parties had no preference in the effective date; since all their requests were not granted, this will remain an un-investable asset class.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure with a proposed effective date of June 30.

g. **Agenda Item 2019-36**

Mr. Bruggeman directed the Working Group to agenda item 2019-36: Expand MGA and TPA Disclosures. Ms. Marcotte stated that this non-substantive agenda item was drafted pursuant to a request from two states that the existing annual statement disclosure regarding managing general agents (MGA) or TPAs be expanded to include additional information. She stated that state insurance regulators and policyholders should be able to fully understand the level and extent to which core services and binding authority are provided by MGAs or TPAs. Interested parties commented that a TPA should be consistently defined. Ms. Marcotte stated that the proposed modification is to add references to Registration and Regulation of Third-Party Administrators (TPAs) (GDL-1090). She stated that interested parties also commented on the proposed TPA claims reporting threshold, and she recommended using a premium threshold. The recommendation from the sponsors of the agenda is to use a claim count threshold. This agenda item has a comment deadline of May 1.

Mr. Bell, representing interested parties, stated that they appreciated the exposure; however, they would need to reassess any operational concerns with the proposed TPA reporting thresholds.

Albert Thomas Finnell (America’s Health Insurance Plans—AHIP) requested clarification regarding the shortened comment period. Ms. Marcotte stated that due to a concurrent Blanks exposure, a shortened comment period is required if the Working Group requests adoption for 2020.

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

h. **Agenda Item 2019-37**

Mr. Bruggeman directed the Working Group to agenda item 2019-37: Surplus Notes – Enhanced Disclosures. Mr. Pinegar stated that this non-substantive agenda item was drafted from the Working Group’s request that additional disclosures be captured in SSAP No. 41R—Surplus Notes. He stated that the originally proposed disclosures materially reflected certain key details in the surplus note data call from 2019. These disclosures were intended to give state insurance regulators further insight into the issuances of surplus notes that do not contain cash flows typically associated with surplus notes. Mr. Pinegar stated that interested parties commented that the disclosures, as originally proposed, would not accurately reflect the disclosure of items sought by state insurance regulators and would disclose confidential pricing information. He stated that in conjunction with their comments, interested parties provided several suggested disclosure edits, of which NAIC staff note would achieve the same level of disclosure as requested by the Working Group. He stated that regarding the potential disclosure of confidential information, NAIC staff have proposed a modified disclosure element that disregards cashflows to the independent source of liquidity, thus maintaining pricing confidentiality. This agenda item has a comment deadline of May 1.
Mr. Bauer, representing interested parties, stated appreciation of NAIC staff’s efforts in integrating proposed interested party comments and how the proposed agenda item provides robust disclosure of surplus note activity.

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

i. Agenda Item 2019-47

Mr. Bruggeman directed the Working Group to agenda item 2019-47: VM 21 Grading. Ms. Marcotte noted that the agenda item is addressing VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and grade-in requirements for reporting changes in valuation basis for years beginning Jan. 1. She stated that the revisions to the Valuation Manual allowed different optional phase-in requirements. She stated that the exposure includes non-substantive revisions to SSAP No. 51R—Life Contracts and SSAP No. 3—Accounting Changes and Corrections of Errors for reporting years beginning Jan. 1.

Ms. Marcotte stated that what was exposed would expand the disclosure for changes in valuation basis as a change in accounting principle under SSAP No. 3 to provide details regarding grade-in of changes in valuation basis. This includes the grade-in period applied, the remaining amount to be graded-in, the remaining time for the grade-in period, and any adjustments. The exposure also provided accounting for unrecognized graded-in reserve, which represents an unrecognized adjustment to surplus. The exposed revisions would have required the unrecognized grade-in amount due to a change in valuation basis, if resulting in an increase in reserves (decrease to surplus), to be reported as an allocation from unassigned funds to special surplus until the amount has been fully graded into unassigned funds.

Ms. Marcotte stated that the interested parties provided comments were opposed to requiring the segregation in special surplus of the unrecognized phase-in amounts. She noted that NAIC staff had some concern regarding the timing of re-exposure; however, discussion with ACLI representatives noted that the Valuation Manual allows the phase-in election to occur as late as Dec. 31. NAIC staff proposed revisions recommended for a short exposure by the Working Group, incorporating the major interested parties’ proposed edit of removing the reclassification to special surplus. Ms. Marcotte noted that “grade-in” was changed to “phase-in” that paragraph 39 of the illustration has two additional edits that change “grading” to “phase-in.” She stated that the revisions for exposure did not incorporate all the interested parties’ proposed revisions, language on retroactivity was not incorporated, and coordination on future Valuation Manual grade-in proposals will be required. She noted that the proposal will provide disclosure of the change in valuation basis from the VM-21 changes and add new disclosures regarding the phase-in process being applied. She noted that consistent with the prior exposure, notice of the exposure should also be sent to the Life Actuarial (A) Task Force as part of the Valuation Manual and Accounting Practices and Procedures Manual (AP&P Manual) coordination process. Mr. Monahan noted appreciation for a re-exposure and coordination with NAIC staff.

5. Considered Maintenance Agenda—Pending Listing—Exposures

Mr. Dudek made a motion, seconded by Ms. Weaver, to move agenda items 2020-01 through 2020-11 to the active listing and expose all items for comment with distinction of each item as either substantive or non-substantive and with corresponding referrals and comment periods as recommended by NAIC staff. The motion passed unanimously.

a. Agenda Item 2020-01

Mr. Bruggeman directed the Working Group to agenda item 2020-01: Update/Remove References to SVO Listings. Mr. Pinegar stated that this agenda item reflects a Valuation of Securities (E) Task Force notice regarding two pending revisions to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). He stated that the Task Force is renaming the “U.S. Direct Obligations/Full Faith and Credit Exempt List” the “NAIC U.S. Government Money Market Fund List.” He noted that no revisions to the AP&P Manual would be required for this revision, as this list is not specifically identified. He stated that revisions would, however, likely be needed in the Blanks and RBC filings/instructions. He stated that the second revision was to discontinue the “NAIC Bond Fund List.” He noted that items that were on this list would be eligible for consideration in the “NAIC Fixed Income-Like SEC Registered Funds List.” The discontinuance will require an update in the AP&P Manual in SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock to eliminate references to the “NAIC Bond Fund List” and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R. This agenda item has a comment deadline of May 1.

In response to an inquiry from Mr. Bruggeman, there was no objection to exposure.
b. **Agenda Item 2020-02**

Mr. Bruggeman directed the Working Group to agenda item 2020-02: Accounting for Bond Tender Offers. Mr. Pinegar stated that a bond tender offer is like a called bond, except a tender offer is contingent on acceptance of the offer by the holder. He stated that specific guidance for the reporting and allocation of investment income and/or capital gain/loss associated with callable bonds is noted in SSAP No. 26R; however, guidance is not reflected when a bond is retired early through a tender offer. He stated that the non-substantive revisions in this proposal clarify that the accounting and reporting of investment income and capital gain/loss due to the early liquidation, either through a call or a tender offer, shall be similarly applied. The existing guidance would include all dynamics in which an issuer provides a penalty/fee to the holder to retire the bond prior to maturity.

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

c. **Agenda Item 2020-03**

Mr. Bruggeman directed the Working Group to agenda item 2020-03: Enhanced Goodwill Disclosures. Ms. Sediqzad stated that this agenda item was drafted to request additional goodwill information and clarify reporting on Schedule D, Part 6, Section 1 – Valuation of Shares of Subsidiary, Controlled and Affiliated Companies. She stated that with the adoption of agenda item 2017-18: Goodwill Limitations, the information reported regarding goodwill, as provided in annual statement Footnote 3 – Business Combinations and Goodwill, has improved. She said the agenda item proposes additional disclosures to enhance the reporting of an SCA’s book adjusted carrying value (BACV). She noted that as goodwill is a significant component of many SCA’s BACV, this agenda item will assist in facilitating the review and disclosure of each balance.

Ms. Sediqzad stated that during a review of SCA Sub 2 filings, it is noted that many companies do not calculate the amortization of goodwill correctly, which sometimes overstates the value of the SCA. She stated that many companies also do not provide additional information to verify beginning goodwill and purchase price; as such, NAIC staff rely on a review of Footnote 3 for these details. She stated that if the goodwill amount is not verifiable, it is not be allowed to be admitted as part of the SCA’s value.

Ms. Sediqzad stated that the goodwill limitation of 10% of the insurance reporting entity’s goodwill is a calculation that all reporting entities who have goodwill must perform. She noted that while the admitted result is in the annual statement, the details of the calculation are not easily identifiable, and this agenda item proposes the disclosure of the calculation components to ensure transparency in the admission of goodwill.

Ms. Sediqzad noted that feedback is requested in terms of the proposed edits to Schedule D – Part 6 – Sections 1 and 2. She stated that, as detailed in the proposal, two column headings and related Blanks instructions refer to “Intangible Assets”; however, NAIC staff believe the original intent of these disclosures was to capture goodwill. She noted that the Financial Accounting Standards Board (FASB) defines intangible assets as assets (not including financial assets) that lack physical substance and refer to assets other than goodwill. She stated that feedback is requested from state insurance regulators and interested parties regarding what has historically been included in this disclosure and if changing the definition to articulate goodwill is warranted. She noted that per a review by NAIC staff, it appears as though goodwill is the sole number currently being reported in these applicable columns. This agenda item has a comment deadline of May 29.

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

d. **Agenda Item 2020-04**

Mr. Bruggeman directed the Working Group to agenda item 2020-04: Commissioner Discretion in the Valuation Manual. Ms. Marcotte stated that this agenda item has been drafted to maintain comparability by providing disclosures regarding the use of commissioner discretion pursuant to the Valuation Manual, which became operative on Jan. 1, 2017. She stated that after reviewing the instances that require commissioner approval in the Valuation Manual, the items involve making a voluntary choice between various acceptable methods, which is subject to commissioner approval. She stated that the identified instances in the Valuation Manual are consistent with a change in valuation basis. As these changes are voluntary and not required to change by the methodology, this agenda item recommends disclosing the use of commissioner discretion required for choosing between acceptable methods, consistent with a change in valuation basis.
Ms. Marcotte noted that the non-substantive revisions to SSAP No. 51R, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 54R—Individual and Group Accident and Health Contracts are illustrated in the agenda item. She noted that the proposed guidance points to an existing change in valuation basis disclosures for voluntary decisions, which require commissioner approval and the ability to choose one allowable reserving methodology over another. She also stated that as part of the coordination process with the *Valuation Manual*, the Life Actuarial (A) Task Force should be notified of the exposure. This agenda item has a comment deadline of May 29.

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

e. **Agenda Item 2020-05**

Mr. Bruggeman directed the Working Group to agenda item 2020-05: Repeal of the Affordable Care Act Section 9010 Assessment. Ms. Marcotte stated that the federal Affordable Care Act (ACA) Section 9010 assessment has had more than one deferral or moratorium, as addressed in INT 16-01: ACA Section 9010 Assessment 2017 Moratorium. She stated that in December 2019, the U.S. House of Representatives (House) and U.S. Senate (Senate) passed bills repealing Section 9010 assessments for calendar years beginning Jan. 1, 2021. She stated that this bill was subsequently signed into law. She noted that the assessment is required to be paid for calendar year 2020. She stated that the agenda item addresses the substantive impacts of the Section 9010 assessment repeal for calendar years beginning on Jan. 1, 2021, by recommending that SSAP No. 106—Affordable Care Act Section 9010 Assessment be superseded and INT 16-01 be nullified. She noted that both actions are proposed to be effective Jan. 1, 2021, and with these actions, both SSAP No. 106 and INT 16-01 would be moved to *Appendix H - Superseded Statements of Statutory Accounting Principles and Nullified Interpretations* for the 2021 publication of the AP&P Manual. She stated referrals to coordinate the related impacts with the Blanks (E) Working Group to ensure that the annual statement disclosures related to SSAP No. 106 currently reported in Note 22 are removed beginning in reporting years 2021 and to the Health Risk-Based Capital (E) Working Group to address the RBC implications related to the 2021 removal of the federal ACA adjustment sensitivity test, which uses data from the SSAP No. 106 disclosures. This agenda item has a comment deadline of May 29.

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

f. **Agenda Item 2020-06EP**

Mr. Bruggeman directed the Working Group to agenda item 2020-06EP: Editorial and Maintenance Update. Ms. Marcotte stated that this item provides non-substantive editorial corrections in accordance with the maintenance process, deleting an unnecessary excerpt and updating various paragraphical references in SSAP No. 21R—Other Admitted Assets and SSAP No. 51R. This agenda item has a comment deadline of May 1.

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

g. **Agenda Item 2020-07**

Mr. Bruggeman directed the Working Group to agenda item 2020-07: Change to the Summary Investment Schedule. Mr. Stultz stated that SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures requires disclosures as detailed in *Appendix A-001: Investments of Reporting Entities* (A-001). He stated that Section 3 of A-001 requires the Summary Investment Schedule in the statutory annual statements and the notes of the annual audited financial statements. This agenda item arose because NAIC staff support for the Blanks (E) Working Group were notified of a cross-check error where total mortgage loans reported on the Summary Investment Schedule do not tie to the amounts reported in Schedule B, Mortgages Part 1. Mr. Stultz noted that the non-substantive revisions will add the total valuation allowance to the Summary Investment Schedule to ensure that these schedules tie together. He stated that the agenda item is intended to be exposed concurrently with a Blanks (E) Working Group proposal. This agenda item has a comment deadline of May 1.

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

h. **Agenda Item 2020-08**

Mr. Bruggeman directed the Working Group to agenda item 2020-08: ASU 2016-20, Technical Corrections & Improvements—Topic 606. Mr. Stultz stated that ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers was issued to clarify narrow aspects of the guidance issued in ASU 2014-09, Revenue from Contracts with Customers.
with Customers. He stated that in 2018, the Working Group rejected the guidance in ASU 2014-09 and several other ASUs related to revenue recognition in SSAP No. 47—Uninsured Plans. He stated that the guidance in ASU 2016-20 provides updates and clarifications based on issues that were found during the initial U.S. GAAP implementation of ASU 2014-09 and Administrative Services Contract (ASC) Topic 606. He noted that the agenda item proposes to reject ASU 2016-20 in SSAP No. 47 as the revisions were consistent with how the prior ASUs related to Topic 606 have been treated. This agenda item has a comment deadline of May 1.

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

i. Agenda Item 2020-09

Mr. Bruggeman directed the Working Group to agenda item 2020-09: ASU 2018-18, Collaborative Arrangements – Topic 808. Mr. Stultz stated that this ASU clarifies and aligns revenue recognition under the new Topic 606 for collaborative arrangements. He stated that a collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity involving two or more parties that are active participants in the activity and are exposed to significant risks and rewards dependent on the commercial success of the activity. He noted that the intent of this guidance is to ensure that revenue recognized within a collaborative arrangement is consistent with revenue recognition in Topic 606. He noted that this agenda item proposes to reject ASU 2018-18, Collaborative Arrangements – Topic 808 in SSAP No. 47 as the revisions were consistent with how the prior ASUs related to Topic 606 have been treated. This agenda item has a comment deadline of May 1.

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

j. Agenda Item 2020-10

Mr. Bruggeman directed the Working Group to agenda item 2020-10: ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606. Mr. Stultz stated that this ASU only affects U.S. Securities and Exchange Commission (SEC) paragraphs in Topic 220, Topic 605 and Topic 606. He stated that the revisions to Topic 220 update references from “income statement” to “statement of comprehensive income” and add a reference to revenue recognition in Topic 606. He noted that the revisions to Topic 605 remove guidance from and references to SEC Staff Accounting Bulletin 13, Revenue Recognition. He noted that the non-substantive revisions to Appendix D—Nonapplicable GAAP Pronouncements are to reject ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403 as not applicable to statutory accounting. This agenda item has a comment deadline of May 1.

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

k. Agenda Item 2020-11

Mr. Bruggeman directed the Working Group to agenda item 2020-11: ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses and Lease. Mr. Stultz stated that this ASU only affects the SEC section in Topic 326, which clarifies reporting for SEC registrants and updates the effective date for these provisions and the updates to Topic 842, which updates the effective dates for the new lease guidance for SEC reporting companies.

He noted that the non-substantive revisions to Appendix D—Nonapplicable GAAP Pronouncements are to reject ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) as not applicable to statutory accounting. This agenda item has a comment deadline of May 1.

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

6. Considered Maintenance Agenda—Active Listing

a. Agenda Item 2019-21

Mr. Bruggeman directed the Working Group to agenda item 2019-21: SSAP No. 43R. Ms. Gann stated that as the result of a conference call that occurred on Jan. 8, the Working Group directed NAIC staff to work with interested parties in the creation of an issue paper which would review SSAP No. 43R—Loan-Backed and Structured Securities for a possible substantial
revision. She stated that many collaborative meetings with interested parties have produced the first draft of the issue paper; however, the draft was not a complete issue paper and only reflects the work product to-date, which is intended to continue the discussion process, not make final recommendations regarding accounting and reporting of various applicable SSAP No. 43R investments. She stated that the issue paper incorporates primary concepts used to determine if an investment is within scope of SSAP No. 43R and proposes various buckets or classifications of investments with similar characteristics. Upon agreement with the buckets, the next step would be to determine applicable accounting and reporting. She stated that while the comment period is June 26, input from interested parties through the comment period is requested as NAIC staff will continue work on this project throughout the comment period.

Mr. Bruggeman stated that the investment bucketing approach was to capture investments along a continuum of varying structures, assisting both state insurance regulators and interested parties throughout the discussion process.

Michael Reis (Northwestern Mutual), representing interested parties and the ACLI, stated that due to the magnitude of this project, the extended exposure period was appreciated. He stated that with the review of investments in scope of SSAP No. 43R, current investment portfolios would need to be analyzed for potential adverse accounting treatment or potential negative RBC implications. Under ideal circumstances, each affected company would independently review their applicable SSAP No. 43R investments; however, due to the current market and economic environment, an unprecedented amount of attention is being utilized elsewhere, which could cause issues if a substantial revision is effective in 2020. Mr. Reis stated that the issue paper may be capturing a broader set of securities known as collateralized fund obligations (CFOs); and in some instances, the bonds issued by CFOs are not dependent upon equity performance. He requested that state insurance regulators provide written comments on their concerns regarding such investment types so that they can be responded to directly as opposed through an issue paper.

Ms. Gann stated that operational procedures for substantially revised items typically require the exposure of the issue paper and the proposed substantively revised SAP. This exposure is only a partial issue paper; and while any effective date would be at the Working Group’s discretion, it would be unlikely that substantial revisions to SSAP No. 43R would occur in 2020. Additionally, a regulator-only call is anticipated to discuss equity types of investments that are categorized and reported as bonds.

Mr. Bruggeman concurred with Mr. Gann’s statement, adding that the review of these products is occurring because these are relatively new investment structures. Additionally, other known instances where certain assets were placed into a trust and repackaged as bonds may be occurring under SSAP No. 43R.

Mr. Dudek made a motion, seconded by Mr. Hudson, to expose the agenda item and direct continual collaborative effort with interested parties throughout the exposure period. The motion passed unanimously.

7. Deferred Discussion for a Subsequent Call or Meeting

Due to time constraints, the Working Group did not discuss the following agenda items. Discussion will occur later at a venue to be determined.

e. Agenda Item 2019-49: Retroactive Reinsurance Exception.

8. Discussed Other Matters

a. Reference Rate Reform - LIBOR

Mr. Pinegar stated that the FASB issued an ASU regarding reference rate reform, and a subsequent agenda item is forthcoming, which is anticipated for interim exposure.

Due to time constraints, the Working Group did not discuss the following items; however, information was provided in conjunction with the meeting material:

© 2020 National Association of Insurance Commissioners 11
a. Ref #2016-20: Credit Losses
b. Risk Corridors – Supreme Court
c. Working Group Referrals from the Valuation of Securities (E) Task Force
d. Process Update for SCA Filing Reviews
e. Review of U.S. GAAP Exposures
f. Health Test Update Notice

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
1. Adopted Editorial Revisions from Agenda Item 2019-44EP

Mr. Bruggeman directed the Working Group to agenda item 2019-44EP: Editorial Updates. Robin Marcotte (NAIC) stated that during the 2019 Fall National Meeting, the Working Group exposed editorial revisions to SSAP No. 62—Property and Casualty Reinsurance and throughout the NAIC Accounting Practices and Procedures Manual (Manual) to update references to the Annual Statement Instructions. Ms. Marcotte stated that the editorial revisions were exposed with a shortened comment period to allow for the edits to be reflected in the “As of March 2020” Manual. She stated that no comments were received. Mr. Hudson made a motion, seconded by Ms. Walker, to adopt the exposed editorial revisions. The motion passed unanimously (Attachment One-G1a).

2. Reviewed Comments on Agenda Item 2019-21: SSAP No. 43R – Equity Instruments

The Working Group held a public hearing to review comments (Attachment One-G1b) on Agenda Item 2019-21.

Mr. Bruggeman directed the Working Group to agenda item 2019-21: SSAP No. 43R – Equity Instruments. Julie Gann (NAIC) stated that during the 2019 Summer National Meeting, the Working Group exposed revisions to SSAP No. 43R—Loan-Backed and Structured Securities to exclude collateralized fund obligations (CFOs), and similar structures that reflect underlying equity interests, from the scope of the Statement, as well as prevent existing equity assets from being repackaged as securitizations and reported as long-term bonds. Ms. Gann stated that comments were received from interested parties as well as Global Atlantic. After review of the comments, NAIC staff is recommending that the Working Group direct NAIC staff to undertake a substantive project to review and consider revisions to SSAP No. 43R. In making this recommendation, Ms. Gann stated that there have been regulator concerns with the current application of SSAP No. 43R. These concerns have included structures that mask affiliated transactions, structures that have utilized the “trust” component in SSAP No. 43R to classify investments that primarily determine repayment based on market returns that have been reflected as “debt instruments,” and situations in which insurer-owned assets may be repackaged (self-securitized) to obtain different accounting and reporting treatment.

Ms. Gann stated that NAIC staff proposes to proceed with an issue paper to address SSAP No. 43R holistically and clarify the securities intended to be in scope of the statement. Ms. Gann stated that the recommendation included potential initial concepts to be considered in the issue paper, but highlighted that all aspects would be discussed throughout the issue paper process. Additionally, Ms. Gann stated that a key aspect of the recommendation is for NAIC staff to work directly with key members of industry throughout the drafting of the issue paper and preparing an initial draft for exposure at the Spring National Meeting.

Ms. Gann summarized the initial concepts to be considered in the issue paper as follows:

- Division of guidance between items considered “asset-backed securities” as defined under the code of Federal Regulations (CFR) and items that do not meet this definition. Ms. Gann stated that initial guidance is anticipated to retain historical SSAP No. 43R accounting and reporting guidance for items that meet the CFR definition. An assessment of whether different accounting and reporting treatment, including potential use of lower of amortized cost or fair value or the elimination of filing exempt (FE), will occur for investments that do not meet the ABS definition.

- Removal from SSAP No. 43R, investments in the form of a debt instrument where the investment provides that the amount of principal or interest to be earned or returned to the holder is calculated solely with reference to an external market indicator.
Mr. Reis (Northwestern Mutual), stated that a small group of industry representatives worked together to develop the interested parties’ comment letter. He stated that this group is interested in the actual concerns that regulators are trying to address. He stated that they want to be supportive and assist NAIC staff, as well as regulators in addressing concerns, but they would like more detail and direct regulator comments on what those concerns are so they can be as helpful as possible. Mr. Reis stated that the proposed issue paper is intended to address concerns, but the review of these investments is also in response to the Working Group’s ongoing Investment Classification Project. He stated that if the Working Group proceeds with the direction to holistically review and possibly revise SSAP No. 43R, industry would like to make the following comments or requests:

1. Industry does not believe the concerns on CFOs were fully or clearly articulated in the recent exposure and the potential solution went beyond addressing the potential abuses noted. As a result, some CFO securities were indicted without specific regulator concerns being attributed to them, causing the applicable market to freeze and become very inactive. He stated that companies hold these securities and industry believes there are perfectly accepted CFO debt-type securities. Industry believes that if regulators understood these securities, they would agree that they are in the best interest of policyholders. As such, industry requests that CFOs be addressed concurrently with the project in order to unfreeze the CFO market.

2. Industry identified that the proposal seems to indict any security that does not meet the CFR ABS definition, as the agenda proposes to possibly consider use of lower or amortized cost or fair value and removal of eligibility for a filing exempt (FE) status for NAIC designations. Although he stated that the recommendation includes qualifiers that these could be the possible treatment, it is requested that the direction just be to consider the appropriate accounting and reporting for securities that do not meet the CFR ABS definition.

3. The American Council of Life Insurers—ACLI, North American Securities Valuation Association—NASVA, and the Private Placement Investors Association—PPIA are all willing to work with NAIC staff, but the emphasis should be on getting the guidance right and not getting the guidance done quickly. Although industry would prefer for the project to be done timely, it needs to be done correctly. He stated that an exposure for the Spring National Meeting may be aggressive if it is to properly identify the population of securities that do not meet the CFR ABS definition.

Mr. Hudson noted that the reference to possible exposure at the Spring National Meeting is simply a marker to work towards, but the focus would be getting the project done correctly. Mr. Bruggeman agreed with these comments noting that NAIC staff is aiming for a Spring exposure and will be working with industry in the interim to develop the document.

Mr. Bruggeman responded to the comments from Mr. Reis, initially stating that the exposure reference to “CFO” investments was not necessarily intended to solely identify CFO’s, but was intended to capture investments that include components of both debt and equity. He stated that these structures seemingly takes an investment that would be on the bond schedule and an investment that would be on the Other Invested Asset Schedule (Schedule BA) and with combining, the entire investment is reported as a bond on the bond schedule. He stated that the reference for “equity interest” was intended to be a generic reference that went beyond CFOs to encompass these combined structures. Mr. Bruggeman stated that regulators understand that industry is predominantly trying to do the right thing, and the regulators understand that there is a drive for yield in this low-interest rate environment, but industry needs to be sensitive that regulators have noted concerning investments and cannot disclose company...
specifics. Mr. Reis stated that his company has investments in debt from closed-end funds and CFOs and it is difficult to address questions on whether additional securities can be acquired since the future accounting and reporting is uncertain.

Mr. Bruggeman stated that the proposal from NAIC staff is attempting to use overarching principles and use of the CFR ABS definition is a good starting point as it provides an overall principle basis to begin discussions. He stated that the assessment for non-ABS securities will be whether the securities are truly debt, or debt tranches, with NRSRO rated principal and interest, maturity dates, scheduled payments, additional structural protections, diversification, ratings triggers and/or other protections that safeguard the debt instrument. Mr. Bruggeman stated that even if insurers acquire investments that are allowed in accordance with the state investment code, the insurer should be cognizant of the impact the investment will have on the balance sheet and overall statutory financial statements.

Mr. Hudson stated that it would be productive for industry and the NAIC SVO to work with NAIC staff for the Working Group on this project. Charles Theriault (NAIC) stated agreement with the overall proposal from Ms. Gann and noted that they have seen concerning investments in both SSAP No. 43R and SSAP No. 26R—Bonds. He stated that they agree with the use of the SVO to review these transactions, noting that they have seen some structures that are debt instruments that have the noted protections and others that do not appear to be an actual debt instrument. He stated that the SVO is willing to assist the NAIC staff throughout the process. Steve Broadie (American Property Casualty Insurance Association—APCI) stated that the property casualty industry has the same investments as the life companies and would like to be included in the industry group working with NAIC staff.

Brian Keating (Guardian Life), representing the interested parties’ comment letter drafting group, stated that about half of their securities reported on Schedule D-1 as “Other Loan-Backed and Structured Securities” would meet the ABS definition. He stated there are definitely large categories of securities that do not meet the ABS definition that are perfectly fine debt investments that should be retained within SSAP No. 43R, and they believe the regulators will agree with these assessments. Mr. Bruggeman stated that NAIC staff has done a good job in taking into account the comment letter in determining the initial focus of the issue paper discussion.

Mr. Reis asked whether the proposed direction would be clarified to not specify that the possible options for non-ABS securities could include lower of amortized cost or fair value or elimination of filing exempt reporting provisions. Ms. Gann stated that the direction proposed is to review the non-ABS for accounting and reporting treatment. Mr. Bruggeman stated that the agenda item reference to lower of amortized cost or fair value and/or elimination of FE are possible options, and potentially the worst-case options, and do not reflect the only possibilities that could result from the review of the securities. Mr. Bruggeman stated that if the guidance was to be restated, it would be to indicate that the review could result with any treatment permitted in accordance with Manual, pursuant to the statutory accounting principles and consistency concepts. Mr. Hudson agreed that the review could result with a range of varying accounting and reporting treatments.

Mr. Bruggeman stated that since the Working Group is simply providing direction a formal vote is not needed, but in response to his inquiry, no Working Group members objected to providing direction to NAIC staff as recommended for development of an issue paper to review and revise SSAP No. 43R. He stated agreement with following the general approach of the Working Group and focusing on a detailed issue paper in determining the proper statutory treatment rather than aiming to resolve the issue quickly. Ms. Gann clarified that the intent of NAIC Staff is to have consistent forward progress on the issue, so although it will be the goal to have a document prepared for the Spring National Meeting, it is not anticipated that the issue will be presented for resolution. Rather, it is anticipated that staff will present aspects for discussion, along with comments and questions that will assist NAIC staff in developing the appropriate statutory accounting guidance.

3. Discussed Other Matters

Mr. Bruggeman reminded that the comment deadline for items currently exposed is Jan. 31. He also stated that the Valuation of Securities (E) Task Force had provided four referrals to the Working Group on Jan. 7. Mr. Bruggeman advised that NAIC staff is currently reviewing the referrals. He directed NAIC staff to post the referrals on the Working Group’s website so they could be reviewed during the interim.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
December 7, 2019

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

<table>
<thead>
<tr>
<th>SSAP/Appendix</th>
<th>Description/Revision¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSAP No. 62R</td>
<td>Update references in Exhibit A – Implementation Questions and Answers, question 31, which provides a retroactive reinsurance illustration. This revision does not revise the illustrated journal entries it just revises the referenced “item numbers” to the appropriate SSAP No. 62R, paragraph 34 references.</td>
</tr>
<tr>
<td>SSAP No. 62R</td>
<td>Update reference in SSAP No. 62R, paragraph 85 to match the current format of property casualty annual statement Schedule F - Reinsurance.</td>
</tr>
</tbody>
</table>
| Various SSAPs | Revise all references to the annual statement instructions for consistency and combine the life and fraternal references.  
  - Generic references: annual statement instructions  
  - Specific Names:  
    - Property/Casualty Annual Statement Instructions  
    - Life, Accident and Health/Fraternal Annual Statement Instructions  
    - Title Annual Statement Instructions  
    - Health Annual Statement Instructions  
  
  Note: Only the changes to combine the Fraternal and Life references will be tracked as edits to the AP&P Manual. Since the other changes are just consistency changes to existing title references, those changes will not be tracked in the AP&P Manual. (Since there are several instances, they are not individually shown in this Form A.) |

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

Status:  
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 62R—Property and Casualty Reinsurance and various other SSAPs, as illustrated herein.

On January 8, 2020, the Statutory Accounting Principles (E) Working Group adopted the exposed editorial revisions to SSAP No. 62R—Property and Casualty Reinsurance, and various other SSAPs, as illustrated herein, as final.

1. Update references in Exhibit A – Implementation Questions and Answers, question 31, which provides a retroactive reinsurance illustration. The revisions do not revise the illustrated journal entries. The revisions are to the update the referenced “item numbers” to the appropriate related SSAP No. 62R, paragraph 34 references. For example, journal entry #1 includes a references retroactive reinsurance reserves with an explanatory note of “see
item #3” becomes “see paragraph 34.c.” which discusses the accounting for retroactive reinsurance reserves. The item numbers are being updated to the related subparagraph of paragraph 34; “see item #4” becomes “see paragraph 34.d.” NAIC staff has verified that the referenced paragraph 34 subparagraphs are relevant to the journal entry explanatory note and illustrated SSAP No. 62R, paragraph 34 for ease of review below the changes.

SSAP No. 62R Property and Casualty Reinsurance - Tracked revisions

EXHIBIT A – IMPLEMENTATION QUESTIONS AND ANSWERS

31. Q: What accounting entries would a ceding entity make to report a retroactive reinsurance contract?

A: Accounting Entries for a Ceding Entity to Report a Retroactive Reinsurance Contract:

Entry 1

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retroactive Reinsurance Reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceded or Assumed (B/S)</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Retroactive Reinsurance Gain (I/S)</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Cash</td>
<td>8,000</td>
<td></td>
</tr>
</tbody>
</table>

To record initial portfolio transfer see items #3 paragraph 34.c. and #8 paragraph 34.h. The ceding entity must establish the segregated surplus per item #4 paragraph 34.d.

Entry 1A

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retro. Reins. Gain</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Profit/Loss Account</td>
<td></td>
<td>2,000</td>
</tr>
</tbody>
</table>

To close gain from retroactive transaction.

Entry 1B

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/Loss Account</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Special Surplus from Retro. Reins.</td>
<td></td>
<td>2,000</td>
</tr>
</tbody>
</table>

To close profit from retroactive reinsurance to special surplus.

Entry 2

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Retroactive Reinsurance Reserves</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Ceded or Assumed (B/S)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $8,000, and special surplus from retroactive reinsurance account equals $2,000; therefore, segregated surplus account is not changed per item #10 paragraph 34.j.

Entry 3

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retroactive Reinsurance Reserves</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Ceded or Assumed (B/S)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retroactive Reinsurance Gain (I/S)</td>
<td></td>
<td>3,000</td>
</tr>
</tbody>
</table>

To record subsequent revision of the initial reserves ceded per item #10 paragraph 34.j. The segregated surplus account is increased to $5,000 as a result of this upward development.
<table>
<thead>
<tr>
<th>Entry 3A</th>
<th>Retro. Reinsurance Gain</th>
<th>Profit/Loss Account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

To close profit from retroactive reinsurance.

<table>
<thead>
<tr>
<th>Entry 3B</th>
<th>Profit/Loss (I/S)</th>
<th>Special Surplus from Retro. Reins.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

To close profit and loss account to special surplus. (Retroactive reinsurance reserves ceded or assumed account balance equals $11,000. Special Surplus from retroactive reinsurance balance equals $5,000.)

<table>
<thead>
<tr>
<th>Entry 4</th>
<th>Cash</th>
<th>Retroactive Reinsurance Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Ceded or Assumed (B/S)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,000</td>
</tr>
</tbody>
</table>

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $7,000, therefore segregated surplus account is not changed per item #10 paragraph 34.j.

<table>
<thead>
<tr>
<th>Entry 5</th>
<th>Cash</th>
<th>Retroactive Reinsurance Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Ceded or Assumed (B/S)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,000</td>
</tr>
</tbody>
</table>

To record recovery of paid losses from reinsurer. Outstanding ceded reserves after recovery equals $4,000, therefore the following entry is needed per items #6 paragraph 34.f. and #10 paragraph 34.j.

<table>
<thead>
<tr>
<th>Entry 5A</th>
<th>Special Surplus—Retro. Reins.</th>
<th>Unassigned Funds</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Retroactive Reinsurance reserves ceded or assumed after this entry equals $4,000.

<table>
<thead>
<tr>
<th>Entry 6</th>
<th>Retroactive Reinsurance Loss (I/S)</th>
<th>Retroactive Reinsurance Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>Ceded or Assumed (B/S)</td>
</tr>
<tr>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

To record subsequent revision of the initial reserves ceded per item #10 paragraph 34.j. The segregated surplus account is decreased as a result of this downward development to $3,000. The following entry is needed per items #6 paragraph 34.f. and #10 paragraph 34.j.

<table>
<thead>
<tr>
<th>Entry 6A</th>
<th>Profit/Loss Account</th>
<th>Retro. Reins. Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

To close loss to profit and loss account.

<table>
<thead>
<tr>
<th>Entry 6B</th>
<th>Special Surplus from Retro. Reins.</th>
<th>Profit/Loss Account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>
To close profit and loss account to special surplus. (Remaining balance of retroactive reinsurance reserve ceded or assumed account equals $3,000.) (Special surplus from retro. reins. account balance equals $3,000.)

Entry 7

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2,500</td>
</tr>
<tr>
<td>Retroactive Reinsurance Gain (I/S)</td>
<td>500</td>
</tr>
<tr>
<td>Retroactive Reinsurance Reserves Ceded or Assumed (B/S)</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Entry 7A

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss Account</td>
<td>500</td>
</tr>
<tr>
<td>Retro. Reins. Gain</td>
<td>500</td>
</tr>
</tbody>
</table>

To close other income to profit and loss account.

Entry 7B

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Surplus from Retro. Reins.</td>
<td>500</td>
</tr>
<tr>
<td>Profit/Loss Account</td>
<td>500</td>
</tr>
</tbody>
</table>

To close profit and loss account to special surplus. (Remaining balance of special surplus from retro. reins. account equals $2,500.) (Remaining balance of retroactive reinsurance reserve ceded or assumed account -0-)

Entry 7C

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Surplus from Retro. Reins.</td>
<td>2,500</td>
</tr>
<tr>
<td>Unassigned Funds</td>
<td>2,500</td>
</tr>
</tbody>
</table>

To close remaining special surplus account to unassigned surplus.

For ease of review, the referenced SSAP No. 62R, paragraphs 33 and 34 are illustrated below (No revisions are proposed to these paragraphs):

**Accounting for Retroactive Reinsurance Agreements**

33. Certain reinsurance agreements which transfer both components of insurance risk cover liabilities which occurred prior to the effective date of the agreement. Due to potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results, special accounting treatment for these agreements is warranted.

34. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

   a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;

   b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;

   c. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve...
ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by
the assuming entity;

d. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from
any retroactive reinsurance as a special surplus fund, designated as special surplus from
retroactive reinsurance account;

e. The surplus gain from any retroactive reinsurance shall not be classified as unassigned
funds (surplus) until the actual retroactive reinsurance recovered exceeds the
consideration paid;

f. The special surplus from retroactive reinsurance account for each respective retroactive
reinsurance agreement shall be reduced at the time the ceding entity begins to recover
funds from the assuming entity in amounts exceeding the consideration paid by the ceding
entity under such agreement, or adjusted as provided in paragraph 34.j.;

g. For each agreement, the reduction in the special surplus from retroactive reinsurance
account shall be limited to the lesser of (i) the actual amount recovered in excess of
consideration paid or (ii) the initial surplus gain resulting from the respective retroactive
reinsurance agreement. Any remaining balance in the special surplus from retroactive
reinsurance account derived from any such agreement shall be returned to unassigned
funds (surplus) upon elimination of all policy obligations subject to the retroactive
reinsurance agreement;

h. The ceding entity shall report the initial gain arising from a retroactive reinsurance
transaction (i.e., the difference between the consideration paid to the reinsurer and the total
reserves ceded to the reinsurer) as a write-in item on the statement of income, to be
identified as Retroactive Reinsurance Gain and included under Other Income;

i. The assuming entity shall report the initial loss arising from a retroactive reinsurance
transaction, as defined in the preceding paragraph 34.g., as a write-in item on the
statement of income, to be identified as Retroactive Reinsurance Loss and included under
Other Income;

j. Any subsequent increase or reduction in the total reserves ceded under a retroactive
reinsurance agreement shall be reported in the manner described in the preceding
paragraphs 34.h. and 34.i., in order to recognize the gain or loss arising from such increase
or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account
write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such
increase or reduction in reserves ceded. The Special Surplus from Retroactive
Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves
under all retroactive reinsurance agreements in-force as of the date of the financial
statement. Special surplus arising from a retroactive reinsurance transaction shall be
considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when
cash recoveries from the assuming entity exceed the consideration paid by the ceding
entity as respects such retroactive reinsurance transaction; and

k. The consideration paid for a retroactive reinsurance agreement shall be reported as a
decrease in ledger assets by the ceding entity and as an increase in ledger assets by the
assuming entity.

(For an illustration of ceding entity accounting entries see question 31 in Exhibit A.)
2. Update reference in SSAP No. 62R, paragraph 85 to match the current format of property casualty annual statement Schedule F - Reinsurance.

Provision for Reinsurance

85. The NAIC Property/Casualty Annual Statement Instructions for Property and Casualty Companies for Schedule F, Part 3 - Ceded Reinsurance, references the Provision provision for Overdue Reinsurance, which provides for a minimum reserve for uncollectible reinsurance with an additional reserve required if an entity’s experience indicates that a higher amount should be provided. The minimum reserve Provision for Reinsurance is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned funds (surplus). Any reserve over the minimum amount shall be recorded on the statement of income by reversing the accounts previously utilized to establish the reinsurance recoverable.
October 11, 2019

Mr. Dale Bruggeman, Chairman  
Statutory Accounting Principles Working Group  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

RE: Exposure Draft Ref #2019-21: SSAP No. 43R – Equity Instruments Released for Comment  
During NAIC National Meeting with Comments due October 11

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on Exposure Draft Ref #2019-21: SSAP No. 43R – Equity Instruments released for comment by the Statutory Accounting Principles (E) Working Group (the “Working Group”), during the NAIC Summer National Meeting in New York. We are responding to this exposure in a letter separate from our responses to the other exposures, per request of NAIC Staff. We offer the following comments.

Ref #2019-21: SSAP No. 43R – Equity Instruments

NAIC Staff Description of Issue:
This agenda item has been drafted to consider clarifications to the scope of SSAP No. 43R—Loan-backed and Structured Securities, particularly with regards to collateralized fund obligations (CFOs) and similar structures that reflect underlying equity interests but are issued in the form of bonds / debt instruments.

Overview: A collateralized fund obligation (CFO) is a form of securitization involving private equity fund or hedge fund assets, similar to collateralized debt obligations (CDOs). A CDO uses loans as the collateral backing the security, whereas a CFO is backed by interests in funds, often private equity or hedge funds. (A CFO can also be backed by other equity interests, such as a limited liability partnership.) Although the CFO appears to have a “debt instrument” cash flow and may receive a credit rating from an NRSRO, the backing of the issued security is based on the equity performance of the underlying funds or equity interest. From a Bloomberg article from Oct. 2018, it was noted that CFOs have been noted as allowing an opportunity for “regulatory capital relief.” This article cited a statement that entities “can exchange their equity interests into CFOs, maintain the same level of exposure, without having to hold as much capital against the
investments because regulators treat CFOs as bonds, not the private equity-linked investments that they are.”

NAIC staff was contacted by a rating provider with a request for information on how CFOs are considered for statutory accounting. The rating provider noted that this information would assist them in determining their methodology for reviewing CFOs under their credit policy and providing credit ratings. As part of that discussion, the rating provider provided the following information regarding their knowledge of CFOs:

- CFOs were first issued prior to the financial crisis in the early 2000’s.
- The early CFOs were packages of hedge funds assets, not private equity funds.
- CFOs did not perform well in the financial crisis and the development / issuance was halted.
- CFOs have now returned to the market, with the majority of holders identified as insurance companies.
- Although CFOs have returned, it was noted they have not seen many issuances.
- CFOs have been formed through repackaging of existing owned assets. (For example, if an insurance company held private equity on Schedule BA, they can package these assets in a CFO and report on Schedule D under SSAP No. 43R.) The rating agency noted that they do not formally receive information on the source of the CFO assets, but they receive source information informally through company inquiries.
- CFOs can be acquired individually (not through the repackaging of existing assets).
- CFOs can include both debt and equity components. Per the rating agency, in the situations seen, the insurance company either keeps the entire structure (both debt and equity pieces), or they sell the debt component and retain the equity component. They identified that in the situations they have seen, insurance companies have always retained the equity portion.

As identified in SSAP No. 26R—Bonds, loan-backed and structured securities (LBSS), although they may meet the definition of a bond, are excluded from SSAP No. 26R and follow the accounting and reporting guidance within SSAP No. 43R. The accounting and reporting of LBSS is similar to the reporting of bonds, with the measurement method (amortized cost or the lower of amortized cost or fair value) determined in accordance with the credit risk of the security (NAIC designation). Securities in scope of SSAP No. 43R are reported on Schedule D-1 as long-term bonds consistent with securities captured in scope of SSAP No. 26R.

Pursuant to the NAIC Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) NAIC designations are used to determine the category of credit risk and are security specific based on the position of a specific security in the issuer’s capital structure.

**NAIC Staff Recommendation from the 8/3/2019 SAPWG Meeting Agenda**

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 43R – Loan-backed and Structured Securities to clarify that CFOs (or similarly structured instruments), and other structures with underlying equity exposures, are excluded from the scope of SSAP No. 43R. Additionally, the revisions prevent existing assets from
being repackaged as “securitizations” for reporting in scope of SSAP No. 43R. Key elements noted in the revisions include:

- The intent for SSAP No. 43R securities to have “bond-like cash flows.”
- Exclusion of equity instruments, investments with underlying assets that include equity instruments, or structures representing an equity interest (e.g., joint venture, LLCs, partnerships).
- Exclusion of assets that were previously reported as standalone assets by the reporting entity to change the investment schedule / reporting value / RBC charge.
- Clarification that lease-backed securities and equipment trust certificates are in the scope when eligible per the P&P Manual of the NAIC Investment Analysis Office.

Interested Party Comments

The proposed changes are categorized as non-substantive and the impetus behind the exposure seems to be concerns surrounding collateralized fund obligations (CFOs); but more specifically 1) repackaging of private equity held on Schedule BA (whereby the CFO vehicle issues structured securities through tranches) so the tranches can qualify for reporting on Schedule D, Part 1 and 2) repackaging of private equity held on Schedule BA with only the residual equity interest retained by the insurance company and 3) insurers investing in various tranches of a securitization or other debt securities where the underlying investments in the structure are equity. While we are supportive of eliminating perceived potential abuses, we believe the proposed changes go well beyond the perceived abuses and possibly affect billions of dollars of other insurer invested assets which we believe are appropriately accounted for under existing NAIC SSAPs and RBC rules. Further, the proposed changes do not address how some of these investments, currently clearly allowed for under SSAP No. 43R, would be reported are eliminated from scope of SSAP No. 43R.

The proposed changes to paragraph 2 of SSAP No. 43R provides an illustration of a CFO where:

“insurers gain exposure to a collection of funds (or equity interests) with the established interest and principal based on the issuers’ expected performance of the underlying funds”

When considering the proposed change noted above, we evaluated a hypothetical investment in the form of a debt instrument, where the instrument provides that the amount of principal or interest to be returned to the holder is to be calculated solely with reference to the movement of the S & P 500, up or down. We agree that such an instrument is in essence an equity and should be excluded from the scope of SSAP No. 43R; and we further agree that the existence of a rating letter for the instrument should have no bearing on the proper classification of the instrument. However, it is not clear to interested parties, whether the current proposal is limited to investments resembling this hypothetical. The key statement that appears to be redefining the scope of SSAP No. 43R seeks to exclude:

“…investments with underlying assets that include equity instruments … in which the cash flow payments (return of principal or interest) are partially or fully contingent on the equity performance of an underlying asset”.

This reference is hard to interpret and could be read to include a wide array of debt investments that have been issued in the capital markets for decades. At times, some of the commentary seems to suggest that if
the issuer of a debt instrument owns assets “that include equity instruments”, then the debt itself should be viewed as equity. This appears to be saying that, if a commercial mortgage loan is “backed by” equity in real estate investments (i.e., amount invested in the real estate property), and dependent in a general sense on the “performance” of such real estate investment, the investment in the commercial mortgage loan could be deemed a real estate equity investment. We do not believe anyone would advance such an extreme proposition, but some of the commentary accompanying this proposal comes close to stating a parallel proposition.

Lastly, the exposure also addresses equipment trust certificates (ETCs) and leased back securities (LBSs), with no background information or rationale to support those specific proposed changes. Given the preceding, the potential scope, the sophisticated nature of investments within SSAP No. 43R, and its interaction with the P&P Manual, we believe the proposed changes are substantial.

We therefore recommend that, for the CFO component, these issues be documented, in detail, in a separate issue paper that addresses the rationale for all investments covered by the proposed changes, the rationale for removing them from the scope of SSAP No. 43R, and the alternate reporting if they are ultimately removed from scope. We believe this is would be an appropriate first step prior to developing a proposed amendment to SSAP No. 43R. This will facilitate full transparency, to both industry and regulators, on the nature of these investments, the magnitude for which it will impact insurers, and the full rationale for each investment type impacted.

The remainder of our letter addresses some of our more specific concerns surrounding those asset classes or types of transactions we believe would be impacted. It is in two parts; 1) Proposed Changes Related to ETCs and LBSs and 2) Proposed Changes Related to “CFO-Type Transactions” and Other Debt Securities.

**Proposed Changes Related to Equipment Trust Certificates and Leased Back Securities**

As mentioned previously, no background information is provided in the exposure supporting why these proposed changes are being made other than a bullet in the Staff Recommendation as follows:

- Clarification that lease-backed securities and equipment trust certificates are in scope when eligible per the P&P Manual of the NAIC Investment Analysis Office.

We did a search of the 2019 reconfigured P&P Manual and found no reference to equipment trust certificates. Prior to this reconfiguration, certain interested parties, including ACLI, PPIA and NASVA, raised concerns about the deletion of the definitions of “Bond” and “Obligation” from the P&P Manual. Specifically, these definitions enumerated a number of securities, including equipment trust certificates, that were then referenced in the filing exemption rule of the P&P Manual. Interested parties were concerned that deletion of these definitions would potentially call into question the filing exempt nature of such securities and were assured by the NAIC Securities Valuation Office (SVO) and certain members of the Valuation of Securities Task Force (VOSTF) that this was not the intent.

Insurers have widely invested in equipment trust certificates (and related securities known as enhanced equipment trust certificates) for decades. These securities are specifically mentioned in SSAP No. 43R and have historically been recognized as Schedule D, filing exempt-eligible securities by both the SVO and by VOSTF and were specifically listed in the supplementary flow charts presented to and approved
by VOSTF for filing exemption, when the new rules for private ratings letter filing requirements were adopted.

These securities enjoy both the benefit of a claim to a corporation via a mortgage or lease agreement with a special purpose vehicle (“SPV”), and the benefit of a security interest in SPV’s owned equipment collateral (such as railroad equipment, locomotives, or aircraft). As such, they have lower credit risk than traditional unsecured corporate debt issued by the same corporations under SSAP No. 26R. The proposed changes would make it unclear whether equipment trust certificates would remain filing exempt or would continue to be viewed as an acceptable asset class.

Similarly, we believe the only reference to leased-backed securities in the P&P Manual relates to conforming credit tenant loans (CTLs). There are other classes of similarly structured leased-back securities, in addition to CTLs, that we believe are appropriately included within the scope of SSAP No. 43R as it references leased-backed securities in much broader context than just CTLs. Specifically, paragraph 2 of SSAP No. 43R states that loan-backed and structured securities include but are not limited to “pass-through securities, lease-backed securities, and equipment trust certificates.” Insurers invest in many different types of securitizations that are backed by lease payments on a variety of different types of underlying assets. These securities have historically proven to be safe, well secured investments with fixed income cash flows, which enhance insurers’ investment portfolios. Any changes to the types of lease-backed securitizations that are currently allowed under SSAP No. 43R could be very impactful to industry, since under the current guidance, securitizations whose cash flows are based on lease payments are currently reported as SSAP No. 43R securities.

ACLI, PPIA and NASVA representatives have had recent (post-exposure) discussions with Charles Therriault of the SVO regarding this component. We understand the SVO would like to define the term Equipment Trust Certificate within the P&P Manual and is willing to work with industry to do so. Similarly, we understand similar work is anticipated for certain types of leaseback securities.

As such, we believe this concept within the proposal, should be deferred until the SVO completes any such work (under the direction of the VOSTF) mentioned above. We are concerned about the potential confusion and unintended consequences that could result from maintaining the proposed changes related to this topic.

Proposed Changes Related to “CFO-Type Transactions” and other Debt Securities

As noted above, we understand concerns with certain CFO transactions and we are supportive of helping eliminate perceived potential abuses; however, we believe the proposed changes go well beyond the perceived potential abuses and possibly affect billions of dollars of other insurer assets which we believe are appropriately accounted for under the NAIC SSAPs and RBC rules. We address what we perceive to have unintended consequences in two broad groups:

1) Debt Securities Supported by Equity Interests, and  
2) Insurer Sponsored Securitizations.

Debt Securities Supported by Equity Interests

The proposed changes related to debt securities issued by CFOs are indistinct, but the exposure indicates that the debt would no longer be expected to be captured by SSAP No. 43R. Interested parties would like
to better understand the proposed accounting and capital treatment of these debt securities going forward. This could have implications for existing investments, but also for future issuances.

If the concept of debt being backed by equity interests is the core of the issue, we note that debt of this type is quite common in the capital markets and universally viewed as having bond-like characteristics. Other examples of debt issued by CFO-like structures (or equity-reliant) include debt issued by Holding Companies (e.g. Utilities, Berkshire Hathaway), Business Development Corporations, Closed-end Funds, Master Limited Partnerships and Real Estate Investment Trusts.

Interested parties would like the opportunity to have an open dialogue about the nature of debt issued by CFO and CFO-like structures, with the intent of creating a framework for distinguishing between instruments that have bond-like cash flows and those that do not.

**Background:**

Securities issued by CFOs represent a diversified opportunity set of investments with varying degrees of risk. The securities issued can be Senior Secured Debt, Unsecured Debt, Subordinated Debt, Preferred Stock and Common Stock. As it pertains to the debt securities issued by CFOs, the expected loss rate is not uniform, but when structured properly, the expected performance is bond-like in nature. Fundamentally, the debt holder is a creditor to the CFO structure and has a priority claim over the equity first loss tranche and any other subordinated tranches that provides appropriate subordination to support the debt’s credit ratings. In addition, the structural protections in these securities work towards preserving the contractual bond-like cashflows and risk profiles during periods of elevated volatility.

The diversified pool of assets and cashflows supporting CFO securities is similar to the assets and cash flows supporting many common asset-backed transactions. In addition, CFO securities include many of the structural features and protections often found in asset-backed securities, such as payment priority and cash trap events, excess collateral and collateral coverage covenants.

Interested parties respectfully present the following potential framework for debt issued by CFOs to demonstrate how the likelihood of debt repayment can be underwritten for such securities.

**Primary Risks:**

When analyzing CFO debt securities, there are two primary attributes to focus on:

1) The portfolio risk or volatility and nature of the underlying assets. Industry participants and Rating Agencies have developed frameworks to assess portfolio risk based on the fund type, expected price volatility, price integrity, liquidity risk, income attributes and correlation. Rating Agencies also perform stress tests and simulations to quantify portfolio performance in a variety of expected market conditions when determining the appropriate subordination and liquidity features necessary to support the credit ratings.

2) The amount of debt issued by the CFO, or inversely, the amount of subordination supporting the debt.

To obtain an investment grade rating on debt issued by a CFO, a CFO must balance the level of volatility of the underlying assets with the amount of leverage debt issued by the CFO. The assigned rating on the debt and expected loss rate should be comparable to other similarly rated debt securities in the market (i.e. debt not issued by CFOs).
Secondary Risks:

CFOs also possess operational, counterparty, and audit related risks that need to be considered, but these are unlikely to be the main driver of an assigned rating. These risks are not dissimilar from the operational and counterparty risks associated with a corporate credit or an asset-backed transaction and certainly do not disqualify CFOs from being treated as debt instruments.

Structural Protections:

Most CFO debt securities benefit from substantial structural protections, including reserve requirements, that work to minimize credit migration risk and maintain certainty of bond-like cashflows during periods of heightened volatility or uncertainty. They fundamentally ensure that equity holders of the CFO assume most of the performance risk instead of the debt holders. They also generally work to ensure that the servicing and repayment of the debt securities is not contingent upon appreciation of the underlying assets.

To support an investment grade rating on the debt issued by a CFO, the size of the equity tranche is typically set at a level so that it can absorb the expected gross losses in the underlying assets along with a margin for uncertainty. The equity tranche sizing also differs based on the variance of the expected losses, form of income generation and desired rating on the issued debt security.

See below for a sample of structural protections that support bond-like treatment for securities issued by CFOs:

- **Loan-to-value limitations or overcollateralization requirements:** Restricts the amount of leverage that can be placed on the CFO. May also force rapid amortization with cashflows from assets prioritized to the debt tranches or to the reserve accounts before the equity investors have access to cash generated by the CFO.

- **Diversification or performance requirements:** General requirements that work towards minimizing the volatility of the underlying assets. These may also act in conjunction with the loan to value limitations or overcollateralization requirements so that as the underlying portfolio becomes more volatile, the level of leverage allowed is reduced. These protections may also include requirements limiting concentration in any single asset or class of assets and requirements relating to overall portfolio diversity.

- **Debt service coverage ratio requirements:** Ensures that CFO debt servicing needs can be met with current cashflows from the portfolio of investments. This works to maintain predictability and periodicity of the coupon payments on the CFO issued debt.

- **“First in/first out” structures:** May require senior tranches to fund first, but then restrict any return of capital to the subordinated tranches until the senior tranche has received its contractual interest and principal payments.

- **Funded reserve accounts:** Accounts are typically set up to prefund interest, capital calls or principal repayments. The size of the accounts can also vary based on the performance of the underlying portfolio or leverage on the vehicle.

- **Keep well provisions:** Sponsors of CFOs may be contractually required to contribute additional assets or equity to cure a breach if covenants within the CFO level are violated.
Rating based triggers: A change in the credit rating could require any of the above structural protections to be triggered or have the thresholds increased to mitigate the increase in risk.

Not only do interested parties support developed underwriting frameworks used to assess risks associated with repayment of CFO debt, interested parties also have concerns about the possibility of scope creep into non-CFO assets, should the SAPWG proposal be adopted as drafted. The following are examples of debt securities held by insurers. The first example (Debt issued by Private Equity CFOs) falls into the scope of the proposed SAPWG recommendation. The remaining examples are not within scope of the recommended changes, yet they share some similar characteristics to Debt Issued by Private Equity CFOs. Interested parties believe that each of these debt classes can be structured in a way, such that the underlying equity investments provide, with high likelihood, cash flows sufficient to cover scheduled debt service payments. The key is to appropriately design the structural protections provided within these securities, assessing whether such protections are sufficient to offset the possibility of declining valuations or cashflows of the underlying equity investments, so that the debt obligations can still be fulfilled.

Debt Issued by Private Equity CFOs (PE CFOs): Invest in private equity funds and may also invest in debt securities. The PE CFOs that have recently been issued include seasoned pools of underlying private equity funds that are well diversified by type and vintage, and as a result, generate relatively consistent cash flows to pay principal and interest. In general, capabilities of the asset manager and counterparty exposure are strong. Debt securities issued by PE CFOs pre-crisis and post-crisis have been rated between B and AAA by an NRSRO, with senior tranches rated between A and AAA and typically sized at between 21% and 56% of the value of the underlying asset portfolio. The features of PE CFO debt are fundamentally different from those of private equity interests themselves; they typically bear interest at a fixed rate, come with no commitment to fund additional capital calls, have significant overcollateralization and benefit from the diversified pool of underlying investments at various investment and liquidity stages. In certain situations, sponsors are also required to provide incremental support. Debt securities are structured to apply cash flow to pay interest and repay principal on the debt as cash flow is realized with a liquidity facility or reserve to cover capital calls and interest shortfalls due to timing mismatches. Cash flows from underlying investments have been adequate to meet interest and principal obligations in both pre-crisis and post-crisis PE CFOs that have been broadly distributed. All rated notes issued by pre-crisis PE CFOs have paid off in full according to their terms. One post-crisis PE CFO has completely paid off rated notes and another has paid off the most senior debt tranche.1

Debt Issued by Closed-end Funds: Listed 1940 Act vehicles that invest in equity or debt securities. These funds are required from a regulatory perspective to maintain Asset to Debt ratios of 300% and Asset to [Debt+Preferred Stock] ratios of 200% (typical debt covenants in these funds are slightly higher). These vehicles have been cycle-tested through several volatile periods with modest credit migration and no credit losses (for both Debt and Preferred Stock issuance by Closed-end Funds). For example, multiple closed-end fund debt transactions, collateralized by publicly traded energy-related Master Limited Partnership ("MLPs") units, were issued in the private placement market over the last decade. When oil prices fell from more than $100/barrel to below $40 in less than one year, the structures proved robust. As energy MLP prices fell, and the funds approached their required minimum overcollateralization thresholds, Closed-end Fund managers sold MLP units in the open market and used the proceeds to repay debt and

1 Information relative to the structure and performance of PE CFOs and their underlying investments obtained from Fitch Ratings Report, PE CFOs: Securitizing Private Equity Fund Interests, issued 10 October 2019.
preferred securities. All of these structures made the mandatory debt and preferred stock repayments at par plus accrued interest, or higher, and all honored remaining debt service payments. Debt securities issued by Closed-end Funds are typically rated AA to AAA by CRPs.

**Debt issued by Business Development Corporations (BDC’s):** Corporations with preferential tax status established to invest in the debt and equity of predominately US companies (public and private). Covenants can vary significantly, but most do have a core Asset Coverage ratio. While some BDC’s did experience distress during the global financial crisis, private placement debt issued by BDCs came with structural protections to enable note holders to recover all principal invested, plus accrued interest, and in some cases, full make whole payments. Debt ratings are typically BB to BBB+.

**Debt Issued by Corporate Holding Companies:** Insurance companies have significant investments in debt issued by holding companies (HOLDCOs). The HOLDCOs typically have no hard assets and only own the equity in operating subsidiaries (OPCOs). Oftentimes, the OPCOs do not guarantee the HOLDCO debt and many OPCOs have direct or indirect restrictions on the amount of cashflows they can dividend up to the HOLDCO (e.g. Utilities). The debt issued by these HOLDCOs is only supported by the equity interests they hold and ratings vary significantly based the issuer’s inherent financial and business risk.

*See below for a summary of hypothetical capital structures and ratings for various CFO or equity-reliant transactions:*

![Diagram showing capital structures and ratings for various CFO or equity-reliant transactions](attachment:one_h1b)

**Summary:**

At the start of evaluating any CFO debt security, the relevant questions should be:

- Does the fact that the underlying risk is held in a CFO structure change the expected performance of the debt and equity securities issued by that structure?
- Is the proportion of risk borne by the first loss tranche or subordinated capital enough such that the debt security will exhibit debt like attributes?
- Are the loss expectations comparable to other rated debt securities in the capital markets?
Do the structural protections ensure the transfer of risk to the equity tranche and stability of expected debt cashflows are preserved in a variety of market conditions?

Rating agencies have developed frameworks for evaluating CFOs and CFO-like structures. They have concluded that if the CFO has the right balance of underlying portfolio volatility and leverage, along with appropriate structural protections, they are bond-like in nature and can be rated investment grade. This is also the view of interested parties. We look forward to having further dialogue to ensure this asset class remains an opportunity for investment.

**Insurer Sponsored Securitizations**

Interested parties’ interpretation of the proposed changes (i.e., the phrase in the exposure that states “Exclusion of assets that were previously reported as standalone assets by the reporting entity to change the investment schedule / reporting value / RBC charge”) would be that they would likely deter insurers from securitizing already owned assets (insurer sponsored securitizations), where some interest was retained after securitization, and such a transaction would be deemed inappropriate pursuant to the exposure document. The below expands on these concepts and describes why we believe insurer sponsored securitizations of owned assets should not be discouraged and have been executed over time for valid business purposes.

Insurers have used insurer sponsored securitizations throughout the years for many important business reasons highlighted below. Interested parties believe, as long as the SSAPs are applied appropriately, insurers should be able to derecognize already owned assets from their balance sheets, and if the insurer sponsor purchases various tranches from the securitization vehicle, they should be afforded the ability to recognize, account for, and report the tranches the same as if they were purchased from an unrelated third party. Insurer sponsored securitizations, where either the insurer sponsor purchases various tranches from the securitization, or its affiliates purchase the various tranches, have been used for some of the following legitimate reasons throughout the years. Interested parties strongly believe they should continue to be afforded the ability to securitize in this way because:

- It provides insurers an important ability to change the risk profile, economics, and cash flows in its insurance and non-insurance companies
  - Improves risk transparency of underlying investments through debt ratings and purchase by independent third parties, when applicable
- It prevents the need for the insurer to sell assets to unrelated third parties in an inefficient private market
- Enhances liquidity in that the beneficial interests issued by the securitization are rated by NRSROs and may be sold externally to raise cash and provide the insurer sponsor the ability to invest in other investment types for their investment portfolio (i.e., diversification)
- Provides the insurer sponsor the ability to earn management fees from unrelated third-party purchases of the various tranches of the securitization
- Affords insurers the ability to manage asset allocation and duration of its asset portfolios for an optimal asset liability management match

SSAP No. 103R, *Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides insurers the ability to securitize owned assets. The owned assets may be derecognized from an insurer’s
balance sheet only when the three “sale” conditions in paragraph 8 are met. The conditions in paragraph 8 are consistent with the conditions applied on a U.S. GAAP basis when determining if “sale” accounting may be applied. An insurer would evaluate the three conditions in paragraph 8 very carefully, based on their own set of facts and circumstances, to ensure the conditions are met and “sale” treatment is achieved. The newly issued tranches by the securitization vehicle may be purchased by the insurer sponsor, purchased by affiliates of the insurer sponsor, sold to unrelated third parties, or any combination of the above. If affiliates of the insurer or the insurer itself purchase various tranches issued by the securitization, SSAP No. 25, Affiliates and Other Related Parties, would be applied to ensure there is permanence to the transaction, any gains from the transaction would not result in an inflation of surplus, and the transaction is arm’s-length.

Interested parties believe that the guidance in SSAP No. 103R and No. SSAP 25, if applied appropriately, should result in a valid business transaction where the currently owned assets would be derecognized from the insurer sponsor balance sheet because the insurer sponsor would no longer possess all of the risks associated with the assets. Based on the guidance in paragraph 8, that means the assets would have been isolated from the insurer sponsor beyond the reach of creditors (condition a); if removed for purposes of a securitization, the third party holder of its beneficial interests must have the right to pledge or exchange its beneficial interests and no condition would both constrain the beneficial interest holder from taking advantage of its right to pledge or exchange the beneficial interest and provide more than a trivial benefit to the transferor (insurer sponsor) (condition b); and the transferor does not maintain effective control over the transferred assets (condition c).

Insurers generally evaluate the three conditions in paragraph 8 as follows. Again, these evaluations are consistent with those performed for U.S. GAAP purposes:

• In order to meet conditions a and b, insurers assess various facts and circumstances in their own individual transactions to ensure the conditions are met. Although not individually determinative, insurers rely on a “true-sale/non-consolidation” opinion from external legal counsel. The “true-sale/non-consolidation” opinion is a lengthy and robust evaluation performed by external counsel, based on the facts and circumstances in the transaction, to provide an opinion, in their best judgment, that the transferred assets would be isolated in bankruptcy proceedings of the transferor. It is important to note that external counsel does not issue a “true-sale/non-consolidation” opinion unless a significant enough percentage of the tranches issued by the securitization vehicle are sold to either unrelated third parties of the insurer sponsor or to affiliates outside the ownership stack of the insurer sponsor (e.g., not a parent or subsidiary of the insurer sponsor). Additionally, the insurer would consider factors such as the non-recourse nature of the transaction to the sponsor and the separateness of the SVP that is formed. The SPV that is formed is a distinct separate partnership (or LLC) and all partnership formalities are followed with respect to their organization and operation; the assets of the SPVs are not commingled with the assets of any member of the sponsor; proper books and records of the SPVs are maintained at all times; all transactions between the SPVs and the sponsor will be fair and reasonable and reflect arm’s-length terms; the general partner for each SPV has at least one independent director experienced in securitizations.

• To ensure condition c is met, the insurer would assess facts and circumstances, such as what party controls decisions associated with the transferred assets, including future decisions to sell the assets after transfer, to ensure that the insurer sponsor does not directly or indirectly control the decisions associated with the transferred assets. It is important to note that condition c is assessed
at the insurance company legal entity level (i.e., the insurer sponsor itself does not retain control of the assets).

To illustrate the application of the conditions in SSAP No. 103R, interested parties offer the following examples of facts and circumstances that do NOT meet the conditions of SSAP No. 103R, where already owned assets should not be derecognized from the insurer sponsor balance sheet. The SSAP No. 103R analysis is summarized below and is not indicative of the extensive analysis performed by insurers to ensure SSAP No. 103R “sale” conditions are met. Although the example is for a private equity securitization, the same SSAP No. 103R and SSAP No. 25 analysis is performed for any securitization of owned assets (e.g., CLOs):

All examples (examples 1-4) below have the following in common:

- Insurer sponsor transfers private equity funds reported on its Schedule BA into a special purpose vehicle (SPV)
- The SPV securitizes the private equity funds and various debt tranches are issued; the remaining equity in the SPV is considered residual equity (i.e., LLC/LP equity interest)

Example 1:

- Investors in securitization: The insurer sponsor purchases substantially all or all of the tranches issued by the SPV and substantially all or all of the residual equity
- SSAP No. 103R assessment:
  - Insurer sponsor retains all or substantially all of the risks associated with the private equity funds
  - A “true-sale/non-consolidation” opinion would not be received from external legal counsel because not a significant enough amount of the tranches was purchased by either unrelated third parties or affiliates outside the sponsor’s ownership stack
  - This transaction does NOT meet the conditions in paragraph 8 (neither condition a nor b are met) SSAP No. 103R to attain “sale” accounting; the private equity funds should not be derecognized from the insurer sponsor balance sheet

Example 2:

- Investors in securitization: The insurer sponsor sells a significant amount of the tranches to unrelated third parties or affiliates outside the ownership stack
- Unique provision of the securitization: The insurer sponsor can call the securitization beneficial interests at any time at a pre-determined price that was set at below market price
- SSAP No. 103R assessment:
  - The transaction does not meet condition b of SSAP No. 103R because the insurer sponsor has the ability to both constrain the beneficial interest holder from taking advantage of its right to pledge or exchange the beneficial interest and provides more than a trivial benefit to the transferor (paragraph 53 of SSAP No. 103R)
  - This transaction does NOT meet the conditions in paragraph 8, SSAP No. 103R to attain “sale” accounting; the private equity funds should not be derecognized from the insurer sponsor balance sheet
To further illustrate the conditions of SSAP No. 103R, interested parties offer the following examples of facts and circumstances that DO meet the conditions of SSAP No. 103R, where owned assets should be derecognized from the insurer sponsor balance sheet:

Example 3:

- Investors in securitization: The insurer sponsor sells a significant amount of the tranches to unrelated third parties or affiliates outside the ownership stack; insurer sponsor purchases either all of the residual equity of the securitization or all of the residual equity and some allocation of other tranches in the securitization
- SSAP No. 103R assessment:
  - The transaction meets the conditions a and b of SSAP No. 103R because the insurer sponsor would receive a “true-sale/non-consolidation” opinion from outside legal counsel as a significant enough portion of the tranches was sold to unrelated third parties or affiliates outside the ownership stack
  - The transaction meets condition c of SSAP No. 103R because the insurer sponsor does not maintain effective control of the transferred assets or the beneficial interests issued by the securitization (e.g., no sponsor call provision)
  - This transaction DOES meet the conditions in paragraph 8, SSAP No. 103R to attain “sale” accounting; the private equity funds should be derecognized from the insurer sponsor balance sheet
  - The transaction also meets the requirements in SSAP No. 25, including permanence of the transaction

Example 4:

- Investors in securitization: The insurer sponsor sells almost 100% of the tranches to unrelated third parties or affiliates outside the ownership stack; insurer sponsor retains less than 10% of the residual equity. This example is included in the letter because for securitizations of CLOs, for example, the sponsor must retain a certain percentage of the residual due to U.S. Risk Retention rules.
- SSAP No. 103R assessment:
  - The transaction meets the conditions a and b of SSAP No. 103R because the insurer sponsor would receive a “true-sale/non-consolidation” opinion from outside legal counsel as a significant enough amount of the securitization was sold to unrelated third parties or affiliates outside the ownership stack
  - The transaction meets condition c of SSAP No. 103R because the insurer sponsor does not maintain effective control of the transferred assets or the beneficial interests issued by the securitization (e.g., no sponsor call provision)
  - This transaction DOES meet the conditions in paragraph 8, SSAP No. 103R to attain “sale” accounting; the private equity funds should be derecognized from the insurer sponsor balance sheet
  - The transaction also meets the requirements in SSAP No. 25, including permanence of the transaction
Assuming a transaction meets the conditions in SSAP No. 103R and SSAP No. 25 is applied appropriately, assets the insurer sponsor purchases from the securitization should be treated as if the insurer sponsor purchased the tranches from an unrelated third party. This is aligned with the U.S. GAAP treatment of such transactions. The section of our letter related to debt securities supported by equity interests provides interested parties thoughts as to why the beneficial interests issued in an insurer sponsored CFO should be reported as SSAP No. 43R investments.

Consistent with SSAP No. 48 (or SSAP No. 97 if relevant) the residual LP/LLC equity from a private equity securitization would be reported on Schedule BA and equity method of accounting would be applied, because the investor owns LP/LLC equity interest. For other securitizations, such as CLOs, a residual security (i.e., residual tranche) is usually issued, which meets the definition of an SSAP No. 43R security, is reported on Schedule D as debt, debt accounting is applied, and the investment would receive a low NAIC designation. Schedule D debt treatment is consistent with U.S. GAAP as the residual tranche is considered to have fixed income-like cash flows, because the securitization involves financial assets with contractual cash flows.

Interested parties believe proposal 2019-21 is concerned about the perceived abuse associated with the application of SSAP No. 103R and SSAP No. 25 to insurer sponsored securitizations. Interested parties recommend disclosures be expanded to require disclosure of the conditions in SSAP No. 103R paragraph 8 and how an insurer sponsor concluded that the conditions were met to attain “sale” accounting upon securitization.

Summary Conclusion

While we believe the proposed exposure is attempting to address some valid regulatory concerns, we do have significant concerns about the broad-brush approach to the proposed changes and the likely unintended consequences:

- The exposure does not propose alternative reporting for investments that would no longer be allowed under the exposure.
- As it relates to both Equipment Trust Certificates and Lease Backed Securities, the exposure has little, if any, analytical support for the proposed changes and has insufficient clarity surrounding the types of securities that we believe would impact billions of dollars of industry assets. This is a substantial change and more work needs to be done before changes, if any, are incorporated into SSAP No. 43R.
- As it relates to “CFOs”, this is a very complicated area and the exposure goes well beyond the perceived regulatory concerns stated. The proposed changes would also potentially impact billions of dollars of industry assets as well as significantly reduce the ability of insurance companies to securitize owned assets for valid business purposes. A thoughtful and well-articulated issue paper is needed to facilitate full transparency, to both industry and regulators, on the magnitude for which the changes will impact insurers as well as the full rationale for each investment type impacted, prior to any changes being incorporated into SSAP No. 43R.

We stand ready to assist NAIC staff, and regulators, to provide clarifying answers to any questions on the content of this letter as well as to provide additional education on the various types of transactions that we
believe are inappropriately captured by the scope of this exposure. We appreciate the opportunity to provide comment and engage in future dialogue.

* * *

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

Sincerely,

D. Keith Bell

Rose Albrizio
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January 31, 2020

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 During the NAIC Winter National Meeting with Comments due January 31

Dear Mr. Bruggeman:

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

Ref #2018-26: SCA Loss Tracking – Accounting Guidance

The Working Group exposed revisions, with modifications suggested by interested parties to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets to expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the equity value of an SCA investment. With the revisions, the equity value of an SCA would not go negative, and guaranteed 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 also be inserted into SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

Interested parties have no comment on this item.

Ref #2018-38: Prepayments to Service and Claims Adjusting Providers

NAIC Staff recommended that the Working Group expose revisions incorporating the majority of interested parties’ comments to SSAP No. 55 (rather than the changes reflected in the draft for the Summer 2019 exposure). Interested parties’ comments primarily delete the exposed guidance and move the same or similar concepts into the broad product guidance for property and casualty, life and health or health in SSAP No. 55. These revisions are to reinstate annual statement references by entity type and to adjust scoping language and make the SSAP No. 29 prepaid guidance consistent. (Staff proposed variations in wording are shaded to differentiate from the interested parties proposed wording that accomplishes a similar intent.)
The exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses incorporate interested parties’ previous 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 related liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted.

Interested parties have no comment on this item.

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

The Working Group exposed a revised Issue Paper No. IXX—Preferred Stock and a substantively-revised draft SSAP No. 32—Preferred Stock as part of the Investment Classification Project.

Interested parties substantially agree with the objectives of the proposal and appreciate Staff’s inclusion of revisions for previously communicated comments. We have the following additional comments related to the issue paper:

Scope

Interested parties note that the scope retains, albeit edited, the guidance that preferred stock of subsidiary, controlled and affiliated entities is included and therefore accounted for under the guidance for preferred stock regardless of their SCA character. We acknowledge the current exposure added the requirement to file investments in response to our request. The existing wording in SSAP No. 32 and the exposed language for SSAP No. 32 is below with interested parties suggested clarifying sentence and additional wording (underlined).

Existing language in SSAP No. 32:

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

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

Exposed language in SSAP No. 32 and interested parties suggested additional sentence (underlined):

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

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

Definitions

We are opposed to the proposed edits to the definitions of redeemable and perpetual preferred stock for the following reasons:

a. The change would create a divergence from GAAP that does not exist under the current definitions. Both the definition and accounting for redeemable securities under the current definition aligns with the GAAP definition and accounting for debt securities. Preferred stock accounted for as debt securities under GAAP are those where ability for the holder to collect repayment is assured by the contract terms. We have not identified any benefit to diverging from this view for statutory reporting. The NAIC guidance is different from the GAAP ASC 480 guidance for issuers in multiple ways:

- Preferred stock redeemable at the option of the holder for GAAP is classified as equity (mezzanine equity for SEC filers) but under statutory reporting currently (and proposed) is classified as debt-like in valuation. This conflicts with GAAP ASC 480 guidance for issuers and so it is more straightforward to use the GAAP ASC guidance for holders.
- Alignment of statutory accounting with the ASC 320 guidance for holders results in more equity-like classification in the valuation of preferred stock which is generally more conservative than debt-like classification in valuation.
- Preferred stock redeemable for other reasons outside of issuer’s control is equity (mezzanine equity for SEC filers) for GAAP but equity-like in valuation under current statutory reporting and debt-like in valuation under the proposed statutory reporting.

b. The definition that the NAIC staff has proposed to align to is used in GAAP only for compliance with SEC Regulation S-X, Rule 5-02, which is relevant only to the issuer of preferred stock and does not apply to nonpublic companies. Further, the definitions under Rule 5-02 were designed to include preferred stock with redemption features outside of the control of the issuer in order to provide investors information regarding potential future cash obligations. This is not a relevant consideration for the holder’s perspective. From the holder’s perspective, the only relevant consideration is whether the holder is able to redeem its investment, either through a fixed and determinable date, or through a redemption option that the holder can control.

c. Evaluation of whether there are any features that are outside the control of the issuer is a very complex and cumbersome analysis, even on an infrequent basis as is the case under GAAP (as it only applies to issuers). This is because there are a vast number of potential features that could be outside the control of the issuer (i.e., change in control, lapse in SEC registration, failure to pay dividend, etc.). Insurance companies frequently invest in preferred
stock and often purchase many such securities each reporting period. Evaluating every preferred stock investment at this level of detail would be operationally burdensome and would provide no additional benefit as the investor is often economically indifferent to many of these low-probability redemption features that are outside of the control of both the issuer and investor.

As a result, we propose the following edits to the proposed definitions:

a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control at the option of the issuer holders. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; or 2) is redeemable at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights;

b. Perpetual preferred stock, which is preferred stocks which are not redeemable or for which redemption is not at the option of the holder are redeemable solely at the option of the issuer (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a.

Balance Sheet Amount

The issue paper discusses carrying perpetual preferred at fair value capped by any stated call price. However, it did not provide guidance on timing for application of the cap. Because the call may not be effective for a period of time, and to ensure that purchases of perpetual preferred stock could still be carried at values greater than par (assuming market values remain above par), we recommend the following revisions to paragraph 10.a.ii, 10.b.ii and the correspondingly to paragraph 11 (underlined):

Paragraphs 10.a.ii and 10.b.ii:

i. Perpetual preferred stocks shall be valued at fair value, not to exceed any currently effective call price.

Paragraph 11:

11. An other-than-temporary (INT 06-07) 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.

Income

The issue paper clarifies the guidance on dividends on preferred stock. Specifically, paragraph 14 states:

“14. Dividends on preferred stock shall be recorded as investment income for qualifying preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon dividend settlement.”

Interested parties request clarification on the use of the term “qualifying” preferred stock as the term is not defined within the issue paper or within the new glossary of terms. If the inclusion of the word “qualifying” was unintentional, interested parties recommend deleting the word from paragraph 14 to avoid confusion.

**Ref #2019-08: Update Reporting Deposit-Type Contracts**

The Working Group exposed this agenda item to: 1) request feedback on the inclusion of a footnote excerpt for Exhibit 5 to disclose cases when a mortality risk is no longer present or a significant factor – i.e., due to a policyholder electing a payout benefit, 2) request feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) requested industry and regulator input for instruction clarifications regarding the classifications of deposit-type contracts captured in Exhibit 7. With this exposure, there are no proposed edits for statutory accounting. The Working Group directed NAIC staff to notify the Financial Stability (Ex) Task Force of this exposure.

Interested parties support the proposed Exhibit 5 footnote which, among other things, would provide clarification on contracts where a mortality risk is no longer present or a significant factor.

With respect to the implementation of additional disclosures for Exhibit 6, interested parties believe that the current product disaggregation in Exhibit 6 is sufficient to analyze the risks present in the subject contracts, and would suggest no changes.

Interested parties have no additional clarifications for Exhibit 7 instructions – we believe the current instructions are sufficiently clear for deposit type contracts.
Ref #2019-12: ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force

The Working Group adopted, as final, a clarification edit to SSAP No. 68—Business Combinations and Goodwill to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (With adoption of this edit, paragraph 9 was split into two separate paragraphs with the additional wording shown below.) The remainder of this agenda item was re-exposed to allow additional time for specific examples of pushdown accounting to be provided by interested parties, as well as consider comments received on pushdown.

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

Interested parties is working on developing examples to illustrate the various ways in which goodwill can be generated and suggested approaches to how the statutory limitations could be applied. As a result of these efforts, we request an extension for this and the following item.

Ref #2019-14: Attribution of Goodwill

The Working Group re-exposed this agenda item to clarify that the “assignment” of goodwill is a disclosure element. The Working Group directed NAIC staff to prepare revisions to the Sub 1 Acquisition Overview template to capture this information for new SCA acquisitions.

Please see the comments on the preceding item.

Ref #2019-20: Rolling Short-Term Investments

The Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as shown in the “Proposed Revisions for Fall 2019 Discussion” to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Fall revisions to the prior Summer National...
Meeting exposure incorporate guidance to exclude qualifying cash pools from the short-term rolling provisions.

With the Fall exposure, comments were requested from regulators and industry representatives on whether other investments should be included / excluded from the short-term rolling provisions. In particular, comments are requested on whether short-term lending (both collateral loans and affiliated loans) should be permitted to be continuously rolled/renewed as short-term, whether non-affiliated SSAP No. 26R investments should be subject to the short-term rolling restrictions, and whether an assessment of “re-underwriting” could be used as support to allow the rolling of short-term investments.

Interested parties appreciate the staff’s exclusion of qualifying cash pools from the provisions of the short-term rolling re-exposure. There remain two types of short-term lending arrangements within the scope of the re-exposure that should be addressed separately. We respectfully request that the Working Group give consideration to the broader implications discussed below prior to moving forward with this proposal. Specifically, it might be advantageous to split the exposure into two work streams – one for affiliated investments and another for unaffiliated investments.

**Non-affiliate Short-Term Lending**

In the case of non-affiliated loans (i.e., Schedule BA Other Invested Assets), in order to provide appropriate flexibility to both the lender and the borrower, a loan facility may be structured as a short-term obligation. Such short-term obligations permit an insurer to more efficiently deploy its capital and streamline its underwriting process. Specifically, short term, non-affiliated loans: (a) provide the insurer with the ability to review and consider credit and collateral on a regular basis, (b) allow the insurer to reevaluate each investment at maturity and make new investments based on current market conditions if desired, and (c) allow the insurer to consider a renewal with an existing base of knowledge about the borrower and collateral, making the underwriting process more streamlined and allowing for better informed credit decisions. As with any investment, diligent underwriting of the borrower and the collateral, and structuring of the investment with appropriate safeguards is critical and should not deviate from standards used for longer-term investments. These facilities fill a market need for borrowers that require short-term or warehouse-type financings on assets prior to reaching the window for securitization and provide the insurer with attractive risk-adjusted returns relative to other short-term investments.

In this context, interested parties propose that all non-affiliated short-term obligations, obligations in scope of either SSAP No. 26 or SSAP No. 43R, where the counterparty is not an affiliate or related party of the reporting entity, including collateral loans, which meet certain objective criteria should be defined, reported, and monitored in the existing Schedule DA as a non-affiliated short-term investment. In order for a non-affiliated transaction to qualify as short term for reporting purposes, such investment must include the following features:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and
2) Any subsequent renewal is only completed in the sole discretion of BOTH the borrower and the lender.

Given that the transaction is between unaffiliated counterparties, interested parties believe the terms of these transactions, including the interest rate and advance rate, are on arms’ length terms.

Finally, with no obligation at any time to renew a transaction, the reporting entity is required to re-evaluate and re-underwrite the transaction at maturity. If any of the relevant underwriting criteria have changed, the insurer can require repayment or can request adjustments to the terms and conditions to conform to market conditions. If, but only if, both the borrower and lender agree to renew the transaction on the same or adjusted terms, the transaction may be renewed. This process, however, requires an independent credit decision and results in a new transaction.

Interested parties acknowledges the NAIC staff’s concern about the ability of auditors and regulators to discern between renewals that have been re-underwritten and those that have not; however, without an appreciation for the nuanced economic differences of these transactions, interested parties have concerns about unintended consequences of the re-exposure. Consider a transaction in which an entity purchases a GNMA with less than a one-year maturity, which was classified as a short-term investment or cash equivalent and matures/is settled as expected. Shortly after, that entity decides to purchase another GNMA with less than a one-year maturity. As proposed, the guidance precludes short-term investment or cash equivalent reporting for reacquired investments (or substantially similar investments) when purchased within one year from the initial investment. Without further clarification regarding substantially similar investments, or alternative objective criteria like those proposed above, we anticipate that diversity in practice could result. Additionally, regarding the example described, operationally burdensome tracking requirements would be required for entities to ensure appropriate reporting.

Therefore, we believe that unaffiliated SSAP No. 26 investments should be excluded from the scope of this exposure for the reasons discussed above. The scope of this exposure should also continue to exclude other unaffiliated SSAP No. 26 investments such as treasury bills, commercial paper, certificates of deposits and other similar short-term investments since such investments are used for short-term liquidity and do not have long-term investment risk.

**Affiliate Short-Term Lending**

Interested parties believe that the same principles discussed above and in our previous letter apply to affiliated short-term investments to merit continued classification as short term in nature, even when a subsequent short-term investment is re-underwritten to the same borrower within a year. We believe there is already sufficient regulatory oversight on the fundamental objectives, usage and risks of material affiliated transactions to validate the alignment of these vehicles with the fundamental characteristics implied by the statutory short-term investment classification. In this case, prudently managed, governed and executed liquidity optimization across an insurance holding company system can be observed with the current regulatory oversight mechanisms. While re-underwriting may be warranted based on liquidity needs, the risk profile continues to be commensurate with that of short-term investments.
NAIC Guidance should not supersede regulatory oversight. The domiciliary commissioners already have authority to disapprove of material affiliated transactions as deemed necessary. The NAIC Model Holding Company Act (the “Act”), which has been broadly incorporated into state laws, requires filing and domiciliary commissioner approval of affiliated transactions over certain materiality thresholds. As the Act was promulgated by the NAIC, interested parties believe that through use of the Act, commissioners put in place filing and approval requirements they deemed satisfactory to address their regulatory needs. Through these filings, state regulators have oversight over both the risk elements considered and the methodology utilized by companies in underwriting each material extension of credit within the holding company system. It would run counter to state authority to implement requirements resulting in NAIC guidance that would effectively supersede the authority of domiciliary commissioners or cast doubt, even implicitly, upon states’ ability to appropriately regulate the domiciled insurers with which they are intimately familiar. Principally, the Act allows regulators to verify the appropriateness of the short-term classification of material affiliated investments, providing oversight to ensure consistency in classification between affiliated and unaffiliated short-term investments.

Prudent and appropriately governed liquidity management within a holding company structure enhances insurance company solvency. Appropriately managed, governed and regulator-approved affiliate lending programs create opportunities for liquidity optimization across a holding company system, essentially sharing objectives similar to that of affiliated liquidity pools. This management is necessary due to diversification of product offerings as timing of cash receipts and disbursements will vary across such products and different entities within a holding company system. The ability to prudently draw upon excess liquidity surplus within one entity at a time when another entity has a short-term need for liquidity serves as an immediate buffer against uneconomic alternatives such as forced asset sales or relatively costly external short-term financing. If adopted as written, the exposed guidance could result in entities foregoing this powerful in-house liquidity tool, which enables companies within a holding company system to more effectively manage inherent cash flow timing mismatches, and instead resort to alternatives that would result in an unnecessary drain on capital available to support policyholder obligations.

SSAP 43R—Loan-backed and Structured Securities

Investments in the scope of SSAP 43R, Loan-backed and Structured Securities, have payments that are driven by underlying collateral with modifications that are driven by the performance of the underlying assets and typically overseen by a collateral manager or otherwise laid out in deal documents. In many cases, these instruments also have clean-up call provisions that would remove the investment from the market while the remaining underlying collateral may be repackaged into a re-securitization. The concept of rolling a short-term investment that would be in the scope of SSAP 43R is often-times outside the control of investors in these instruments and possibly part of the normal life cycle of a small portion of the underlying collateral. Because of these characteristics, the interested parties propose that any non-affiliated investment that would qualify within SSAP 43R—Loan-backed and Structured Securities be exempt from the proposed new concepts like what is proposed for non-affiliated investment that would qualify within SSAP 26R—Bonds. Further consideration of affiliated investments that fall within SSAP 43R is recommended, given the underlying assets drive these investments and the other considerations for affiliate short-term lending outlined previously in this response.
Interested parties respectfully requests that the Working Group give consideration to these broader implications prior to moving forward with this proposal. If the Working Group has lingering concerns or appetite for additional elaboration as to the character and traditional efficacy of existing regulatory oversight mechanisms, interested parties would request that staff work with industry to draft materials for future dialogue and examination of this topic.

Ref #2019-24: Levelized and Persistency Commission

The Working Group exposed revisions to SSAP No. 71—Policy Acquisition Costs and Commissions, to include additional NAIC staff modifications regarding persistency commission and levelized commission arrangements to address certain comments received and to allow for further discussion. With this exposure, the Working Group directed a notification of the exposure to be sent to the Life Actuarial (A) Task Force.

Interested parties appreciate staff’s availability to discuss the proposed revisions. Based on that discussion and the discussion at the Fall Meeting, interested parties propose suggested edits that we believe achieve the goal of a nonsubstantive change and clarify the original intent of SSAP 71. (Note: the NAIC Accounting Practices and Procedures Manual-Life which was in force prior to the effective date of current SAP includes the same wording as current SSAP No. 71). The suggested edits add a clear definition of a funding agreement. This will clarify the distinction between funding agreements and persistency-based commissions, without unintentionally changing the existing accounting. We welcome the opportunity to discuss the suggested edits further with the Working Group.

Ref #2019-25: Working Capital Finance Notes (WCFN)

The Working Group exposed substantive revisions to SSAP No. 105—Working Capital Finance Investments (SSAP No. 105) to incorporate industry revisions to program requirements, as previously directed by the Working Group during the Summer National Meeting. The Working Group directed NAIC staff to prepare an issue paper.

In 2016, the American Council of Life Insurers (ACLI) advised the NAIC that the implementation of SSAP No. 105 was not successful and that adoption had been low. ACLI began a dialogue with staff and regulators about both the shortcomings of the 2013 adopted rules and outlined required changes to make the rules suitable. As part of that process, ACLI marked up both the SSAP and NAIC SVO Purposes and Procedures Manual (P&P Manual) with the suggested changes which have subsequently been characterized as "10 required items", which staff have in turn opined on, and noted that four of the items are not supported by staff. Absent all 10 required items, WCFI adoption will remain low. Staff have noted an immaterial number of programs have been filed with only a subset of those approved, resulting in limited investments made. The existing Exposure provided to staff and regulators by ACLI and was utilized by staff to produce the current proposal, without addressing the proposed language by ACLI on the four required items not supported by staff.

Objections to the four required changes are:

1) evaluating non-rated subsidiaries of obligors (even though the existing SSAP already provides guidance to do).
2) expanding covered investment credit quality to include NAIC 3 and 4 investments,
3) requiring domiciliary regulator authorization for investment, and
4) requiring reporting on Schedule BA even though the asset class qualifies for look through RBC treatment.

In the ACLI draft provided to the NAIC, ACLI proposed an evaluation mechanism that is suitable for NAIC implementation on un-rated subsidiaries. With regard to NAIC objection on lower rated investments, such position is inexplicable as statutory RBC requirements reflect investment quality decisions in capital calculations limiting Industry investments to compliant assets. Domiciliary regulator prior approval for investment is a transfer of transaction review from staff to state insurance departments when, if regulators are concerned about the asset class, they can uniformly limit investment as a whole. Finally, Schedule BA reporting is both cumbersome and expensive for industry further exacerbating adoption without useful purpose. Regulators can track any specific asset class or investment by requiring the use of a specific investment code on the appropriate accounting schedule, which in the case of WCFI is Schedule DA).

Interested parties note that private placements, as opposed to public investments, are typically available only to large industry participants and that the economic impact of a $10,000 industry filing fee per issue per filing entity has an operating impact on a $1,000,000 investment in WCFI, which for the avoidance of doubt would be sizable for most industry investors, of 1% of the investment income in year 1 of that investment. Current investment yields for NAIC 1 and 2 investments in WCFI offer gross returns of 2 – 2.5%. Such a high cost to a small industry investor, coupled with the fact that dealers would unlikely choose to document such investments bilaterally with small industry investors, limits access to the assets to large industry investors. In summary, interested parties request that regulators re-consider ACLI markup with the additional four requirements as originally submitted by ACLI and ultimately, after appropriate exposure and review, to direct staff to implement these changes.

**Ref #2019-32: Look-Through with Multiple Holding Companies**

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.

Interested parties have no comment on this item.

**Ref #2019-33: SSAP No. 25 – Disclosures**

The Working Group moved this agenda item to the active listing and exposed the proposed data-capture templates. This exposure does not propose revisions to SSAP No. 25.

Interested parties believe that clarifications to paragraph 20 of SSAP No. 25 are necessary. We believe that the aggregation of similar transactions may result in immaterial transactions becoming material, meeting the threshold of 1/2 of 1% of the total admitted assets of the reporting entity. Therefore, we propose the edits highlighted below to ensure that aggregation occurs subsequent to the application of the criteria in paragraph 20.b. for materially identified transactions.
Proposed Edits to the exposure

Disclosures
20. The financial statements shall include disclosures of all material related-party transactions. In some cases, aggregation of similar transactions, that on a stand-alone basis are not material, may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm’s-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:

a. **The nature of the relationships involved;**

b. **A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements.** Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

Ref #2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities

The Working Group Staff exposed revisions to SSAP No. 25—Affiliates and Other Related Parties. Key elements for discussion in the exposure draft are to:

- Clarify the identification of related parties and ensure that any related party identified under U.S. generally accepted accounting principles (GAAP) or Securities Exchange Commission (SEC) reporting requirements would be considered a related party under statutory accounting principles (SAP).

- Clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

- Clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. As detailed, such disclaimers impact holding company group allocation and reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a “related party” and the disclosure of material transactions as required under SSAP No. 25.

- Incorporate a new disclosure of known non-arm’s-length transactions with any entity not identified as a related party.

- Propose rejection of several U.S. GAAP standards addressing variable interest entities.

Interested parties understand and agree with the need for transparency in disclosures of related party transactions. However, we have significant concerns with the proposal as it is not very clear based on
Interested parties would like clarity around the new proposed wording that states that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation. One of our concerns in this area relates to limited partnership/joint ventures/limited liability company (LPs/JVs/LLCs) investments where the insurer owns more than 10% of the equity of the investee but has no affiliation to the investee’s general partner/asset manager. SSAP No. 97 currently includes a possible scope exception in paragraph 6 for these types of investments so that they are not considered affiliated or controlled investees of the insurer. It is not clear from the proposal what the expected impact is from now having to consider all investments in unaffiliated LPs/JVs/LLCs where the insurer owns more than 10% of the equity but has no other affiliation, as related parties. If the intent is just to have insurers disclose material transactions with these entities other than the equity investment held in each entity, we believe that this needs to be more clearly stated in the proposal so that there is no misrepresentation of what needs to be disclosed or whether these investments need to be reported in a different section of Schedule BA (i.e., affiliated vs. non-affiliated).

Another, but similar concern relates to certain entities consolidated under U.S. GAAP based on the Variable Interest Entity (VIEs) guidance. For some of these consolidated VIEs, the insurer has no control or affiliation with the VIE other than its debt investment in the entity. The insurer is simply a passive investor in the structure. However, under the VIE rules, the insurer must consolidate the entity as the insurer may be able to make decisions for the VIE if there is ever an event of default of the assets at some point in the future. These rights are given to certain classes of bonds issued by the securitization as a protection to the investors, but do not give the investors any type of power or control over the VIE at inception or on a day-to-day basis. It is important to note that consolidation rules under FASB Codification Topic 810 are very complex with some insurers concluding consolidation is required under a set of fact and circumstances and others concluding consolidation is not required under the same set of facts and circumstances. In the example just shared, some insurers have concluded consolidation is required because when no day-to-day decisions are being made for the VIE, decisions upon the occurrence of a certain event which may be unlikely to occur, rise to the point where they are the decisions that have the most significant impact on the economic results of the VIE. We believe that even though insurers have to consolidate these entities, there is no true related party affiliation. The proposal requires that any entity identified as a related party under U.S. GAAP will also be considered a related party for statutory reporting. Since these entities are consolidated for GAAP, the presumption would be that they are a related party of the insurer. If these entities will be considered related parties on a statutory basis going forward, the exposure needs to clarify that the inclusion of these types of entities only impacts related party disclosures for any material transactions held with these entities other than the debt investment held by the insurer in the VIE and that the debt instrument is still reported on Schedule D as unaffiliated.

Interested parties also have concerns with SSAP No. 25 including references to U.S. GAAP and SEC reporting for mutual insurers that do not prepare U.S. GAAP financial statements and do not file with the SEC. Therefore, interested parties recommend that the specific guidance from the GAAP and SEC be stated in SSAP No. 25 (rather than incorporated by reference) so that any future changes in GAAP and SEC guidance are subject to NAIC review prior to being applicable. Also, it is important to note that even when an entity is considered a related party under U.S. GAAP, disclosure of that relationship is
only required when there are material transactions with that party. U.S. GAAP allows reporting entities
to evaluate the significance of a relationship and determine when disclosure of that relationship is
material/significant enough for disclosure to a user of the financial statements. As a result, we suggest
this be clarified in the exposure as well so that it is clear that the reference to related parties under
GAAP and SEC rules is only relevant if the insurer has material transactions with such parties outside of
the insurer’s investment in the entity.

Ref #2019-35: Update Withdrawal Disclosures

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No.
51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type
and Accident and Health Reinsurance, as illustrated in the staff recommendation, to:

• Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are
  referenced in all applicable paragraphs of the withdrawal characteristics disclosures;

• Correct an identified inconsistency in one of the new disclosures that was added regarding
  products that will move from the reporting line of having surrender charges at 5% or more to the
  reporting line of surrender charges at less than 5%. A clarification is being recommended to
  ensure consistency in annual statement reporting; and

• Add a cross-reference from SSAP No. 56 to the existing disclosures by withdrawal
  characteristics in SSAP No. 51R and SSAP No. 61R as the disclosure include separate account
  products.

Interested parties have no comment on this item.

Ref #2019-36: Expand MGA and TPA Disclosures

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No.
51R—Life Contracts, paragraph 50, SSAP No. 53—Property Casualty Contracts—Premiums, paragraph
19, SSAP No. 54R—Individual and Group Accident and Health Contracts, paragraph 33 and SSAP No.
59—Credit Life and Accident and Health Insurance Contracts, paragraph 19, as illustrated in the staff
recommendation above, to expand the MGA/TPA note as follows:

• Aggregate direct written premium and total premium written by MGA/TPA;
• Aggregate dollar amount of claims process / total claims processed by MGA/TPA; and
• Information on related party / affiliate status and if the MGA/TPA is independently audited and /
  or bonded.

Interested parties note that the proposal does not define a TPA. It just states that TPAs “that write direct
policies or provide claims adjusting or other services”. That is overly broad and could include a variety
of entities that provide services. The NAIC model (NAIC Third Party Administrator Act, or NAIC
model) guidelines define TPAs as it relates to life/health and workers compensation. Also, the NAIC
model definition has a long list of activities that are excluded from the definition, such as self-insured
employers administering its own workers’ compensation, insurers administering coverage, producers
engaged in selling insurance, attorneys handling claims, MGAs, etc. We recommend that the proposed disclosure reference the NAIC model so that there is consistency in the definition used in applying the guidance.

Additionally, it is unclear how the reporting threshold should be applied. The reporting applies to TPAs if “the claims adjusting services are greater than 5% of annual average claims volume”. Is that threshold based on the amount of claim dollars paid or the number of claims handled? Is that measured across all lines of business for the company? Would claims paid within insureds’ deductibles/SIRs be included? Depending on how this is defined, it could be quite burdensome for insurers to monitor. We recommend that the threshold be based on written premium, consistent with how other thresholds have been applied.

**Ref #2019-37: Surplus Notes – Enhanced Disclosures**

During the 2018 Spring National Meeting, the Working Group exposed revisions to SSAP No. 41R – Surplus Notes (“SSAP No. 41R”) to indicate that surplus notes, where the proceeds from the issuance of the surplus note were used to purchase an asset directly or indirectly from the holder of the surplus note, are not subordinate and do not qualify for reporting as surplus and should be classified as debt. Furthermore, the exposure draft stated that these assets were not considered available for policyholder claims and should be non-admitted. The exposure was the result of a referral from a Subgroup of the Reinsurance Task Force that was more narrowly focused on whether specific securities could be considered Primary Securities.

At the 2019 Summer National Meeting, the Working Group agreed to have an industry data call, due by December 31, 2019, to determine what financing structures existed that utilized the types of surplus notes described above.

At the 2019 Fall National Meeting, the Working Group exposed additional disclosures that should be captured in SSAP No. 41R. The Working Group does intend, later in 2020, to continue discussions on how to treat surplus notes where an associated asset is received by the surplus note issuer. This discussion will occur after a review and analysis of the data call.

**General Comments**

Interested parties understand regulators’ concerns that the details of certain transactions involving surplus notes may not be transparent to regulators who were not involved in the initial approval or ongoing review of such transactions. However, these transactions and the related pricing represent confidential information that we believe is inappropriate for public disclosure and may be misleading if presented in the proposed format.

Our concerns with the proposed disclosures are outlined in detail below, followed by our suggested revisions.

*The proposed disclosures may not provide the desired transparency or consistency*
Throughout the discussion on any potential revisions to SSAP No. 41R over the past twenty-two months, interested parties have agreed that robust disclosures should be added to SSAP No. 41R to fully reflect situations where a reporting entity receiving proceeds from the issuance of surplus notes used those proceeds to purchase an asset directly or indirectly from the holder of the surplus note. However, we also believe that these disclosures should be included in the financial statements of a ceding company, which would provide a much greater level of transparency and consistency in disclosure. We believe that in most situations where a surplus note issuer uses proceeds from the issuance to purchase an asset directly or indirectly from the holder of the surplus note, the surplus note issuer is an affiliated captive reinsurer. As some captive financial statements are not provided to the NAIC, we believe disclosure in the financial statements of the ceding company would provide a much greater level of transparency and consistency in disclosure for these transactions. Our proposed revisions include suggested language for this disclosure requirement.

The proposed disclosure goes beyond the stated regulatory concern and requires additional information that may be incorrectly interpreted.

We believe that the proposed disclosure departs from the original regulatory concern expressed in the public meetings of the Working Group, namely that a reporting entity should not be permitted to circumvent regulatory authority as it relates to the preservation of capital at a regulated entity by contractually linking the cash outflows associated with a surplus note to cash inflows from another financial instrument held by the surplus note issuer. However, rather than identify such transactions, the proposed disclosure would require detailed information about surplus note interest regardless of whether cash flows are contractually linked. We are concerned that the operational burden of compiling this information for all surplus notes with netting provisions exceeds the benefit to regulators of providing information on the few transactions of concern.

Interested parties note that the scope of the proposed disclosure is substantially identical to that of the recent surplus note data call issued by the NAIC. The stated intent of this data call was to obtain information on surplus note transactions without regard to whether offsetting of cash flows was due to: a) contractual linkage or b) administrative offset provisions. While we agree that this scope was appropriate to assess the universe of affected transactions, we do not believe it is the appropriate scope for an Annual Statement disclosure and could be misleading in certain cases as outlined below.

The proposed disclosure includes confidential information that is not appropriate for public filings.

The proposal would require the disclosure of surplus note interest paid, net of any payments made by the surplus note holder. As a practical matter, for many captive structures, this amount often corresponds to the fees paid to the financing provider(s) to provide liquidity in the event of adverse experience or other conditions with respect to the subject policies, as defined in the applicable agreement.

The pricing and terms of the subject transactions were heavily vetted, negotiated, and submitted to state regulators for approval with the reasonable understanding that this information was subject to robust confidentiality protections. We do not object to this information being made available to regulators in the context of a confidential data call or regulator communication. However, we are concerned with its
inclusion in public filings. The primary focus should be on whether the surplus note issuer is statutorily solvent rather than its surplus note pricing terms.

**The net presentation of interest paid could be misleading for some transactions**

We also believe that the change to the current disclosure to replace surplus note interest paid with interest paid net of amounts offset is problematic. We believe this disclosure could be misleading for many of the transactions in the scope of the disclosure, given that the full amount of surplus note interest paid was/would be due regardless of whether a portion is offset pursuant to an administrative netting arrangement.

**Proposed Revisions**

Interested parties recommend revisions to the proposed disclosures which would provide regulators who are not involved in the approval and ongoing review of a surplus note transaction with information to assess the nature of the transaction and to determine whether more detailed review is needed. Specifically, our revisions would require disclosure of whether cash flows are offset but would differentiate between administrative offsetting and the contractual “linkage” that is of concern to regulators. These revisions would also remove information that we believe is confidential in nature and would not be appropriate for public disclosure. Finally, we have proposed several additions to the required disclosures, which we believe would provide useful information about transactions involving surplus notes.

Our suggested revisions to the disclosures are included in Exhibit A and summarized below. For ease of review, revisions proposed by NAIC staff have been accepted, and interested parties’ comments are presented as tracked changes.

**Summary of Proposed Revisions**

- Expand the disclosure requirement to the financial statements of the ceding company as well as the surplus note issuer.
- Retain the current disclosure of total interest paid (gross of any administrative or other netting)
- Replace quantitative disclosure of “interest remitted” and “cost of liquidity” with three Y/N disclosure columns which correspond to the criteria used in the data call scoping:
  1. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus notes and amounts receivable under other agreements contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)
  2. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement. (This may be referred to as administrative offsetting.)?
3. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?

- Replace confidential information about 3rd party liquidity (e.g. maximum liquidity amount and cost of liquidity source) with a description of terms under which liquidity would be provided should a triggering event occur.
- Add requirement for narrative disclosure of any related guarantees or support agreements.

**Ref #2019-38: Financing Derivatives**

The Working Group moved this agenda item to the active listing and exposed revisions to *SSAP No. 86—Derivatives*, to clarify the reporting of derivatives with financing premiums. The reporting revisions propose allowing the present value of the derivative premium receivable (and payable) for financed derivatives to be factored into the counterparty risk assessment for life RBC. (If supported, RBC changes would be subsequently referred to the Capital Adequacy (E) Task Force for consideration.) Comments are also requested as to whether derivatives and related financing provisions that would generally not meet the *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* right to offset criteria and if explicit guidance allowing offset should be considered.

Interested parties request the exposure be given an effective date of at least January 1, 2021. The exposure represents a significant change to how certain companies account for derivatives and must be implemented in our investment systems prior to adoption. Interested parties do not believe the assets and liabilities under this exposure meet the right to offset criteria in *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*, because they originate within the same contract. Additionally, we believe the netting guidance outlined in paragraph 19c would be difficult to implement and recommend it be removed.

**Ref #2019-39: Acceptable Collateral - Counterparty Exposure for Derivative Instruments**

The Working Group moved this agenda item to the active listing and exposed revisions to *SSAP No. 86—Derivatives*, to clarify that the fair value of collateral received or held, for derivative disclosure purposes, shall be reported net of collateral paid/pledged, in the event a counterparty has the legal right to offset against, as defined in *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*. Minor updates to the applicable annual statement instructions were also proposed to be concurrently exposed.

Interested parties fully support the appropriate depiction within the statutory financial statements and schedules of the availability of insurance company assets to fulfill policyholder obligations, including consideration of a reporting entity’s access to and control over the assets and any contingencies pertaining to the attendant rights & benefits of ownership. We appreciate the opportunity to dialogue further on this matter and ensure the regulatory objective is achieved regarding both financial statement presentation and the risk-based assessment of capital.

The ability to make efficient use of derivative instruments as part of hedging transactions, income generation transactions and replication (synthetic asset) transactions, in accordance with SSAP No. 86 – *Derivatives* (“SSAP No. 86”), is a crucial component of insurers’ ability to effectively manage risk and prudently maintain yields in support of our ability to deliver on promises to our policy and contract.
holders. With broader federal regulation now driving a migration for many of the interest rate and credit derivatives insurers use to these ends towards the central clearinghouse or “cleared” space, the significance of appropriately depicting the specific economic substance and attendant risks associated with each of the various forms of collateral posted to central clearinghouses has never been greater.

Given this backdrop, our concerns with exposure 2019-39 are as follows:

1) The language in the proposal does not provide clear, consistent definition of scope or objective(s);
2) The exchange of initial margin on cleared trades represents a contingency distinct from that associated with the exchange of variation margin; and
3) The existing statutory accounting, reporting and risk-based capital models already appropriately depict the economic substance and inherent risk associated with the exchange of initial margin, and the proposed changes would result in inappropriate duplication of risk-based capital charges.

In terms of intended scope, the narrative commentary and proposed updates to existing guidance make it unclear as to whether the proposal aims to refine accounting & reporting guidance for:

- initial margin, variation margin, or both;
- bilateral (over-the-counter, “OTC”) trades, trades executed with central clearinghouses, or both;
- exchanges of cash collateral, non-cash collateral (e.g. securities) or both.

The summary introduction to the proposal appears to target a perceived issue with the Schedule DB-D, Section 1 reporting of initial margin exchanged with central clearinghouses. The narrative commentary provided does not identify specific concerns pertaining to the reporting of collateral associated with bilateral OTC trades or variation margin. However, the attendant proposed edits to SSAP No. 86 and the Blank Instructions for Schedule DB-D, Section 1 encompass collateral exchanges with both bilateral OTC counterparties and central clearinghouses…inherently scoping in both OTC and cleared trades as well as all forms of collateral (variation margin, initial margin and traditional margin on legacy bilateral OTC trades). In addition, the proposal makes no clear distinction between proposed updates regarding exchanges of cash collateral vs exchanges of non-cash collateral, often using the terms collectively and interchangeably, whereas the guidance within the AP&P Manual makes clear distinctions regarding their respective accounting and reporting - as they have distinct implications for users of statutory financial statements. The guidance for cash collateral exchanges under SSAP No. 103R – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (“SSAP 103R”) paragraphs 19 & 20 is distinct from that of non-cash collateral exchanges, which is also further detailed in INT 01-31 – Assets Pledged as Collateral (“INT 01-31”). Anecdotally, though the SSAP No. 86 Appendix C guidance for the initial carrying value on futures paraphrased in the 2019-39 exposure commentary applies to exchange traded derivatives (which do not appear to be within the scope of this current exposure), it maintains conceptual symmetry with the distinct cash collateral guidance from SSAP No. 103R; classifying only cash postings of initial margin as a form of basis deposit necessitating distinct accounting and financial statement presentation. Additional clarification regarding both the perceived issue(s) and the objective(s) underlying the proposed updates is requested in order to ensure industry can assist in fully and appropriately addressing each underlying concern in light of the applicable regulatory objective(s).
The exchange of initial margin with central clearinghouses is clearly distinct in function from the exchange of variation margin. As referenced in the proposal, initial margin is a minimum amount of equity that must be provided to a clearinghouse to initiate a position. It effectively represents the deposit of chips required to play at the table (“table stakes”), and is required from both respective parties entering into the derivative transaction as protection for the clearinghouse against the potential that either respective party will not make good on its respective commitments (i.e., initial and continuing participation in the transaction and the associated exchanges of variation margin driven by the derivative price movements until expiry or novation) – leaving the clearinghouse exposed, as intermediary, to the remaining party. Once such a trade expires or is novated, assuming the respective party has made good on all its variation margin payments during the course of the trade being open, the asset(s) posted to the clearinghouse as initial margin is returned to that exiting party. In the instance that a party exiting the derivative transaction has not stayed current with its respective variation margin obligations, the clearinghouse will return the remaining value of the initial margin after settling up the unpaid variation margin obligations. As such, the contingencies associated with maintenance of exclusive control over the rights and benefits of asset ownership for an entity posting initial margin are primarily a function of the entity’s continuing involvement in the trade with the clearinghouse, which is distinct from the derivative price movement contingencies directly associated with variation margin.

Reporting entities often utilize non-cash collateral (e.g., US Treasuries) for posting as initial margin to clearinghouses, as the required initial margin value can be comparatively high (driven by risk adjusted trailing price volatility of the underlying derivative and overcollateralization conventions) but the reporting entity maintains the full rights & benefits of ownership over an already held yield generating asset – in many instances preferable to locking up a chunk of otherwise investible cash. The ability to maintain full control over the rights and benefits of ownership on this yield generating non-cash collateral posted (e.g., avoiding forced sales of the non-cash collateral to satisfy unfulfilled variation margin obligations) also incentivizes a reporting entity to remain current on variation margin obligations while the trade remains open. Existing statutory accounting guidance (e.g., the previously referenced SSAP No. 103R and INT 01-31) already provides for appropriate classification, measurement and presentation of collateral posted as initial margin. In the much more likely instance that non-cash collateral has been posted to a clearinghouse as initial margin, the pledging insurer continues to record the pledged collateral as an admitted asset until they have committed a contract default that has not been cured. In the unlikely instance that the non-cash collateral has to be liquidated in order to satisfy unmet variation margin payment obligations associated with a trade being exited, any associated realized loss would be recognized and the reclassification of the remaining initial margin value due back from the clearinghouse will be recorded – likely as either cash or a receivable - in accordance with applicable statutory guidance. The Blanks instructions require that any such non-cash or cash collateral posted as initial margin be marked as such on the attendant investment schedule, identified at the specific asset level on Schedule DB-D Section 2 (complete with an identifier indicating that the posting represents initial margin) and summarized within Note 5 (Restricted Assets). As such, the availability of the assets to fulfill policyholder obligations, as well as identification at the specific asset level of the unique and specific contingencies associated with initial margin posting are already presented appropriately for the consideration of financial statement users. Altering the presentation of initial margin postings on the summary Schedule DB-D Section 1 would not augment a financial statement user’s understanding of the reporting entity’s solvency or financial condition, as the “net realizable margin” associated with the open derivative contracts is already appropriately presented – initial margin posted is not directly or
typically subject to the derivate price movement contingencies inherent in arriving at an appropriate “Exposure Net of Collateral” total on Schedule DB-D Section 1.

Equally as important, incorporation of initial margin posted into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would lead to inappropriate and misleading downstream consequences for a reporting entity’s Risk Based Capital calculation. Any collateral (whether non-cash or cash) posted as initial margin is already captured in the Life RBC formula on LR017 (Off Balance Sheet and Other Items), where all collateral postings are pulled directly from Schedule DB-D Section 2 and assessed RBC charges associated with the specific contingency of pledging of the assets to an external counterparty. Thus, netting initial margin postings into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would make the total derivative exposure (net of collateral) that flows through to LR012 in the Life RBC formula too high – inappropriately double counting the RBC charges associated with the posting of initial margin to a clearinghouse. In addition, the understatement of net realizable collateral (Fair Value of Acceptable Collateral) on Schedule DB-D Section 1 would also, in many instances, mechanically carry through to overstate the “Off Balance Sheet Exposure” reported on the same schedule – which would result in even further overstatement of RBC charges as this “Off Balance Sheet Exposure” flows through the Life RBC formula to be assessed charges on LR017. Doubling, and possibly tripling the RBC charges associated with the posting of initial margin to a central clearinghouse is not an appropriate depiction of true risk for such margin.

Given the ambiguities in the exposure language, the appropriate depiction of economic substance and inherent risk associated with exchanging initial margin within the existing statutory accounting, reporting and RBC frameworks, and the importance of maintaining insurers’ ability to utilize cleared derivatives to effectively manage risk and prudently support yields, we respectfully request that the Working Group withdraw the current proposal and direct NAIC Staff to collaborate with industry to specify and appropriately address any remaining concerns. We stand ready to work through any lingering misgivings the Working Group may have with regard to financial statement presentation but request that such endeavors be empirically grounded in specific observed instances of incomplete or inappropriate reporting.

Ref #2019–40: Reporting of Installment Fees and Expenses

The Working Group proposed revisions to SSAP No. 53 – Property and Casualty Contracts (SSAP No. 53) to clarify that the installment fee reporting guidance should be narrowly applied. Comments are also requested on whether guidance should be developed to allow expenses associated with installment fees to be reported as a contra revenue in “aggregate write-ins for miscellaneous income” and whether diversity should be permitted in reporting installment fee expenses. Additionally, the Casualty Actuarial (C) Task Force and Property and Casualty Risk Based (E) Working Group will be notified of this exposure.

With regard to the proposed change to emphasize that current guidance in SSAP No. 53 should be interpreted narrowly, interested parties recommend the following revision to the last sentence of the proposed wording in the footnote to SSAP No. 53 paragraph 6:
Clarification: Reporting of installment fees in finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

Although interested parties did not survey companies, we believe the assertion by NAIC staff that expenses associated with installment fees are often immaterial is reasonable. We also believe that current reporting of the related installment fee expenses in other underwriting expenses is appropriate. For practical purposes, we do not see the benefit of isolating the expense related to processing the relatively small fee component of a premium billing for separate expense reporting purposes. We believe the reporting of expenses should be consistent and would not support the reporting of the related expenses as an “aggregate write-ins for miscellaneous income” or as a contra revenue to “finance and service charges not included in premiums.”

Ref #2019-41: Eliminating Financial Modeling Process

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 43R—Loan-backed and Structured Securities, to eliminate the multi-step financial modeling designation guidance in determining final NAIC designations for residential mortgage-backed securities (RMBS) / commercial mortgage-backed securities (CMBS) securities. Exposure was contingent upon the Valuation of Securities (E) Task Force’s concurrent exposure, which occurred on December 8, 2019. The Working Group noted that final action on this would not be taken until the Valuation of Securities (E) Task Force takes action on their related item.

Interested parties have no comment on this item at this time.

Ref #2019-42: Inclusion of Cash / Liquidity Pools - Cash Equivalents as defined in SSAP No. 2R

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to specify that cash pooling structures that meet specified criteria qualify as cash equivalents.

Interested parties appreciate that a separate Form A (Ref #2019-42) was written related to Cash/Liquidity Pools (“pools”) to clarify the accounting associated with them. We agree with the addition of a paragraph, similar to paragraph 8, to SSAP No. 2R to provide guidance related to pools; however, given that the characteristics of pools differ by company, we propose some modifications to paragraph 8 in order to address those varied characteristics.

Interested parties’ comments related to the proposed paragraph 8 are as follows:

1) Regarding the proposal to look through the ownership structure to report the assets held as cash equivalents, we agree that look through is appropriate. Some pools, as approved by regulators, consist of assets that meet the Statutory definition of cash equivalents and thus the interest held in the pools are reported as cash equivalents on Schedule E2. However, other pools, also approved by regulators, include assets that meet the definition of short-term investments in SSAP No. 2 and thus the interest held in the pools are reported as short-term investments on Schedule DA. Some pools may include both short-term investments and cash equivalents.
Given the varied characteristic discussed above, we recommend paragraph 8 be modified to state that, if the requirements of paragraph 8 are met, the reporting entity may look through the ownership structure and report the assets as either cash equivalents or short-term assets based on the predominant characteristic of the underlying assets. This would allow companies the flexibility to report their investments in the pools in the Statutory statement schedule that is more reflective of the type of underlying investments in their pool and prevent the need for companies to reclassify/change their existing reporting to Schedule E2 from DA if they currently report the pools in DA due to the underlying assets.

2) Regarding paragraph 8d (i.e., the requirement to produce annual U.S. GAAP audited report of the pools including schedules showing each affiliate’s prorata share of the investments), insurance companies already receive an independent audit under Statutory Accounting Principles (“SAP”), which would include the insurance company’s investment in a pool. Requiring cash pools to be separately audited under U.S. GAAP would come at a cost, in time and resources, to insurers with pools. In addition, some insurers have pools which are not in the form of legal entities.

An alternative to the U.S. GAAP audit requirement of paragraph 8d. is to require a footnote disclosure at the reporting date for each insurer that participates in a pool, which identifies that the insurer is invested in a cash pool, provides the reporting entity’s share of the pool, and the insurers dollar share of cash equivalents and short-term investments in the pool. This disclosure would be subject to audit on an SAP basis of accounting. IPs believe the audit of the disclosure along with the audit of the insurance company would be adequate to meet the objectives of ensuring that the pool allocation process is accurate. Other alternatives include targeted financial examination procedures for pools, which could include procedures to confirm the balance of the pool and verify the individual legal entities’ balances for participating in the pool.

3) We note that the addition of the proposed pool language in SSAP No. 2 does not specifically address the reporting and accounting for the interests held in the pool. We recommend, if the pool is managed on a fair value basis (i.e., interest in the pool are bought and sold at fair value), that the book/adjusted carrying value for the interest held in the pool would be reported at fair value with changes in fair value reported in unrealized gains and losses. If the pool is not managed on a fair value basis, the interest held in the pool would be reported at amortized cost. It is important to note that pools managed on a fair value basis may use amortized cost as the best estimate of fair value, depending on the characteristics of the underlying assets.

Finally, in the issue paper, NAIC staff questioned whether changes to SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies are needed, since many pools are held in a Limited Liability Company (“LLC”). Interested parties do not believe such changes are needed to SSAP No. 48; however, it would be helpful to users of the SSAPs to add a footnote to paragraph 8 of proposed SSAP No. 2R stating that pools may be held in LLCs, for example, and if so, SSAP No. 2 is to be applied and not SSAP No. 48.
Ref #2019-43: *ASU 2017-11 - Financial Instruments with Down Round Features*

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 86—*Derivatives* to reject *ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging* and incorporate guidance into SSAP No. 5R—*Liabilities, Contingencies and Impairment of Assets* and SSAP No. 72—*Surplus and Quasi-Reorganizations* for when certain freestanding instruments shall be recognized as liabilities and not equity.

Interested parties have no comment on this item.

Ref #2019-45: *ASU 2013-11, Presentation of an Unrecognized Tax Benefit*

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 101—*Income Taxes* to reject *ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* for statutory accounting.

Interested parties support adoption of this item but note that the following statement should be removed from the document as it is incorrect (see IFRC 23, *Uncertainty over Income Tax Treatments*):

**Convergence with International Financial Reporting Standards (IFRS):**

IFRS does not include specific guidance on the presentation of unrecognized tax benefits.

Ref #2019-46: *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities*

The Working Group moved this agenda item to the active listing and exposed revisions to Appendix D—*Nonapplicable GAAP Pronouncements* to reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable to statutory accounting.

Interested parties have no comment on this item.

Ref #2019-47: *Grade in of Variable Annuity Reserves*

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 51R—*Life Contracts* and SSAP No. 3—*Accounting Changes and Corrections of Errors*. The revisions add reference, disclosures and accounting for Section 21 of the *Valuation Manual*, Requirements for Principle-Based Reserves for Variable Annuities, and grade-in requirements for reporting changes in the valuation basis for years beginning January 1, 2020.

This exposure consists of several parts, some of which we agree with and others we find both confusing and unnecessary. We agree that documentation of the choices made among the options for phase-in in VM-21 and the impact of those choices is important. The exposed edits focus on the adoption of the new reserve requirements for variable annuities (revised VM-21 and AG-43). Information on those choices and impacts will be provided to regulators through the PBR Actuarial Memorandum required by VM-31. This includes highlighting the elements of any Phase-in in the executive summary of the PBR
Actuarial Memorandum. Given the current requirements of SSAP3 and SSAP51, documentation in the notes to the Annual Statement is also appropriate.

In Recommendation #2, the proposal would require the amounts from the Phase-in to be designated as “special surplus”. We disagree with this recommendation for the following reasons:

- This is a new requirement whose need has not been established. Disclosure of the amounts will provide information necessary for users of the financial statements to understand the basis of the reported financials.
- SSAP72 defines Special Surplus as amounts designated for specific contingencies. Recommendation #2 would be a change to the definition and purpose of special surplus that is inappropriate and would create an undesirable precedent.

Finally, the proposed language is unnecessary, and possibly confusing. VM-21 defines the minimum reserve requirement. Within that requirement, the company has the option to compute the reserves using the Phase-in provision of Section 2.B. Whichever option is elected, VM-21 defines the reserve. SSAP51 defines the amount of the “Change in Basis” as the difference between the amount under the prior VM-21 and the amount required by the current VM-21 as of 1/1/2020. If the Phase-in has been elected, that difference will generally be zero. The change in basis amount as defined in SSAP51 paragraph 39 is not being graded in – it is what it is following the VM-21 reserve requirements as stated. As such, SSAP51 does not need to make provision for a grade in. We propose the attached language as being clearer in defining the amounts to be disclosed, to use language consistent with VM-21, and to recognize the role of VM-21 to define the reserve requirement.

Ref #2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 62R—Property and Casualty Reinsurance, to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.

Interested parties have no comment on this item.

Ref #2019-49: Retroactive Reinsurance Exception

The Working Group moved this agenda item to the active listing with a request for comments on the preferred approaches to reporting and the advantages and disadvantages to each approach being used, including impacts on the Schedule P (and related loss analysis) and risk-based capital. Industry and state insurance regulator volunteers are requested to assist with developing guidance to clarify both the accounting and reporting for retroactive contracts which are accounted for prospectively. The Working Group directed NAIC staff to notify the Casualty Actuarial and Statistical (C) Task Force of the request for comments.

With regard to retroactive portfolio transfer deals within the same group that qualify for prospective treatment, interested parties identified the following issues related to reporting transactions in Schedule P.
Main Issues

- Should there be a requirement to have offsetting entries for the ceding and assuming entity within the group, such that the group Schedule P is not impacted (and industry Schedule P is not impacted)? (If so, then the ceding entity can’t record ceded amounts for prior AYs while the assuming company records assumed amounts all in the current CY/AY.)

- Should retroactive changes in previous premium amounts be allowed? (If no, and there is a desire to have both entities record the ceded/assumed in the affected older AYs, then the reinsurance premium would need to be treated as a paid loss – positive paid for the ceding entity and negative paid for the assuming entity.)

- Should the reporting prevent “cliffs” in the historic development reported in Schedule P. (If the cede transaction is reported as a premium and spreading to prior CYs, effectively changing prior values retroactively, then the prior incurred loss amounts in Schedule P, Part 2 would need to be adjusted to avoid a “cliff”.) Note that cliffs in Schedule P, Part 2 can have a material RBC impact with regard to the company experience adjustment.

Two Alternative Approaches

Interested parties identified two alternative approaches to recording intercompany, retroactive reinsurance:

- Record the reinsurance premium as a paid loss (positive paid for the cedant, negative for the assuming company), spreading the “premium” to the same AYs as the ceded losses. This avoids cliffs and avoids restating past CY Earned Premium, although it produces unusual results for the assuming company’s Schedule P.

- Record the reinsurance premium as premium, restating prior CY Earned Premium. Spread losses to the impacted AYs. This would create cliffs in Schedule P unless prior AYs are restated for the impact by AY of the reinsurance contract at inception.

* * *

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
Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:

a. Date issued;
b. Description and fair value of the assets received;
c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
d. Original issue amount of note;
e. Carrying value of note;
f. The rate at which interest accrues;
g. Maturity dates or repayment schedules, if stated;
h. Unapproved interest and/or principal;
i. Life-to-date and current year approved interest and/or principal recognized;
j. Disclosure of whether the surplus note was issued as “paid” part of a transaction with following attributes:
   i. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus notes and amounts receivable under other agreements contractually linked (For example, the asset provides interest and/or principal remitted payments only when the surplus note provides interest payments)?
   ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement. (This may be referred to as administrative offsetting)?
   iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets).? If so, was the asset issuer a related party per SSAP 25?
   iv. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur.
k. Principal amount and fair value of assets received upon Surplus Note issuance, if applicable;
j. Subordination terms;
k.m. Liquidation preference to the reporting entity’s common and preferred shareholders;
l.n. The repayment conditions and restrictions;
o. Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

1 Interest and principal reported pursuant to 18.i include amounts offset by amounts receivable under other agreements, unless the reporting entity has a legal right of offset. Such offsetting arrangements shall be disclosed pursuant to paragraph 18.j.i through 18.j.iii
19. If a reporting entity has ceded business to a surplus note issuer that is not remitting actual cash or assets to a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in 18. j above, the ceding entity shall provide a description of the transaction, including whether the criteria in 18. j. above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note for approved interest or principal (as reported under paragraph 18. h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting assets received:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation.

b. Book/ adjusted carrying value of asset and interest income recognized in as of the current year.

c. Amount of principal return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity's issued surplus note.

d. A description of terms under which liquidity would be provided should a triggering event occur.

21. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

Proposed Blanks Disclosures:

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<th>Current Year</th>
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| *Include amounts offset with amounts owed from the holder of the surplus note.*

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<th>Current Year Total Cost of Liquidity Source</th>
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<th>Total Cost of Liquidity Source Since Acquisition</th>
<th>Total Cost of Liquidity Source Reported as Surplus Note Interest Since Acquisition</th>
<th>Maximum Amount Surplus Note Issuer Can Receive from Liquidity Source</th>
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SSAP No. 51R:

Change In Valuation Basis

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

   a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.

   b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed, or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. If the grading permitted by this statement or Valuation Manual section VM-21 represents an increase in the reserve liabilities, the unrecognized change in valuation basis reserve increase shall initially be reflected as an allocation from unassigned funds to special surplus until fully recognized in reserving and unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus, but highlights the ungraded in amount for transparency as it represents an unrecognized adjustment (decrease) to total surplus. The allocation to special surplus is
reversed to unassigned funds as the grading of the increase in reserving is recognized as a decrease to total surplus. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements as of 1/1.[JB1] The changes remain subject to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the phase-in provision of the Valuation Manual section VM-21 (on variable annuities) is elected or this statement prescribes or permits a grading in period or provides the option of multiple grading periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

a. the grade phase-in period being applied, and the remaining time period of the grade phase-in

b. any adjustments to the grade phase-in period.

c. The phase-in amount as defined in VM-21 of change in valuation basis grade in, which has been recognized in unassigned funds and

d. the remaining amount to be graded phase-in amount (reflected in special surplus if the ungraded in amount represents an increase in reserving).

40. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. While The Valuation Manual is effective prospectively for policies written on or after the operative date, subsequent changes may be applied retroactively to all business issued since that operative date however, as the CARVM methodology was already principles based, some changes to the CARVM methodology in section VM-21 (on variable annuities) and to the related AG 43, which may result in retroactive application to the reserves for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.
**SSAP No. 3—Accounting Changes and Corrections of Errors**

**Disclosures**

Disclosure of material changes in accounting and correction of errors shall include:

- **a.** A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

- **b.** The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

- **c.** The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

- **d.** Changes in accounting that are changes in reserve valuation basis as described in *SSAP No. 51R—Life Contracts* which have elected grade-phase-in or other optional application features defined in the Valuation Manual, shall also include in the change in accounting disclosures information regarding the application of any grade-phase-in as provided for in SSAP No. 51R, and

- **e.** When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.
February 18, 2020

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 During the NAIC Winter National Meeting with Comments due January 31 Regarding Goodwill

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts regarding the recognition of goodwill for statutory accounting that was released for comment by the Statutory Accounting Principles (E) Working Group (the “Working Group”), during the NAIC Fall National Meeting in Austin.

Interested parties note that in October 2018, the FASB decided to add to its technical agenda a broad project to revisit the subsequent accounting for goodwill. In 2019, the FASB issued an Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, and held public roundtable meetings to discuss the topics included in the Invitation to Comment. The FASB is still in the initial deliberations phase of this project. Given the broad scope of the FASB project and the potential for changes to the current GAAP goodwill accounting model, interested parties recommend that any changes to statutory accounting that impact the accounting for goodwill be limited in their nature in recognition that the Working Group will need to consider the applicability of the changes to GAAP accounting for goodwill once the FASB completes the project.

We offer the following comments to the exposure drafts released for comment by the Working Group:

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

The Working Group adopted, as final, a clarification edit to *SSAP No. 68—Business Combinations and Goodwill* to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (With adoption of this edit, paragraph 9 was split into two separate paragraphs.) The remainder of this agenda item was re-exposed to allow additional time for specific examples of pushdown accounting to be
provided by interested parties, as well as consider comments received on pushdown accounting.

Interested parties recommend that paragraph 5 of SSAP No. 68 be revised further as marked below to clarify the appropriate valuation that should be used for an acquired entity:

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or, 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity's share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. The GAAP net book value of the acquired entity used in this determination shall reflect the acquisition-date fair values of identifiable assets acquired and liabilities assumed, and goodwill, as recognized in the post pushdown GAAP financial statements of the acquired entity, if applicable. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer's share of the statutory book value of the acquired entity.

### Pushdown Accounting

Interested parties note that the GAAP guidance in ASU 2014-17, which was adopted by the SEC in Staff Accounting Bulletin (SAB) 115, provides clear guidance that an acquired entity has the option to apply pushdown accounting in its separate financial statements upon the occurrence of an event in which an acquirer obtains control of the acquired entity. Under applicable GAAP guidance, control generally results when one entity obtains, either directly or indirectly, more than 50 percent of the outstanding voting shares of another entity. This differs from the definition of control under statutory guidance which uses a threshold of 10 percent or more of voting control. As such, under GAAP, there would not be a scenario where an entity would be controlled by multiple owners with 10% or more ownership of outstanding shares.

Whether a company chooses to apply pushdown accounting depends on the facts and circumstances of a particular transaction. In certain situations, pushdown is preferable to eliminate the basis difference between an acquirer and the acquired entity. In other situations, a company may prefer pushdown accounting to better reflect the actual values of the acquired assets and assumed liabilities based on the purchase price of the entity.

When the SEC required pushdown for SEC registrants, there was limited guidance for non-registrants under GAAP which resulted in some non-registrants also applying the SEC pushdown guidance. We believe retaining the optionality for statutory reporting allows for consistency and comparability across both SEC registrants and non-registrants and provides operational efficiency.

The option of not allowing subsequent elections for pushdown accounting is not practicable for SEC registrants that previously elected to use pushdown accounting. In order for such companies to discontinue use of pushdown accounting, a preferability letter would be required for a change in accounting policy to discontinue the use of pushdown accounting. Given that an election to discontinue
use of pushdown accounting is not likely preferable, the insurer would be in the position of having to continue using pushdown accounting in order to receive a clean audit opinion on the GAAP financial statements of the SCA. Additionally, while ASC 805, *Business Combinations*, allows the election to be made for each change in control event, acquirers that report consolidated results may as a practical matter choose pushdown accounting at the subsidiary level to avoid separately tracking assets, and liabilities at two different values in two different ledgers.

As noted in the examples below, and in accordance with the guidance adopted during the December 7, 2019 Working Group meeting, interested parties understand the guidance clarified that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. Interested parties have summarized the interpretation of this clarification for an insurance entity’s acquisition of an 8.b.i (example 1), 8.b.ii (example 2a and 2b), 8.b.iii (example 3a and 3b) or 8.b.vi (example 2a and 2b) entity as follows:

<table>
<thead>
<tr>
<th>Example</th>
<th>Type of acquired SCA</th>
<th>Is Pushdown elected?</th>
<th>Where does Goodwill resides?</th>
<th>Admissibility of goodwill limited to 10% of</th>
<th>Is Goodwill required to be amortized?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8.b.i</td>
<td>Not permitted per SSAP No. 68 para 6</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>2a</td>
<td>8.b.ii or 8.b.iv</td>
<td>No</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>2b</td>
<td>8.b.ii or 8.b.iv</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>SCA's GAAP equity per SSAP No. 97 para 9.d</td>
<td>Yes per SSAP No. 97 para 9.c.iii</td>
</tr>
<tr>
<td>3a</td>
<td>8.b.iii</td>
<td>No</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>3b</td>
<td>8.b.iii</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>No *</td>
</tr>
</tbody>
</table>

* See further discussion below related to amortization

After evaluating the accounting for goodwill from the various entities described in paragraph 8.b, we concluded that the NAIC should continue to allow insurers to elect pushdown accounting for acquisitions of non-insurance entities (Option 2) for the following reasons:

1. Statutory goodwill, created when the insurer is the acquirer, is subject to an existing 10% admittance limitation as clarified in the changes adopted by the Working Group during the Fall National Meeting and demonstrated above; therefore, the resulting goodwill from pushdown accounting is subject to the statutory thresholds.

2. Pushdown accounting is consistent with GAAP, prior to ASU 2014-17, for SEC registrants and non-registrants that used pushdown accounting. As noted above, it is not practical to discontinue use of pushdown accounting as an insurer would need to continue the use of pushdown accounting.
accounting in order to obtain a clean audit opinion on the GAAP financial statements of the SCA.

3. It is important to maintain consistency with current GAAP. Under ASU 2014-17, pushdown accounting may be elected in a later reporting period, after the initial acquisition date. We understand that there may be concerns with electing pushdown at a later reporting period after goodwill was originally determined and reported at initial acquisition date. However, rather than disallowing a later election to apply pushdown accounting, which creates a variance to GAAP, we suggest this could be addressed through changes to SSAP No. 97 to ensure that goodwill is not subsequently increased for statutory reporting, in the event pushdown accounting is elected after the initial acquisition date.

4. The recommendations above would allow the continued use of audited GAAP equity as the statutory carrying value for all non-insurance entities for insurers that previously elected pushdown accounting (both SEC registrants and non-registrants). Additionally, the ability to elect pushdown accounting for future acquisitions retains GAAP equity as the statutory valuation basis for SCAs and avoids restrictions that can impact insurers’ ability to obtain an unqualified opinion on the stand-alone financial statements of SCAs.

If a restriction were placed on the use of pushdown accounting at a future date, those entities that have previously elected pushdown will be forced to separately track assets, and liabilities at two different values in two different ledgers as well as address the issue of making a change in accounting policy that may not have preferability.

As a separate point, we suggest changing the heading for Option 2 from “Permission to use pushdown for all non-insurance entities” to “Use of pushdown for all non-insurance entities”, as the term “permission” implies that use of pushdown accounting is a permitted practice under the statutory accounting framework.

Amortization

Interested parties reiterate the concern that the revisions from the adopted language (new SSAP No. 68 paragraph 10) would inadvertently require amortization of pushdown goodwill. While staff has noted that amortization may be the proper approach, interested parties believes as it relates to paragraph 8.b.iii entities acquired by an insurance entity where pushdown is applied, there has been diversity in practice.

Interested parties concur with the NAIC’s staff’s position described in the December 2019 Public Hearing Agenda materials:

“(As detailed in the earlier discussion, the minor edit being discussed only focuses on nonadmittance for insurer entity acquired SCAs that have been pushdown. The edit would not mandate amortization for those pushdown situations. The discussion on whether amortization should be required for those situations is proposed to occur after the next exposure.)”
Ref #2019-14: Attribution of Goodwill

The Working Group re-exposed this agenda item to clarify that the “assignment” of goodwill is a disclosure element. The Working Group directed NAIC staff to prepare revisions to the Sub 1 Acquisition Overview template to capture this information for new SCA acquisitions.

Recommended Action:

NAIC staff identifies that the comments received on the proposed disclosure enhancement under this agenda item are limited, but generally request additional time before adoption. NAIC staff believes the disclosure information requested under this agenda item will be necessary regardless of the decision involving pushdown accounting. As a reminder, the proposed disclosure only details the amount of goodwill recognized from the acquisition of a downstream holding company and the assignment of the goodwill to the entities owned by the holding company. This information is necessary in determining the amount of goodwill that would need to be nonadmitted, or derecognized, if an underlying company in the downstream holding company was nonadmitted or sold.

Interested parties note that the December 2019 Public Hearing Agenda materials state:

“It is important to highlight that the clarification edit proposed for adoption consideration is specific to insurance entity acquisitions of SCAs. As such, if an acquisition occurred downstream from the insurance company (by a non-insurance holding company), and the holding company applied pushdown accounting, so that the goodwill was reported at the holding company’s acquired SCA, the proposed edit would not require that push down goodwill to be brought up to the insurance entity’s level and included in the 10% limit.”

Requiring attribution would be onerous and misleading to the users of the financial statements, particularly if the disclosure included detailing GAAP goodwill that is not subject to the 10% limit. Interested parties do not believe it is necessary to “attribute” goodwill to downstream SCAs of downstream holding companies. We believe that any concerns about the carrying value of the downstream holding company being overstated because it did not push down GAAP goodwill to a downstream SCA that was subsequently sold is mitigated by the fact that GAAP already requires the attribution and derecognition of goodwill associated with the business or SCA that is sold.\(^1\) To layer in a statutory attribution of goodwill is not necessary, overly complex, and may distort the accounting impact of a sale of a downstream SCA.

Therefore, we recommend that the disclosure of GAAP goodwill attributed to downstream SCAs of downstream holding companies focus on actual GAAP goodwill that was pushed down to the

\(^1\) ASC 350-20-40, Intangibles – Goodwill and Other - Goodwill – Derecognition, paragraphs 1 and 2:

40-1: When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

40-2: When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.
downstream SCAs and any statutory goodwill that occurred when the insurer is the acquirer, subject to the existing 10% admittance limitation as illustrated and discussed in the examples above.

* * *

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
January 31, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Ref #2019-20, Rolling Short-Term Investments

Dear Mr. Bruggeman:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group's exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities relating to rolling short-term investments. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA writes to highlight our support for the recommendations on this proposal provided in the comment letter of the “Interested Parties” coalition. APCIA and our members regularly participate in the Interested Parties’ discussions and drafting process.

SSAP No. 2R generally requires debt obligations with a maturity date of less than one year to be reported on Schedule DA. However, the proposed revisions to SSAP No. 2R would specify that any investment reported as a short-term obligation which was renewed or extended past its original maturity date would need to be reported as a long-term obligation, and a reporting entity would not be permitted to acquire the same or a substantially similar security within a 1-year time frame unless such security is reported as a long-term obligation. APCIA believes appropriate safeguards already exist, or could be put in place, to address the concerns underlying this proposal. We support the recommendations of the Interested Parties in the context of both unaffiliated and affiliated short-term loans.

Unaffiliated short-term loans provide important flexibility and efficiencies for insurers. So long as the lender has a reasonable expectation that the investment can terminate and be repaid on the maturity date, and both the borrower and lender have the ability to reevaluate and renew the loan at maturity, we believe unaffiliated short-term loans are properly reported on Schedule DA as a short-term risk asset. As such, APCIA supports the objective criteria proposed by the Interested Parties for determining when an unaffiliated loan qualifies as short term:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and
2) Any subsequent renewal is only completed in the sole discretion of both the borrower and the lender.

In the context of short-term loans between affiliates, the Model Holding Company Act already requires regulatory filing and approval of loans exceeding a materiality threshold. Further, as the Interested Parties’ letter also points out, loans between affiliates are an important mechanism for meeting short-term liquidity needs for an entity within a broader group. Given the importance of insurers being able to utilize loans from affiliates to meet short-term needs and the regulatory oversight of these transactions that already exists, APCIA agrees with Interested Parties that short-term loans between affiliates should continue to be classified as short term.

Stephen W. Broadie
Vice President, Financial & Counsel

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Thank you for considering our comments. If you have any questions or would like to discuss this further, please contact Steve Broadie at steve.broadie@apci.org or 847.553.3606.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel
We have reviewed the proposed changes to SSAP No. 71 – Policy Acquisition Costs and Commissions as outlined in Ref. #2019-24 as revised on December 7, 2019.

The most effective way to appreciate the unintended consequences of the proposal is to start with a basic understanding of a typical distribution structure. Reporting entities execute distribution agreements, including compensation structure, with distribution partners (IMO, BGA, TPM, MGA, BD, for example). These distribution partners recruit, contract, train, supervise, and compensate smaller organizations (agencies, selling groups, brokerages, etc.) and individual producers (agents, brokers, etc.).

SSAP No. 71 proscribes statutory accounting treatment for reporting entity compensation agreements entered for the sale, distribution, and servicing of policies. The revisions proposed in Exposure Draft 2019-24 (as revised December 7, 2019) focus on two areas: (1) levelized commissions or “trail” payments paid directly to distribution partners or individual producers by a reporting entity and (2) levelized commissions or other installment payments paid to “third parties” by the reporting entity solely in exchange for the third party making non-levelized payments to the distribution partners or individual producers in place of the reporting entity (sometimes called “funding agreements”).

The proposed Exposure Draft relating to the first are in Paragraph 2 and call for “…commission shall be accrued based on experience to date for the policy period that the commission relates.” This specifically relates to the required timing or obligating event of a reporting entity’s liability for the cost of a commission payment specifically linked to persistency or policy renewal upon the anniversary of a policy issue date or some other future date or event.

The proposed Exposure Draft revisions relating to the second are (a) in paragraph 4, “…regardless of how the payment to the third party is characterized.”, (b) in paragraph 5, “…paid by a third party to the agents…by the reporting entity.”, and (c) in a footnote to paragraph 5, “The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.”

The proposed revisions have different implications for different constituencies. We have endeavored to capture the essence of the concern from each party below. The proposed revisions have substantive
implications for each of the noted constituencies, contrary to the non-substantive assertion in the revised exposure draft 2019-24. As a direct result of the inequity of the proposed changes upon various constituencies and the potential for substantial financial and economic harm incurred by the adoption of these changes to a variety of constituencies, we strongly recommend and request that the proposal not go forward.

Reporting Entity/Carrier perspective:

1. Levelized commission programs are economic equivalents to “normal (non-level) commissions.” Levelized commission programs are preferable as they create a virtuous cycle linking the interests of consumers, agents, distribution partners and carriers to maintain ongoing servicing relationships, improving consumer support and policy persistency. Distribution relationships are multi-faceted, including agent recruitment and oversight, sales, sales support, underwriting support, premium collection, policy delivery and agent payment. Characterizing distribution partners as a ‘third party’ under the proposed footnote to paragraph 5 of SSAP No. 71 discounts the complexity of these relationships and the value of these vital roles dramatically altering carrier dynamics with distribution partners.

2. Reporting entities or carriers will be unduly penalized for economic transactions negotiated under existing accounting principles as a direct result of this proposal. The value of those transactions is retroactively altered by the introduction of a modified accounting principle which neither party initially anticipated, negotiated or priced.

3. Higher required capital and lower returns resulting from an arbitrary modification to an existing accounting practice will drive product design reviews and likely product redesigns modifying or eliminating levelized commission options or reducing value to the consumer through higher premiums and/or lower benefits.

4. The proposal to require reserves for future persistency based levelized commissions creates a disconnect with GAAP accounting where there is no reserve requirement. Moreover, the proposal creates new uncertainty around which other, long standing accounting treatment will be changed next.

Distributor/Agent perspective

1. The trail compensation approach incentivizes all parties to maintain a long-term relationship based upon ongoing agent support of consumer needs. Reducing or removing recurring compensation in the form of persistency based levelized commissions, shifts distributor economic motivation to new product sales, further degrading product level returns for the carrier. Reducing benefit levels or increasing premiums for the same benefit levels will lower the value proposition for effected products very likely reducing sales and consumer protection delivered by the products.
Consumer perspective:

1. The fallout from the changes will diminish value of insurance products through higher premiums and/or lower benefits enacted by carriers seeking to make up lost economic value and from lower service levels provided by brokers or agents as their incentives shift from ongoing consumer service relating to in-force policies to selling new policies (whether to the individual policyholder or other prospective clients).
January 30, 2020

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

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

Dear Mr. Bruggeman:

Thank you for the opportunity to provide comments on Proposal 2019-24 from the Statutory Accounting Principles Working Group regarding Policy Acquisition Costs and Commissions. The Working Group voted to re-expose revisions to SSAP 71 – Policy Acquisition Costs and Commissions - for comment at the NAIC Fall Meeting on December 7, 2019, continued to categorize the revisions as non-substantive, and further clarified levelized commission guidance and direction regarding certain commission obligations. I offer comments on behalf of our client, DRB Insurance Solutions, LLC, a licensed insurance producer (“DRB”).

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

While revisions were made to several paragraphs and footnote 1 in the initial proposal at the Working Group’s meeting in December, the current exposure language remains overly broad to address the issue identified and intended to be clarified by the Working Group. Regulators have identified levelized commissions as funding arrangements to bypass recognition of acquisition costs by insurers and believe recognizing the full acquisition expense at the time of policy issuance is appropriate accounting treatment pursuant to SSAP No. 5R and the Statement of Concepts focusing on Recognition. Notably, the Working Group intended to restrict intercompany and affiliated transfers of trailing commission structures as pure...
accounting transactions solely for the purpose of deferring expense recognition of commission obligations, which is a laudable goal.

However, the language exposed to classify trailing commission transactions as funding arrangements is so broad, it encompasses practically every broker contract with an insurer that allows for any alternative payment arrangement between the broker and the issuing agent. DRB Insurance Solutions is an independent third-party master producer which uses various contracts between DRBIS and its sub-agents for commission payment, including trailing, heaped, partially heaped and trailing commissions, etc. The agreements between DRBIS and reporting entities are arms-length transactions, include the transfer of lapse risk, mortality risk and the commission expense obligation. The proposal requiring all insurers to accrue the full commission expense under these circumstances is illogical when the insurer no longer has the legal obligation to pay the expense and therefore, no longer has legally incurred the expense.

While regulators have opined that affiliated transactions shrouded as commission arrangements appear to circumvent accrual of commission expense at policy issuance, the goal to affect those transactions may continue to be addressed while narrowing the language to clarify that non-affiliated third-party contracts are not included. Accordingly, DRBIS offers the following amendment to the exposure draft to narrow the applicability to those affiliated transactions. Suggested language for Paragraph 4 and the footnote to Paragraph 5 is shown as shaded text as follows:

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent. 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. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) 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 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 under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent to the 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 under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent related to levelized commissions. New Footnote – The guidance in this paragraph notes that levelized commissions which use a third party to pay agents does not imply that levelized commissions that are linked to traditional elements do not require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date. Rather, such levelized commission obligations should be accrued for as set forth in paragraph 3.
The proposed language requires recognition of commission expense in situations where affiliated companies trade lapse and mortality risk amongst and between affiliated reporting entities using a commonly owned master producer while excepting unaffiliated third-party transactions from similar treatment. In these unaffiliated contractual arrangements, where risk and liability is transferred, the reporting entity may not even be aware of the payment schedule between the master producer and its sub-agents and certainly should not be required to accrue the full amount of the commission expense at policy issuance when the insurer is no longer legally required to pay that expense.

Non-Substantive Change
Finally, DRBIS would like to restate its opposition to consideration of the exposure draft as a non-substantive change. As previously stated, levelized commission programs began over thirty years ago, before the 1998 publication of Statutory Issue Paper No. 71 and the January 1, 2001 codification of Statutory Accounting Principles. The primary objectives of a levelized commission structure include aligning the interests of the customer, the agent, and the company and improved persistency from providing ongoing customer service. There is a duty to act in the best interests of the policyholder, as well as a compensation incentive, to make sure policies are well serviced so they stay in-force.

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

In conclusion, the current exposure draft of SSAP 71 is clearly not “non-substantive” and would have substantial unintended consequences without the amendments proposed above. Additionally, the expansive effect of this policy decision should be subject to open deliberation and public comment as the Working Group considers adoption. Thank you for the opportunity to comment.

Very truly yours

GREENBERG TRAURIG, P.A.

Julie Mix McPeak

Julie Mix McPeak

w:\national meetings\2020\summer\tf\app\sap\minutes\03_18_2020 attachments (h)\att one-h2g_drb comment letter2 ssap71 final2.docx
January 14, 2020

Mr. Dale Bruggeman, Chair
NAIC Statutory Accounting Principles (E) Working Group
1100 Walnut Street, Suite #1500
Kansas City, MO 64106-2197

RE: REPORTING OF INSTALLMENT FEES AND EXPENSES – REQUESTS FOR COMMENTS

Dear Mr. Dale Bruggeman,

At the December 2019 meeting, the NAIC exposed and requested comments on the “Reporting of Installment Fees and Expenses” in the financial statements. This guidance allows for installment fees that meet specified criteria to be excluded from premium income, if it is an avoidance amount by the policyholder and the policy would not be cancelled for nonpayment of the installment fees. The guidance is consistent with the footnote in SSAP No.53 (“Property Casualty Contracts – Premiums”) and in line with our current industrywide reporting of this item in the financial statements.

With respect to the reporting of the corresponding “Installment fees related Expenses”, we believe that these associated Expenses should be reported as part of the Other Underwriting Expenses Incurred (“OUE”) on Line 4 of the Statement of Income and as an ancillary to the normal underwriting activities primarily due to immateriality. Such a presentation will allow insurers to report and reconcile the gross Installment fees amount to the corresponding balance reflected in Schedule T, Column 8 as well as in the Write-ins amount on the Statutory Page 14, along with premium tax payments. Currently, there is inconsistency in reporting in the industry, with some companies reflecting these associated Expenses as part of the Other Underwriting Expenses Incurred on Line 4 of the Statement of Income while others reflect such Expenses as part of the Aggregate write-ins for miscellaneous income on Line 14 of the Statement of Income.

However, as we believe others have also pointed out, this guidance specifically addresses fees charged on Installment premiums, but there are other equally nonrefundable “Other fees” charged by many companies, as part of the billing and collection process, but that are not specifically mentioned in this guidance. That is to say, there are “Other Fees” charged by insurers as part of the collection process, all of which, like Installment fees, are not only non-refundable, but are also avoidance amount by the policyholder and would not be cancelled for non-payment of the installment fees, similar to Installment fees.

These nonrefundable “Other fees”, include, but are not limited to:

1. Late fees - fees and expenses charged on flexible/installment plans that are received after a specified cut-off period e.g. 30 days
2. Non-sufficient funds ("NSF") fees - fees and expenses collected on returned payments due to non-sufficient funds

3. Reinstatement fees - fees and expenses received on policies that expired and are subsequently reinstated, among others etc.

Currently, there is divergence in reporting in this area of this relatively immaterial amounts for nonstandard and standard writers and therefore need for clarification for consistency in reporting going in.

The reporting issue here then is, where and how to report all of these “Other fees”, excluding Installment fees. Should all these “Other fees” be reported as part of:

a) Other underwriting expense incurred on Line 4 of the Statement of Income
b) Finance and service charges on Line 13 of the Statement of income, akin to installment fees
c) Aggregate write-ins for miscellaneous income on Line 14 of the Statement of income

Typically, most companies report these nonrefundable “Other fees” as “Other income” on Line 14 of the Statement of Income

Consistent with current practice, we also believe all these “Other fees”, net of applicable expenses, if any, should be reported as part of the Aggregate-write-ins for miscellaneous income on Line 14 of the Statement of Income. However, if for some reason this first preference is determined to be untenable, then we believe the next viable alternative could be the “Other underwriting expenses incurred” on Line 4 of the Statement of Income, under the assumption that all these other fees are ancillary to the normal underwriting activities, but defer ultimately decision to the NAIC staff for review and consideration.

We appreciate the opportunity to comment on this and related issues. Thank you.

Sincerely,

Joseph Hammond, CPA, FLMI
Director of P&C Accounting
Farmers Insurance Group
(818) 876-7924

"Internal Use Only"

cc: Robin Marcotte File
February 27, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Via email

Dear Mr. Bruggeman:

I am writing on behalf of the American Academy of Actuaries¹ Committee on Property and Liability Financial Reporting (COPLFR). We are following up on previous correspondence regarding Schedule P Instructions for Retroactive Reinsurance between Affiliates and Non-Affiliates.

COPLFR appreciates that the Statutory Accounting Principles Working Group (SAPWG) is looking into certain inconsistencies that were identified in our May 21, 2019, letter to you. In July, Julie Lederer, acting in her capacity as a member of the Casualty Actuarial and Statistical (C) Task Force, posed several questions about specific details in our initial comment letter. Her comments and COPLFR’s replies are presented here.

**Julie Lederer’s Comment**

1. I’m not sure what Allianz/Allianz Re agreement the letter is referring to. The letter suggests that this agreement was enacted in 2015 and that the accounting changed between year-ends 2015 and 2016, but Allianz Re’s 2018 MD&A (which is said to be included as an attachment to COPLFR’s letter but is not) suggests that the agreements between Allianz and Allianz Re weren’t enacted until 2016. Allianz Re did assume retroactive business from a different entity, Fireman’s Fund, in 2015:

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
a. There’s hardly any workers comp data in Allianz’s 2015 Schedule P. There’s a lot of WC data at year-end 2016, which appears to be due to the addition of Firemen’s Fund to the pooling agreement.

b. When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. There is significant assumed premium reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior. I think this is related to Allianz Re’s transaction with FFIC (as mentioned in the MD&A above), not with Allianz.

**COPLFR’s Response**

The May 21, 2019, COPLFR letter is referring to the July 1, 2015, reinsurance agreement between FFIC and Allianz Reinsurance America (“Allianz Re”), where Allianz Re agreed to reinsure certain workers’ compensation (WC) and construction defect liabilities. The 2015 Schedule P, Part 1 of Allianz Re (page 4 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year direct and assumed WC earned premium, presumably this Loss Portfolio Transfer. The 2016 Schedule P of Allianz Global Risk US Ins Co. (“Allianz or FFIC”) (page 7 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year WC ceded earned premium, about equal to the assumptions of the Allianz Re premium discussed in the prior sentence. Allianz Global Risk US is synonymous with FFIC, as we understand it.

In our May 21, 2019, letter, we did state that “Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year (‘AY’) 2015.” We did only include the 2016 Allianz Schedule P; it would have been clearer to include the 2015 Allianz Schedule P as well, which we have attached as page 15 of the May 21 letter PDF (Attachment A). We agree with the comment in a. above that the additional data is due to the addition of Fireman’s Fund in the pooling agreement. Similarly, for b., we only show Allianz Re’s 2015 Schedule P.; we should additionally obtain Allianz Re’s 2016 Schedule P. We would not expect much change from the 2015 to 2016 Schedule P. Finally, our comments were not intended to suggest that the agreement between Allianz and Allianz Re was not enacted until 2016. We did, however, want to point out that as of Dec. 31, 2015, Allianz included all of the ceded losses in AY 2015, and in the following year, as of Dec. 31, 2016, Allianz recorded the ceded losses across the subject AYs 2012 and prior, as shown in Schedule P, Part 2 of Allianz (see page 8 of the PDF).

**Julie Lederer’s Comment**

2. I believe some of the attachments noted in the letter are missing:
a. The letter includes Allianz Re’s 2015 Schedule P and Allianz’s 2016 Schedule P, but the text of the letter suggests that Allianz’s 2015 and 2016 Schedule Ps are included.
   i. Regardless, it’s pretty hard to compare Allianz’s 2015 and 2016 Schedule Ps anyway, since Fireman’s Fund was added to the intercompany pool in 2016 and the historical AYs in Allianz’s 2016 Schedule P were adjusted accordingly.
   ii. When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. The assumed premium is reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior.

b. Attachment A1SAO (Allianz Re’s 2018 SAO) is missing. I looked up the SAO myself and found this passage, which is rather vague, doesn’t name the counterparties, and doesn’t discuss the accounting for the agreements:

   The Company entered into several significant reinsurance arrangements during calendar years 2015 – 2018, some of which serve to mitigate the risk factors discussed above.

   1. Effective January 1, 2015, the Company entered into a reinsurance agreement whereby the Company assumed and agreed to reinsure certain A&E reserves. Effective July 1, 2015, the Company further assumed and agreed to reinsure certain WC and CD reserves.

   2. Effective January 1, 2016, the Company entered into a reinsurance agreement by which the Company ceded 59% of the Company’s carried A&E, WC, and CD liabilities acquired in 2015.

   Additionally, effective January 1, 2016, the Company entered into reinsurance arrangements whereby the Company assumed and agreed to reinsure certain Professional Healthcare liabilities and certain A&E, GL/Excess and WC liabilities. Effective July 1, 2016, the Company entered into another reinsurance agreement by which the Company assumed and agreed to reinsure certain GL/Excess exposure.

c. Attachment A2MDA (Allianz Re’s 2018 MD&A) is missing. I looked this up myself and included a relevant passage above in item #1.

**COPLFR’s Response**

The attachments were in the Academy’s submission to the CASTF and were in the CASTF materials for a call in June, but apparently were omitted by NAIC staff in materials provided for subsequent calls and referrals.

We too consider the excerpt you provided to be vague. To help clarify the issue, we are attaching MD&As from 2015 and 2016 that include Fireman’s Fund Insurance Company in their scope (attachments B and C). One of the difficulties in tracking this issue is the series of actions taken by Allianz since 2015.

**Julie Lederer’s Comment**

3. GEICO’s Note 21, included as an attachment, is useful, but it’s not clear what we should take away from GEICO’s 2014 Schedule P alone. It might have been useful to attach the 2013 Schedule P as well. By comparing the 2013 and 2014 Schedule Ps, it’s clear that GEICO made significant cessions in 2014 and that these were spread among older AYs.
COPLFR’s Response

Our takeaway from GEICO’s 2014 Schedule P alone is that Schedule P, Part 2 (page 13 of the PDF) shows $3.3 billion of decreased development. This is a distortion as we understand it and is supported by the 2013 and 2014 comparison noted above. That distortion would carry over to the RBC filings of the respective entities (based on our understanding of the RBC formula and related instructions). Industry Schedule P data can also be distorted based on what is and is not included in industry totals based on the data scrubbing performed.

We believe that this additional information clarifies our original comments and will help SAPWG to move forward with its own analysis. If you have additional questions, contact Marc Rosenberg, the Academy’s senior casualty policy analyst, at 202-785-7865 or rosenberg@actuary.org.

Sincerely,

Kathy Odomirok, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries

3 attachments

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

Issue: SCA Loss Tracking – Accounting Guidance

Check (applicable entity):

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<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
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<td>Interpretation</td>
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Description of Issue:
This agenda item has been drafted to clarify the accounting guidance for SCA losses that result in zero or negative equity in an SCA. Agenda item 2018-09 - SCA Loss Tracking clarified the reporting guidance for SCA losses that result in zero, or negative, equity in an SCA. When reviewing that agenda item, it was identified that there could be uncertainty on the existing provisions that require a negative SCA reporting amount (rather than a zero reporting value). The intent of this agenda item is to clarify the instances that require a negative SCA value and ensure the accounting guidance in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities for these instances is clear.

Existing Authoritative Literature:

SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

Guarantees
16. A guarantee contract is a contract that contingently requires the guarantor to make payments (either in cash, financial instruments, other assets, shares of its stock, or provision of services) to the guaranteed party based on changes in the underlying that is related to an asset, a liability, or an equity security of the guaranteed party. Commercial letters of credit and loan commitments, by definition, are not considered guarantee contracts. Also excluded from the definition are indemnifications or guarantees of an entity’s own performance, subordination arrangements or a noncontingent forward contract. This definition could include contingent forward contracts if the characteristics of this paragraph are met.

19. With the exception of the provision for guarantees made to/or on behalf of a wholly-owned subsidiaries in paragraph 18.f. and “unlimited” guarantees in 18.g., this guidance does not exclude guarantees issued as intercompany transactions or between related parties from the initial liability recognition requirement. Thus, unless the guarantee is provided on behalf of a wholly-owned subsidiary or considered “unlimited,” guarantees issued between the following parties are subject to the initial recognition and disclosure requirements:

a. Guarantee issued either between parents and their subsidiaries or between corporations under common control;

b. A parent’s guarantee of its subsidiary’s debt to a third party; and

c. A subsidiary’s guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.
20. At the inception of a guarantee, the guarantor shall recognize in its statement of financial position a liability for that guarantee. Except as indicated in paragraph 22, the objective of the initial measurement of the liability is the fair value of the guarantee at its inception.

21. The issuance of a guarantee obligates the guarantor (the issuer) in two respects: (a) the guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur (the noncontingent aspect) and (b) the guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect). Because the issuance of a guarantee imposes a noncontingent obligation to stand ready to perform in the event that the specified triggering event occurs, the provisions of paragraph 8 should not be interpreted as prohibiting the guarantor from initially recognizing a liability for that guarantee even though it is not probable that payments will be required under that guarantee.

22. In the event that, at the inception of the guarantee, the guarantor is required to recognize a liability under paragraph 8 for the related contingent loss, the liability to be initially recognized for that guarantee shall be the greater of (a) the amount that satisfies the fair value objective as discussed in paragraph 20 or (b) the contingent liability amount required to be recognized at inception of the guarantee by paragraph 8. For many guarantors, it would be unusual for the contingent liability under (b) to exceed the amount that satisfies the fair value objective at the inception of the guarantee.

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

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

   e. For entities subject to 8.b.i., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero and shall not provide for additional losses unless the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets shall be recorded as liabilities). If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended;

Disclosures

34. All SCA investments within the scope of this statement (except paragraph 8.b.i. entities) shall include disclosure of the SCA balance sheet value (admitted and nonadmitted) as well as information received from the NAIC in response to the SCA filing (e.g., date and type of filing, NAIC valuation amount, whether resubmission of filing is required). This disclosure shall include an aggregate total of all SCAs (except paragraph 8.b.i. entities) with detail of the aggregate gross value under this statement with the admitted and nonadmitted amounts reflected on

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1 As practical expedients, when a guarantee is issued in a standalone arm’s-length transaction, the liability recognized at the inception of the guarantee should be the premium received or receivable by the guarantor. When a guarantee is issued as part of a transaction with multiple elements, the liability recognized at the inception of the guarantee should be an estimate of the guarantee’s fair value. In that circumstance, guarantors should consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm’s-length transaction.

2 Refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.
the balance sheet. (As noted in paragraph 4, joint ventures, partnerships and limited liability companies are accounted for under the guidance in SSAP No. 48. As such, those entities are not subject to this disclosure.)

a. For all periods presented, a reporting entity whose shares of losses in an SCA exceeds its investment in the SCA shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) This disclosure shall include the following:

i. The reporting entity’s accumulated share of the SCA losses not recognized during the period that the equity method was suspended;

ii. The reporting entity’s share of the SCA’s equity, including negative equity;

iii. Whether a guaranteed obligation or commitment for financial support exists; and

iv. The SCA’s reported value.

This disclosure shall apply beginning in the period the SCA’s equity initially falls below zero and shall continue to be disclosed as long as the SCA investment is in a deficit position. Additionally, the reporting entity shall detail in a narrative disclosure whether losses in the SCA have impacted other investments as required by INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.

### SCA Loss Tracking FN1

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<th>Reporting Entity’s Share of SCA Net Income (Loss)</th>
<th>Accumulated Share of SCA Net Income (Losses)</th>
<th>Reporting Entity’s Share of SCA’s Equity, Including Negative Equity</th>
<th>Guaranteed Obligation / Commitment for Financial Support (Yes / No)</th>
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**NOTE:** FN1 - This disclosure is only required for SCAs in which the reporting entity’s share of losses exceed the investment in an SCA, (the SCA investment is in a negative equity position). This disclosure shall apply beginning in the period the investment in the SCA equity initially falls below zero and shall continue to be disclosed as long as the SCA investment is in a negative equity position. The disclosure is required whenever an investment in an SCA entity is in a negative equity position, and in the first year subsequent to the negative equity position in which a positive equity position has been attained.
FN2 - For Column 6, as detailed in SSAP No. 97, (unless the entity is subject to statutory adjustments under paragraph 9), once the reporting entity’s share of losses equals or exceeds the investment in the SCA, the SCA shall be reported at zero, with discontinuation of the equity method, unless there is a guaranteed obligation or a commitment for future financial support. If there is a guaranteed obligation or a commitment for future financial support, the guarantee requirement shall be recognized pursuant to SSAP No. 5R, and the reporting entity shall report the investment in the SCA reflecting their share of losses as a contra-asset. (Disclosure of the guarantee or commitment would be captured in Note 14 and is not duplicated in this disclosure.)

SSAP No. 97, Exhibit C – Implementation Questions and Answers
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. SSAP No. 97 paragraph 8.b.ii. relating to noninsurance SCA entities requires some assets to be reported as a negative value (nonadmitted) in paragraph 9. For example an 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 would result in a valuation that is less than zero; examples are if reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee, in these cases, the valuation of the investment in subsidiary could be a negative value.

8. Q - Paragraph 13.e. of SSAP No. 97, lists some situations where the equity method should be discontinued. If the equity method is discontinued, does the reporting entity cease tracking equity losses?

8.1 A - No, the reporting entity does not cease tracking losses related to the investment in the SCA if an equity method is discontinued. If the equity method is discontinued, follow the guidance in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses (INT 00-24).

8.2 INT 00-24 lists situations that might require the reporting entity to write down other investments in the SCA subsidiary, such as loans, because of continuing losses in the SCA investment. Paragraphs 15-17 provides guidance to assist in determining whether prior losses are being funded if the reporting entity purchases additional stock, etc. after suspending the equity method. Paragraphs 15-17 in INT 00-24 note that even if the equity method is not being applied, the investment should be tracked to determine if additional losses have to be applied to other items and to determine if the investment in the SCA has a future recovery.

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 previously adopted agenda item 2018-09 – SCA Loss Tracking, which incorporated an additional disclosure to track an SCA’s losses.

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 revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as detailed
below, to clarify the existing reporting requirements for an SCA in a loss position. Staff would also request comments from regulators and interested parties regarding additional situations that require negative reporting.

Proposed Revisions:

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

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

   e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero\(^3\) and shall not provide for additional losses unless the situations in paragraph 13.e.i. or paragraph 13.e.ii. exist. Reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) shall be recorded as liabilities). If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended. In situations in which negative equity is reported (paragraph 13.e.i. and paragraph 13.e.ii.), the book adjusted carrying value for the investment in the SCA shall reflect the reporting entity’s negative equity value (reflecting the reporting entity’s share of the SCA losses). (This would be reported as a contra-asset.)

   i. In all instances in which the limited statutory adjustments required by paragraph 9 results in a negative equity valuation of the investment. (This would apply to 8.b.ii and 8.b.iv entities.)

   ii. When the reporting entity has guaranteed obligations or committed further financial support to an SCA. Recognition of the negative equity in the SCA is in addition to the guarantee liability required under SSAP No. 5R. (This applies to all SCA entities.)

Staff Review Completed by:
Fatima Sediqzad - NAIC Staff
July 2018

Status:
On August 4, 2018, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as shown above, to clarify the existing reporting requirements for when the reporting entity has a negative equity valuation in an SCA investment.

On November 15, 2018, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item and directed NAIC staff to work with interested parties and research applicable U.S. GAAP guidance to consider

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\(^3\) Refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.
revisions to existing guidance that requires negative subsidiary, controlled and affiliated (SCA) entity reporting when there is a guarantee or commitment to provide financial support.

On April 6, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*, as detailed below, to revise the existing reporting requirements for when a reporting entity has a negative value in an SCA investment when the reporting entity has provided a financial commitment or guarantee. The illustration from the existing INT 00-24: EITF 98-13: *Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses* has also been moved to SSAP No. 97, in its entirety, as a new exhibit. This INT provides examples of how losses in an SCA shall be applied to other investments once the SCA equity investment has been halted at zero.

**Spring 2019 National Meeting Exposure:**

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

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

   e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method in investments advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero and shall not provide for additional losses, while still continuing to track the amount of unreported equity method losses, until any future equity method income can be reported. If the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support (such as (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R), they shall be recorded as liabilities). If the entire loss is recognized under SSAP No. 5R, it does not also need to be recognized under SSAP No. 97. However, if there is a guarantee or commitment, and the entire loss is not recognized under SSAP No. 5R, the reporting entity shall not stop at zero, and shall recognize a negative value of the SCA. If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended;

Footnote 2: Refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: *Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses*. As detailed in INT 00-24, a reporting entity’s share of losses in an SCA shall be applied to other investments held in the SCA once the SCA (common stock) investment has been reduced to zero.
**EXHIBIT F – ILLUSTRATION OF THE APPLICATION OF INT 00-24**

**XYZ Investment in ABC Company**

1. ABC Company is a life insurance company, formed January 2, 20X1 to sell health insurance in the state of New York. On January 2, 20X1, XYZ Insurance Company invested $500,000 in ABC, and purchased 100,000 shares of common stock at par, and 40,000 shares of preferred stock at par. ABC Preferred stock is non-voting, 5% cumulative.

2. XYZ determined it has obtained a controlling interest in ABC as XYZ owns 50% of the voting interests of ABC. XYZ accounted for its investment in ABC Insurance Company under the statutory equity method of accounting. The following table is selected information from the financial statements of ABC Insurance Company.

<table>
<thead>
<tr>
<th></th>
<th>1/2/20X1</th>
<th>12/31/20X1</th>
<th>12/31/20X2</th>
<th>12/31/20X3</th>
<th>12/31/20X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par, 200,000 shares issued and outstanding</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Preferred stock, $10 par, 100,000 shares issued and outstanding</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>$130,000</td>
<td>($180,000)</td>
<td>($630,000)</td>
<td>($1,430,000)</td>
<td></td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>$1,200,000</td>
<td>$1,330,000</td>
<td>$1,520,000</td>
<td>$1,070,000</td>
<td>$270,000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>12/31/20X5</th>
<th>12/31/20X6</th>
<th>12/31/20X7</th>
<th>12/31/20X8</th>
<th>12/31/20X9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par, 200,000 shares issued and outstanding</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Preferred stock, $10 par, 100,000 shares issued and outstanding</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>($1,980,000)</td>
<td>($1,830,000)</td>
<td>($1,280,000)</td>
<td>($430,000)</td>
<td>$820,000</td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>($280,000)</td>
<td>$370,000</td>
<td>$920,000</td>
<td>$1,770,000</td>
<td>$3,020,000</td>
</tr>
</tbody>
</table>

3. At 1/2/20X1, XYZ recorded the following entry to record its investment in ABC:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Common stock</td>
<td>$100,000</td>
</tr>
<tr>
<td>Investment in ABC Preferred stock</td>
<td>$400,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

To record initial investment in ABC Insurance Company.
4. During the year ended 12/31/20X1, ABC had statutory net income before dividends of $200,000. At 12/31/20X1, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.10 per share. XYZ recorded the following entries:

- **Cash** $20,000
- Dividend Income $20,000

To record preferred dividend income from ABC Insurance Company for 20X1.

- Investment in ABC Common stock $75,000
- Unrealized Gain/Loss $75,000

To record 20X1 unrealized gain on investment in ABC Common. (($200,000 - $50,000) * 50%)

- Cash $10,000
- Unrealized Gain/Loss $10,000
- Dividend Income $10,000
- Investment in ABC Common stock $10,000

To record 20X1 dividend on ABC Common. (100,000 shares * $.10)

5. During the year ended 12/31/20X2, ABC issued an 8% surplus note of $500,000. XYZ purchased 100% of the surplus note. During that same year, ABC incurred a statutory net loss before dividends of $250,000. At 12/31/20X2, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.05 per share. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

- Investment in ABC Surplus Notes $500,000
- Cash $500,000

To record investment in ABC Insurance Company surplus notes.

- Cash $20,000
- Dividend Income $20,000

To record preferred dividend income from ABC Insurance Company for 20X2.

- Unrealized Gain/Loss $150,000
- Investment in ABC Common stock $150,000

To record 20X2 unrealized loss on investment in ABC Common. (($-250,000 - $50,000) * 50%)

- Cash $5,000
- Unrealized Gain/Loss $5,000
- Dividend Income $5,000
- Investment in ABC Common stock $5,000

To record 20X2 dividend on ABC Common. (100,000 shares * $.05)

6. During the year ended 12/31/20X3, ABC Insurance Company incurred a statutory net loss before dividends of $400,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:
Dividends Receivable $ 20,000
Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X3.

Unrealized Gain/Loss $ 182,000
Investment in ABC Preferred stock $ 172,000
Investment in ABC Common stock $ 10,000

To record 20X3 unrealized loss on investment in ABC Common and Preferred.

Total net loss and preferred stock dividend ($450,000).
Common stock component reduces the Investment in ABC Common stock component to $0. (20,000 * 50%)
  Total net loss and preferred dividend (-$400,000 - $50,000) $450,000
  Less amount used to reduce common stock investment to $0 20,000
  Amount remaining to be allocated to investment in preferred 430,000
  XYZ ownership % of preferred 40%
    ii. XYZ reduction in investment in preferred $172,000

7. During the year ended 12/31/20X4, ABC Insurance Company incurred a statutory net loss before dividends of $750,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Dividends Receivable $ 20,000
Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X4.

Unrealized Gain/Loss $ 458,000
Investment in ABC Preferred stock $ 228,000
Investment in ABC Surplus note $ 230,000

To record 20X4 unrealized loss on investment in ABC Preferred and Surplus Notes.

Total net loss and preferred stock dividend ($800,000).
Common stock component reduces the Investment in ABC Preferred stock component to $0. (570,000 * 40%)
Preferred stock component calculated as:
  Total net loss and preferred dividend (-$750,000 - $50,000) $800,000
  Less amount used to reduce preferred stock investment to $0 570,000
  Amount remaining to be allocated to investment in surplus note 230,000
  XYZ ownership % of surplus note 100%
    iii. XYZ reduction in investment in ABC Surplus Notes $230,000

8. During the year ended 12/31/20X5, ABC Insurance Company incurred a statutory net loss before dividends of $500,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:
Dividends Receivable $ 20,000

Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X5.

Unrealized Gain/Loss $ 270,000

Investment in ABC Surplus note $ 270,000

To record 20X5 unrealized loss on investment in ABC Surplus Notes.

Total ABC net loss and preferred stock dividend (-$500,000 - $50,000),

Surplus Note component calculated as:

Total net loss and preferred dividend (-$500,000 - $50,000) $550,000

XYZ ownership % of ABC Surplus Note 100%

Amount of unrealized loss recognized in 20X5 $270,000

iv. Amount of unrealized loss suspended $280,000

9. Since XYZ has not guaranteed any liabilities of ABC, the reduction they would recognize is limited to their remaining investment in ABC Surplus Notes. Therefore, they would only recognize a 20X5 unrealized loss on their investment in ABC of $270,000.

10. During the year ended 12/31/20X6, ABC Insurance Company realigned their marketing efforts and modified the products they were selling. ABC also issued an additional 8% surplus note of $500,000. This surplus note was purchased by an unaffiliated third party. During the year ended 12/31/X6, ABC Insurance Company had statutory net income before dividends of $200,000. ABC Insurance Company did not declare any dividends on common stock, but declared and paid current and dividends in arrears on preferred. XYZ recorded the following entries:

Cash $ 80,000

Dividends Receivable $ 60,000

Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X6, and receipt of preferred dividends receivable for 20X3, 20X4 and 20X5.

11. XYZ did not record any change in their investment in ABC Surplus Notes, ABC Preferred or ABC Common, since ABC's net income after preferred dividends did not exceed the losses accumulated during the period that XYZ suspended recording unrealized losses.

12. The following amounts were tracked:

Total ABC net income and preferred stock dividend ($200,000 - $50,000),

Surplus Note component calculated as:

Total net income and preferred dividend ($200,000 - $50,000) $150,000

XYZ ownership % of ABC Surplus Note 50%

Amount of unrealized loss suspended in 20X5 $ 75,000

Remaining amount of unrealized loss suspended $280,000

$205,000
During the year ended 12/31/20X7, ABC Insurance Company had statutory net income before dividends of $600,000. At 12/31/20X7, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Cash $ 20,000
Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X7.

Investment in ABC Surplus Notes $ 70,000
Unrealized Gain/Loss $ 70,000

To record 20X7 unrealized gain on investment in ABC Surplus Notes.

Total ABC net income and preferred stock dividend ($600,000 - $50,000). Surplus Note component calculated as:

Total net income and preferred dividend ($600,000 - $50,000) $550,000
XYZ ownership % of ABC Surplus Note 50%

Remaining amount of unrealized loss suspended in 20X5 $205,000

vi. 20X7 amount of unrealized gain on investment in ABC Surplus Note $ 70,000

During the year ended 12/31/20X8, ABC Insurance Company had statutory net income before dividends of $900,000. At 12/31/20X8, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Cash $ 20,000
Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X8.

Total ABC net income and preferred stock dividend ($900,000 - $50,000). Surplus Note component calculated as:

Total net income and preferred dividend ($900,000 - $50,000) $850,000
XYZ ownership % of ABC Surplus Note 50%

vi. 20X8 amount of unrealized gain on investment in ABC Surplus Note $425,000

To record 20X8 unrealized gain on investment in ABC Surplus Notes.

During the year ended 12/31/20X9, ABC Insurance Company had statutory net income, before interest on surplus notes and dividends, of $1,400,000. The Commissioner approved one year’s interest payment on the surplus notes. At 12/31/20X9, ABC declared and paid a 5% preferred dividend, and a $.10 dividend per share on Common stock. XYZ recorded the following entries:

Cash $ 20,000
Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X9.
Cash $40,000
Interest Income $40,000

To record surplus notes interest income from ABC Insurance Company for 20X9. ($500,000 * 8%)

Investment in ABC Surplus Notes $5,000
Investment in ABC Preferred Stock $400,000
Investment in ABC Common Stock $130,000
Unrealized Gain/Loss $535,000

To record 20X9 unrealized gain on investment in ABC Common, Preferred and Surplus Notes.
Components computed as follows:

Total Net Income net of preferred stock dividend and interest on surplus notes $1,270,000
($1,400,000 - $50,000 - $80,000)
Less amount needed to restore investment in surplus notes ($10,000)
Amount available for preferred stock and common stock investment restoration $1,260,000
Amount needed to restore preferred stock component ($1,000,000)
Amount available to restore common stock component $260,000

Surplus Notes component ($10,000 * 50%) $5,000
Preferred Stock component ($1,000,000 * 40%) $400,000
Common stock component ($260,000 * 50%) $130,000

Cash $10,000
Unrealized Gain/Loss $10,000
Dividend Income $10,000
Investment in ABC Common stock $10,000

To record 20X9 dividend on ABC Common. (100,000 shares * $.10)

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

**SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets**

8. An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

   a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and

   b. The amount of loss can be reasonably estimated.

18. The following types of guarantees are exempted from the initial liability recognition in paragraphs 20-25, but are subject to the disclosure requirements in paragraphs 29-32. For the guarantees addressed in paragraphs 18f and 18g, recognition of a contingent guarantee may be required subsequent to initial recognition in accordance with paragraph 24a:
a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;

b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;

c. Guarantee issued in a business combination that represents contingent consideration;

d. Guarantee in which the guarantor's obligation would be reported as an equity item;

e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligator;

f. Guarantees (as defined in paragraph 16) made to/or on behalf of directly or indirectly wholly-owned insurance or non-insurance subsidiaries5; and

g. Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in response to a rating agency’s requirement to provide a commitment to support).

19. With the exception of the provision for guarantees made to/or on behalf of a wholly-owned subsidiaries in paragraph 18.f. and “unlimited” guarantees in 18.g., this guidance does not exclude guarantees issued as intercompany transactions or between related parties from the initial liability recognition requirement. Thus, unless the guarantee is provided on behalf of a wholly-owned subsidiary or considered "unlimited," guarantees issued between the following parties are subject to the initial recognition and disclosure requirements:

d. Guarantee issued either between parents and their subsidiaries or between corporations under common control;

e. A parent’s guarantee of its subsidiary’s debt to a third party; and

f. A subsidiary’s guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.

20. At the inception of a guarantee, the guarantor shall recognize in its statement of financial position a liability for that guarantee. Except as indicated in paragraph 22, the objective of the initial measurement of the liability is the fair value6 of the guarantee at its inception.

Footnote: As practical expedients, when a guarantee is issued in a standalone arm’s-length transaction, the liability recognized at the inception of the guarantee should be the premium received or receivable by the guarantor. When a guarantee is issued as part of a transaction with multiple elements, the liability recognized at the inception of the guarantee should be an estimate of the guarantee’s fair value. In that circumstance, guarantors should consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm’s-length transaction.

21. The issuance of a guarantee obligates the guarantor (the issuer) in two respects: (a) the guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the

5 The exclusion for wholly-owned subsidiaries includes guarantees from a parent to, or on behalf of, a direct wholly-owned insurance or non-insurance subsidiary as well as guarantees made from a parent to, or on behalf of, an indirect wholly-owned insurance or non-insurance subsidiary. The “wholly-owned” exclusion in paragraph 18.f. does not include guarantees issued from one subsidiary to another subsidiary, regardless if both subsidiaries are wholly-owned (directly or indirectly) by a parent company.
specified triggering events or conditions occur (the noncontingent aspect) and (b) the guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect). Because the issuance of a guarantee imposes a noncontingent obligation to stand ready to perform in the event that the specified triggering event occurs, the provisions of paragraph 8 should not be interpreted as prohibiting the guarantor from initially recognizing a liability for that guarantee even though it is not probable that payments will be required under that guarantee.

22. In the event that, at the inception of the guarantee, the guarantor is required to recognize a liability under paragraph 8 for the related contingent loss, the liability to be initially recognized for that guarantee shall be the greater of (a) the amount the satisfies the fair value objective as discussed in paragraph 20 or (b) the contingent liability amount required to be recognized at inception of the guarantee by paragraph 8. For many guarantors, it would be unusual for the contingent liability under (b) to exceed the amount that satisfies the fair value objective at the inception of the guarantee.

23. The offsetting entry pursuant to the liability recognition at the inception of the guarantee depends on the circumstances in which the guarantee was issued. Examples include:

   a. If the guarantee was issued in a standalone transaction for a premium, the offsetting entry would the consideration received.

   b. If the guarantee was issued in conjunction with the sale of assets, a product, or a business, the overall proceeds would be allocated between the consideration being remitted to the guarantor for issuing the guarantee and the proceeds from that sale. That allocation would affect the calculation of the gain or loss on the sale transaction.

   c. If a residual value guarantee were provided by a lessee-guarantor when entering into an operating lease, the offsetting entry would be reflected as prepaid rent, which would be nonadmitted under SSAP No. 29.

   d. If a guarantee were issued to an unrelated or related party for no consideration on a standalone basis, the offsetting entry would be to expense.

24. Except for the measurement and recognition of continued guarantee obligations after the settlement of a contingent guarantee liability described in paragraph 25, and the provisions for SCAs detailed in paragraph 24a, this standard does not describe in detail how the guarantor’s liability for its obligations under the guarantee would be measured subsequent to initial recognition. The liability that the guarantor initially recognized in accordance with paragraph 20 would typically be reduced (as a credit to income) as the guarantor is released from risk under the guarantee. Depending on the nature of the guarantee, the guarantor’s release from risk has typically been recognized over the term of the guarantee (a) only upon either expiration or settlement of the guarantee, (b) by a systematic and rational amortization method, or (c) as the fair value of the guarantee changes (for example, guarantees accounted for as derivatives). The reduction of liability does not encompass the recognition and subsequent adjustment of the contingent liability recognized under paragraph 8 related to the contingent loss for the guarantee. If the guarantor is required to subsequently recognize a contingent liability for the guarantee, the guarantor shall eliminate any remaining noncontingent liability for that guarantee and recognize a contingent liability in accordance with paragraph 8.

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

25. After recognition and settlement of a contingent guarantee liability in accordance with paragraph 8, a guarantor shall assess whether remaining potential obligations exist under the guarantee agreement. If the guarantor still has potential obligations under the guarantee contract, the guarantor shall recognize the remaining noncontingent guarantee that represents the current fair value of the potential obligation remaining under the guarantee agreement. This noncontingent guarantee liability shall be released in accordance with paragraph 24.

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

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

  e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero7 and shall not provide for additional losses, while still continuing to track the amount of unreported equity method losses, until any future equity method income can be reported. If the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee, the provisions of such as (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets) shall be followed (SSAP No. 5R), they shall be recorded as liabilities. If the entire equity method loss (subject to the financial guarantee / commitment) shall be recognized under SSAP No. 5R, it does not also need to be recognized under SSAP No. 97. If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended;

Footnote 2: Although the SCA is reported at zero in the investment schedule, a guarantee liability (either contingent or noncontingent) may be required to be reported under SSAP No. 5R. Additionally, refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses. As detailed in INT 00-24, a reporting entity’s share of losses in an SCA shall be applied to other investments held in the SCA once the SCA (common stock) investment has been reduced to zero.

35. All SCA investments within the scope of this statement (except paragraph 8.b.i. entities) shall include disclosure of the SCA balance sheet value (admitted and nonadmitted) as well as information received from the NAIC in response to the SCA filing (e.g., date and type of filing, NAIC valuation amount, whether resubmission of filing is required). This disclosure shall include an aggregate total of all SCAs (except paragraph 8.b.i. entities) with detail of the aggregate gross value under this statement with the admitted and nonadmitted amounts reflected on the balance sheet. (As noted in paragraph 4, joint ventures, partnerships and limited liability companies are accounted for under the guidance in SSAP No. 48. As such, those entities are not subject to the disclosures in this statement, unless specifically directed by SSAP No. 48.)
a. For all periods presented, a reporting entity whose shares of losses in an SCA exceeds its investment in the SCA shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) This disclosure shall include the following:

i. The reporting entity’s accumulated share of the SCA losses not recognized during the period that the equity method was suspended;

ii. The reporting entity’s share of the SCA’s equity, including negative equity;

iii. Whether a guaranteed obligation or commitment for financial support exists; and

iv. The SCA’s reported value. The amount of the recognized guarantee under SSAP No. 5R.

2019 Fall National Meeting Exposure

SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets - (Industry edits are shaded.)

8. An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and

b. The amount of loss can be reasonably estimated.

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

a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;

b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;

c. Guarantee issued in a business combination that represents contingent consideration;

d. Guarantee in which the guarantor’s obligation would be reported as an equity item;

e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligator;

f. Guarantees (as defined in paragraph 16) made to/or on behalf of directly or indirectly wholly-owned insurance or non-insurance subsidiaries; and

8 The exclusion for wholly-owned subsidiaries includes guarantees from a parent to, or on behalf of, a direct wholly-owned insurance or non-insurance subsidiary as well as guarantees made from a parent to, or on behalf of, an indirect wholly-owned insurance or non-insurance subsidiary.
Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in response to a rating agency’s requirement to provide a commitment to support).

The exemptions for items f and g above do not apply in situations in which a reporting entity has provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity (SCA), and the SCA’s equity is negative (see paragraph 24).

19. With the exception of the provision for guarantees made to/or on behalf of a wholly-owned subsidiaries in paragraph 18.f. and “unlimited” guarantees in 18.g., this guidance does not exclude guarantees issued as intercompany transactions or between related parties from the initial liability recognition requirement. Thus, unless the guarantee is provided on behalf of a wholly-owned subsidiary or considered “unlimited,” guarantees issued between the following parties are subject to the initial recognition and disclosure requirements:

a. Guarantee issued either between parents and their subsidiaries or between corporations under common control;

b. A parent’s guarantee of its subsidiary’s debt to a third party; and

c. A subsidiary’s guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.

20. At the inception of a guarantee, the guarantor shall recognize in its statement of financial position a liability for that guarantee. Except as indicated in paragraph 22, the objective of the initial measurement of the liability is the fair value of the guarantee at its inception. Footnote: As practical expedients, when a guarantee is issued in a standalone arm’s-length transaction, the liability recognized at the inception of the guarantee should be the premium received or receivable by the guarantor. When a guarantee is issued as part of a transaction with multiple elements, the liability recognized at the inception of the guarantee should be an estimate of the guarantee’s fair value. In that circumstance, guarantors should consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm’s-length transaction.

21. The issuance of a guarantee obligates the guarantor (the issuer) in two respects: (a) the guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur (the noncontingent aspect) and (b) the guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect). Because the issuance of a guarantee imposes a noncontingent obligation to stand ready to perform in the event that the specified triggering event occurs, the provisions of paragraph 8 should not be interpreted as prohibiting the guarantor from initially recognizing a liability for that guarantee even though it is not probable that payments will be required under that guarantee.

22. In the event that, at the inception of the guarantee, the guarantor is required to recognize a liability under paragraph 8 for the related contingent loss, the liability to be initially recognized for that guarantee shall be the greater of (a) the amount that satisfies the fair value objective as discussed in paragraph 20 or (b) the contingent liability amount required to be recognized at subsidiary. The “wholly-owned” exclusion in paragraph 18.f. does not include guarantees issued from one subsidiary to another subsidiary, regardless if both subsidiaries are wholly-owned (directly or indirectly) by a parent company.
inception of the guarantee by paragraph 8. For many guarantors, it would be unusual for the contingent liability under (b) to exceed the amount that satisfies the fair value objective at the inception of the guarantee.

23. The offsetting entry pursuant to the liability recognition at the inception of the guarantee depends on the circumstances in which the guarantee was issued. Examples include:

   a. If the guarantee was issued in a standalone transaction for a premium, the offsetting entry would the consideration received.

   b. If the guarantee was issued in conjunction with the sale of assets, a product, or a business, the overall proceeds would be allocated between the consideration being remitted to the guarantor for issuing the guarantee and the proceeds from that sale. That allocation would affect the calculation of the gain or loss on the sale transaction.

   c. If a residual value guarantee were provided by a lessee-guarantor when entering into an operating lease, the offsetting entry would be reflected as prepaid rent, which would be nonadmitted under SSAP No. 29.

   d. If a guarantee were issued to an unrelated or related party for no consideration on a standalone basis, the offsetting entry would be to expense.

24. Except for the measurement and recognition of continued guarantee obligations after the settlement of a contingent guarantee liability described in paragraph 25, and the provisions for SCAs detailed in paragraph 24a this standard does not describe in detail how the guarantor’s liability for its obligations under the guarantee would be measured subsequent to initial recognition. The liability that the guarantor initially recognized in accordance with paragraph 20 would typically be reduced (as a credit to income) as the guarantor is released from risk under the guarantee. Depending on the nature of the guarantee, the guarantor’s release from risk has typically been recognized over the term of the guarantee (a) only upon either expiration or settlement of the guarantee, (b) by a systematic and rational amortization method, or (c) as the fair value of the guarantee changes (for example, guarantees accounted for as derivatives). The reduction of liability does not encompass the recognition and subsequent adjustment of the contingent liability recognized under paragraph 8 related to the contingent loss for the guarantee. If the guarantor is required to subsequently recognize a contingent liability for the guarantee, the guarantor shall eliminate any remaining noncontingent liability for that guarantee and recognize a contingent liability in accordance with paragraph 8.

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

25.26 After recognition and settlement of a contingent guarantee liability in accordance with paragraph 8, a guarantor shall assess whether remaining potential obligations exist under the
guarantee agreement. If the guarantor still has potential obligations under the guarantee contract, the guarantor shall recognize the remaining noncontingent guarantee that represents the current fair value of the potential obligation remaining under the guarantee agreement. This noncontingent guarantee liability shall be released in accordance with paragraph 24.

**SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities – No industry edits to this section**

12. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

   e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero and shall not provide for additional losses, while still continuing to track the amount of unreported equity method losses, until any future equity method income can be reported. If the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee, the provisions of such as (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets shall be followed (SSAP No. 5R), they shall be recorded as liabilities). If the entire equity method loss (subject to the financial guarantee / commitment) shall be recognized under SSAP No. 5R, it does not also need to be recognized under SSAP No. 97. If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended;

Footnote 2: Although the SCA is reported at zero in the investment schedule, a guarantee liability (either contingent or noncontingent) may be required to be reported under SSAP No. 5R. Additionally, refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses. As detailed in INT 00-24, a reporting entity’s share of losses in an SCA shall be applied to other investments held in the SCA once the SCA (common stock) investment has been reduced to zero.

35. All SCA investments within the scope of this statement (except paragraph 8.b.i. entities) shall include disclosure of the SCA balance sheet value (admitted and nonadmitted) as well as information received from the NAIC in response to the SCA filing (e.g., date and type of filing, NAIC valuation amount, whether resubmission of filing is required). This disclosure shall include an aggregate total of all SCAs (except paragraph 8.b.i. entities) with detail of the aggregate gross value under this statement with the admitted and nonadmitted amounts reflected on the balance sheet. (As noted in paragraph 4, joint ventures, partnerships and limited liability companies are accounted for under the guidance in SSAP No. 48. As such, those entities are not subject to the disclosures in this statement, unless specifically directed by SSAP No. 48.)

a. For all periods presented, a reporting entity whose shares of losses in an SCA exceeds its investment in the SCA shall disclose its share of losses. (This is required regardless of a
guarantee or commitment of future financial support to the SCA. This disclosure shall include the following:

i. The reporting entity’s accumulated share of the SCA losses not recognized during the period that the equity method was suspended;

ii. The reporting entity’s share of the SCA’s equity, including negative equity;

iii. Whether a guaranteed obligation or commitment for financial support exists; and

iv. The SCA’s reported value. The amount of the recognized guarantee under SSAP No. 5R.

Proposed New Exhibit F – This is not new guidance, it pulls in prior guidance from INT 00-24

EXHIBIT F – ILLUSTRATION OF THE APPLICATION OF INT 00-24

XYZ Investment in ABC Company

1. ABC Company is a life insurance company, formed January 2, 20X1 to sell health insurance in the state of New York. On January 2, 20X1, XYZ Insurance Company invested $500,000 in ABC, and purchased 100,000 shares of common stock at par, and 40,000 shares of preferred stock at par. ABC Preferred stock is non-voting, 5% cumulative.

2. XYZ determined it has obtained a controlling interest in ABC as XYZ owns 50% of the voting interests of ABC. XYZ accounted for its investment in ABC Insurance Company under the statutory equity method of accounting. The following table is selected information from the financial statements of ABC Insurance Company.

<table>
<thead>
<tr>
<th></th>
<th>1/2/20X1</th>
<th>12/31/20X1</th>
<th>12/31/20X2</th>
<th>12/31/20X3</th>
<th>12/31/20X4</th>
<th>12/31/20X5</th>
<th>12/31/20X6</th>
<th>12/31/20X7</th>
<th>12/31/20X8</th>
<th>12/31/20X9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par, 200,000 shares issued and outstanding</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Preferred stock, $10 par, 100,000 shares issued and outstanding</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$430,000</td>
<td>$430,000</td>
<td>$430,000</td>
<td>$430,000</td>
<td>$820,000</td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>$130,000</td>
<td>($180,000)</td>
<td>($630,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
<td>($1,430,000)</td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>$1,200,000</td>
<td>$1,330,000</td>
<td>$1,520,000</td>
<td>$1,070,000</td>
<td>$270,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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3. At 1/2/20X1, XYZ recorded the following entry to record its investment in ABC:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Common stock</td>
<td>$100,000</td>
</tr>
<tr>
<td>Investment in ABC Preferred stock</td>
<td>$400,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

To record initial investment in ABC Insurance Company.

4. During the year ended 12/31/20X1, ABC had statutory net income before dividends of $200,000. At 12/31/20X1, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.10 per share. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X1.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Common stock</td>
<td>$75,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$75,000</td>
</tr>
</tbody>
</table>

To record 20X1 unrealized gain on investment in ABC Common. (($200,000 - $50,000) * 50%)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$10,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$10,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$10,000</td>
</tr>
<tr>
<td>Investment in ABC Common stock</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

To record 20X1 dividend on ABC Common. (100,000 shares * $.10)

5. During the year ended 12/31/20X2, ABC issued an 8% surplus note of $500,000. XYZ purchased 100% of the surplus note. During that same year, ABC incurred a statutory net loss before dividends of $250,000. At 12/31/20X2, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.05 per share. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Surplus Notes</td>
<td>$500,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

To record investment in ABC Insurance Company surplus notes.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X2.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$150,000</td>
</tr>
<tr>
<td>Investment in ABC Common stock</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

To record 20X2 unrealized loss on investment in ABC Common. (($-250,000 - $50,000) * 50%)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$5,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$5,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$5,000</td>
</tr>
<tr>
<td>Investment in ABC Common stock</td>
<td>$5,000</td>
</tr>
</tbody>
</table>
6. During the year ended 12/31/20X3, ABC Insurance Company incurred a statutory net loss before dividends of $400,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

To record 20X2 dividend on ABC Common. (100,000 shares * $.05)

<table>
<thead>
<tr>
<th>Dividends Receivable</th>
<th>$ 20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Income</td>
<td>$ 20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X3.

<table>
<thead>
<tr>
<th>Unrealized Gain/Loss</th>
<th>$ 182,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Preferred stock</td>
<td>$ 172,000</td>
</tr>
<tr>
<td>Investment in ABC Common stock</td>
<td>$ 10,000</td>
</tr>
</tbody>
</table>

To record 20X3 unrealized loss on investment in ABC Common and Preferred.

Total net loss and preferred stock dividend ($450,000).

Common stock component reduces the Investment in ABC Common stock component to $0. (20,000 * 50%)

| Total net loss and preferred dividend (-$400,000 - $50,000) | $450,000 |
| Less amount used to reduce common stock investment to $0 | $20,000 |
| Amount remaining to be allocated to investment in preferred | $430,000 |
| XYZ ownership % of preferred | 40% |
| XYZ reduction in investment in preferred | $172,000 |

7. During the year ended 12/31/20X4, ABC Insurance Company incurred a statutory net loss before dividends of $750,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

To record preferred dividend income from ABC Insurance Company for 20X4.

<table>
<thead>
<tr>
<th>Dividends Receivable</th>
<th>$ 20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Income</td>
<td>$ 20,000</td>
</tr>
</tbody>
</table>

To record 20X4 unrealized loss on investment in ABC Preferred and Surplus Notes.

Total net loss and preferred stock dividend ($800,000).

Common stock component reduces the Investment in ABC Preferred stock component to $0. (570,000 * 40%)

Preferred stock component calculated as:

| Total net loss and preferred dividend (-$750,000 - $50,000) | $800,000 |
| Less amount used to reduce preferred stock investment to $0 | $570,000 |
| Amount remaining to be allocated to investment in surplus note | $230,000 |
| XYZ ownership % of surplus note | 100% |
| XYZ reduction in investment in ABC Surplus Notes | $230,000 |

8. During the year ended 12/31/20X5, ABC Insurance Company incurred a statutory net loss before dividends of $500,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:
Dividends Receivable $ 20,000

______ Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X5.

Unrealized Gain/Loss $ 270,000

______ Investment in ABC Surplus note $ 270,000

To record 20X5 unrealized loss on investment in ABC Surplus Notes.

Total ABC net loss and preferred stock dividend (-$500,000 - $50,000), Surplus Note component calculated as:

Total net loss and preferred dividend (-$500,000 - $50,000) $550,000

XYZ ownership % of ABC Surplus Note 100%

$550,000

Amount of unrealized loss recognized in 20X5 $270,000

Amount of unrealized loss suspended $280,000

9. Since XYZ has not guaranteed any liabilities of ABC, the reduction they would recognize is limited to their remaining investment in ABC Surplus Notes. Therefore, they would only recognize a 20X5 unrealized loss on their investment in ABC of $270,000.

10. During the year ended 12/31/20X6, ABC Insurance Company realigned their marketing efforts and modified the products they were selling. ABC also issued an additional 8% surplus note of $500,000. This surplus note was purchased by an unaffiliated third party. During the year ended 12/31/X6, ABC Insurance Company had statutory net income before dividends of $200,000. ABC Insurance Company did not declare any dividends on common stock but declared and paid current and dividends in arrears on preferred. XYZ recorded the following entries:

Cash $ 80,000

______ Dividends Receivable $ 60,000

______ Dividend Income $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X6, and receipt of preferred dividends receivable for 20X3, 20X4 and 20X5.

11. XYZ did not record any change in their investment in ABC Surplus Notes, ABC Preferred or ABC Common, since ABCs’ net income after preferred dividends did not exceed the losses accumulated during the period that XYZ suspended recording unrealized losses.

12. The following amounts were tracked:

Total ABC net income and preferred stock dividend ($200,000 - $50,000), Surplus Note component calculated as:

Total net income and preferred dividend ($200,000 - $50,000) $150,000

XYZ ownership % of ABC Surplus Note 50%

$ 75,000

Amount of unrealized loss suspended in 20X5 $280,000

Remaining amount of unrealized loss suspended $205,000

13. During the year ended 12/31/20X7, ABC Insurance Company had statutory net income before dividends of $600,000. At 12/31/20X7, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Cash $ 20,000

______ Dividend Income $ 20,000
To record preferred dividend income from ABC Insurance Company for 20X7.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Surplus Notes</td>
<td>$70,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

To record 20X7 unrealized gain on investment in ABC Surplus Notes.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ABC net income and preferred stock dividend ($)</td>
<td>$550,000</td>
</tr>
<tr>
<td>XYZ ownership % of ABC Surplus Note</td>
<td>50%</td>
</tr>
<tr>
<td>Remaining amount of unrealized loss suspended in 20X5</td>
<td>$205,000</td>
</tr>
<tr>
<td>20X7 amount of unrealized gain on investment in ABC Surplus Note</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

14. During the year ended 12/31/20X8, ABC Insurance Company had statutory net income before dividends of $900,000. At 12/31/20X8, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X8.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ABC net income and preferred stock dividend ($)</td>
<td>$850,000</td>
</tr>
<tr>
<td>XYZ ownership % of ABC Surplus Note</td>
<td>50%</td>
</tr>
<tr>
<td>20X8 amount of unrealized gain on investment in ABC Surplus Note</td>
<td>$425,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in ABC Surplus Notes</td>
<td>$425,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$425,000</td>
</tr>
</tbody>
</table>

To record 20X8 unrealized gain on investment in ABC Surplus Notes.

15. During the year ended 12/31/20X9, ABC Insurance Company had statutory net income before interest on surplus notes and dividends, of $1,400,000. The Commissioner approved one year's interest payment on the surplus notes. At 12/31/20X9, ABC declared and paid a 5% preferred dividend, and a $.10 dividend per share on Common stock. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X9.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$40,000</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

To record surplus notes interest income from ABC Insurance Company for 20X9. ($500,000 * 8%)
Ref #2018-26

Investment in ABC Surplus Notes $ 5,000
Investment in ABC Preferred Stock $ 400,000
Investment in ABC Common Stock $ 130,000

Unrealized Gain/Loss $ 535,000

To record 20X9 unrealized gain on investment in ABC Common, Preferred and Surplus Notes. Components computed as follows:

Total Net Income net of preferred stock dividend and interest on surplus notes $ 1,270,000
($1,400,000 - $50,000 - $80,000)
Less amount needed to restore investment in surplus notes ($ 10,000)
Amount available for preferred stock and common stock investment restoration $ 1,260,000
Amount needed to restore preferred stock component ($1,000,000)
Amount available to restore common stock component $ 260,000

Surplus Notes component ($10,000 * 50%) $ 5,000
Preferred Stock component ($1,000,000 * 40%) $ 400,000
Common stock component ($260,000 * 50%) $ 130,000

Cash $ 10,000
Unrealized Gain/Loss $ 10,000
Dividend Income $ 10,000
Investment in ABC Common stock $ 10,000

To record 20X9 dividend on ABC Common. (100,000 shares * $.10)

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions, with modifications suggested by interested parties, as illustrated above, to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets to expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the equity value of an SCA investment. With the revisions, the equity value of an SCA would not go negative, and guaranteed 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 also be inserted into SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated below, so 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.

**Adopted Revisions:**

**SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets - (Industry edits from the previous exposure are shaded.)**

18. The following types of guarantees are exempted from the initial liability recognition in paragraphs 20-25, but are subject to the disclosure requirements in paragraphs 29-32.

   a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;

   b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;
c. Guarantee issued in a business combination that represents contingent consideration;
d. Guarantee in which the guarantor’s obligation would be reported as an equity item;
e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved
the original lessee from being the primary obligator;
f. Guarantees (as defined in paragraph 16) made to/or on behalf of directly or indirectly wholly-owned
insurance or non-insurance subsidiaries; and
g. Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in
response to a rating agency’s requirement to provide a commitment to support).

The exemptions for items f and g above do not apply in situations in which a reporting entity has
provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity
(SCA), and the SCA’s equity is negative (see paragraph 24).

24. Except for the measurement and recognition of continued guarantee obligations after the settlement of a
contingent guarantee liability described in paragraph 25, and the provisions for SCAs detailed in paragraph 24a,
this standard does not describe in detail how the guarantor’s liability for its obligations under the guarantee would
be measured subsequent to initial recognition. The liability that the guarantor initially recognized in accordance with
paragraph 20 would typically be reduced (as a credit to income) as the guarantor is released from risk under the
guarantee. Depending on the nature of the guarantee, the guarantor’s release from risk has typically been
recognized over the term of the guarantee (a) only upon either expiration or settlement of the guarantee, (b) by a
systematic and rational amortization method, or (c) as the fair value of the guarantee changes (for example,
guarantees accounted for as derivatives). The reduction of liability does not encompass the recognition and
subsequent adjustment of the contingent liability recognized under paragraph 8 related to the contingent loss for
the guarantee. If the guarantor is required to subsequently recognize a contingent liability for the guarantee, the
guarantor shall eliminate any remaining noncontingent liability for that guarantee and recognize a contingent liability
in accordance with paragraph 8.

25. In situations in which a reporting entity has provided a financial guarantee or commitment to support a
subsidiary, controlled or affiliated entity (SCA), and the reporting entity’s share of losses in the SCA exceed the
equity method carrying amount of the SCA (resulting in a negative equity value in the SCA), the reporting entity
shall recognize the greater impact of (i) the then-current fair value liability for of the guarantee or (ii) the negative
equity position, limited to the maximum amount of the financial guarantee or commitment provided by the reporting
entity. (This guidance requires the recognition of a guarantee liability for guarantees captured in paragraphs 18f
and 18g, when negative equity exists in an SCA. The guidance in paragraphs 20 through 26 shall be followed for
the recognition of: a contingent liability and a noncontingent liability, as applicable.

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

4314. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in
applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to
investments in SCA entities:

e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity’s share of losses of an
investee may equal or exceed the carrying amount of an investment accounted for by an equity
method plus advances made by the investor. The reporting entity shall discontinue applying an

11 The exclusion for wholly owned subsidiaries includes guarantees from a parent to, or on behalf of, a direct wholly owned insurance or
non-insurance subsidiary as well as guarantees made from a parent to, or on behalf of, an indirect wholly owned insurance or non-insurance
subsidiary. The “wholly-owned” exclusion in paragraph 18.f. does not include guarantees issued from one subsidiary to another subsidiary,
regardless if both subsidiaries are wholly owned (directly or indirectly) by a parent company.
equity method when the investment (including advances) is reduced to zero\textsuperscript{12} and shall not provide for additional losses, while still continuing to track the amount of unreported equity method losses, until any future equity method income can be reported. If the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee, the provisions of such as (guaranteed obligations meeting the definition of liabilities in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets) shall be followed (SSAP No. 5R), they shall be recorded as liabilities. If the entire equity method loss (subject to the financial guarantee / commitment) shall be recognized under SSAP No. 5R, it does not also need to be recognized under SSAP No. 97. If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended;

Footnote 2: Although the SCA is reported at zero in the investment schedule, a guarantee liability (either contingent or noncontingent) may be required to be reported under SSAP No. 5R. Additionally, Refer to the additional guidance related to discontinuance of an equity method in paragraphs 15-17 and INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses. As detailed in INT 00-24, a reporting entity’s share of losses in an SCA shall be applied to other investments held in the SCA once the SCA (common stock) investment has been reduced to zero.

35. All SCA investments within the scope of this statement (except paragraph 8.b.i. entities) shall include disclosure of the SCA balance sheet value (admitted and nonadmitted) as well as information received from the NAIC in response to the SCA filing (e.g., date and type of filing, NAIC valuation amount, whether resubmission of filing is required). This disclosure shall include an aggregate total of all SCAs (except paragraph 8.b.i. entities) with detail of the aggregate gross value under this statement with the admitted and nonadmitted amounts reflected on the balance sheet. (As noted in paragraph 4, joint ventures, partnerships and limited liability companies are accounted for under the guidance in SSAP No. 48. As such, those entities are not subject to the disclosures in this statement, unless specifically directed by SSAP No. 48.)

a. For all periods presented, a reporting entity whose shares of losses in an SCA exceeds its investment in the SCA shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) This disclosure shall include the following:

i. The reporting entity’s accumulated share of the SCA losses not recognized during the period that the equity method was suspended;

ii. The reporting entity’s share of the SCA’s equity, including negative equity;

iii. Whether a guaranteed obligation or commitment for financial support exists; and

iv. The SCA’s reported value. The amount of the recognized guarantee under SSAP No. 5R.

EXHIBIT F – ILLUSTRATION OF THE APPLICATION OF INT 00-24

**XYZ Investment in ABC Company**

1. ABC Company is a life insurance company, formed January 2, 20X1 to sell health insurance in the state of New York. On January 2, 20X1, XYZ Insurance Company invested $500,000 in ABC, and purchased 100,000 shares of common stock at par, and 40,000 shares of preferred stock at par. ABC Preferred stock is non-voting, 5% cumulative.
2. XYZ determined it has obtained a controlling interest in ABC as XYZ owns 50% of the voting interests of ABC. XYZ accounted for its investment in ABC Insurance Company under the statutory equity method of accounting. The following table is selected information from the financial statements of ABC Insurance Company.

<table>
<thead>
<tr>
<th></th>
<th>1/2/20X1</th>
<th>12/31/20X1</th>
<th>12/31/20X2</th>
<th>12/31/20X3</th>
<th>12/31/20X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par, 200,000 shares issued and outstanding</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Preferred stock, $10 par, 100,000 shares issued and outstanding</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>$130,000</td>
<td>($180,000)</td>
<td>($630,000)</td>
<td>($1,430,000)</td>
<td></td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>$1,200,000</td>
<td>$1,330,000</td>
<td>$1,520,000</td>
<td>$1,070,000</td>
<td>$270,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>12/31/20X5</th>
<th>12/31/20X6</th>
<th>12/31/20X7</th>
<th>12/31/20X8</th>
<th>12/31/20X9</th>
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</thead>
<tbody>
<tr>
<td>Capital and Surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par, 200,000 shares issued and outstanding</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Preferred stock, $10 par, 100,000 shares issued and outstanding</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>($1,980,000)</td>
<td>($1,830,000)</td>
<td>($1,280,000)</td>
<td>($430,000)</td>
<td>$820,000</td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>($280,000)</td>
<td>$370,000</td>
<td>$920,000</td>
<td>$1,770,000</td>
<td>$3,020,000</td>
</tr>
</tbody>
</table>

3. At 1/2/20X1, XYZ recorded the following entry to record its investment in ABC:

Investment in ABC Common stock $100,000
Investment in ABC Preferred stock $400,000

Cash $500,000

To record initial investment in ABC Insurance Company.

4. During the year ended 12/31/20X1, ABC had statutory net income before dividends of $200,000. At 12/31/20X1, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.10 per share. XYZ recorded the following entries:

Cash $20,000

Dividend Income $20,000

To record preferred dividend income from ABC Insurance Company for 20X1.

Investment in ABC Common stock $75,000

Unrealized Gain/Loss $75,000

To record 20X1 unrealized gain on investment in ABC Common. (($200,000 - $50,000) * 50%)
Cash $10,000

Unrealized Gain/Loss $10,000

Dividend Income $10,000

Investment in ABC Common stock $10,000

To record 20X1 dividend on ABC Common. (100,000 shares * $.10)

5. During the year ended 12/31/20X2, ABC issued an 8% surplus note of $500,000. XYZ purchased 100% of
the surplus note. During that same year, ABC incurred a statutory net loss before dividends of $250,000. At
12/31/20X2, ABC declared and paid a 5% preferred dividend, and a common stock dividend of $.05 per share. No
interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Investment in ABC Surplus Notes $500,000

Cash $500,000

To record investment in ABC Insurance Company surplus notes.

Cash $20,000

Dividend Income $20,000

To record preferred dividend income from ABC Insurance Company for 20X2.

Unrealized Gain/Loss $150,000

Investment in ABC Common stock $150,000

To record 20X2 unrealized loss on investment in ABC Common. ((-$250,000 - $50,000) * 50%)

Cash $5,000

Unrealized Gain/Loss $5,000

Dividend Income $5,000

Investment in ABC Common stock $5,000

To record 20X2 dividend on ABC Common. (100,000 shares * $.05)

6. During the year ended 12/31/20X3, ABC Insurance Company incurred a statutory net loss before dividends
of $400,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the
surplus note were approved. XYZ recorded the following entries:

Dividends Receivable $20,000

Dividend Income $20,000

To record preferred dividend income from ABC Insurance Company for 20X3.

Unrealized Gain/Loss $182,000

Investment in ABC Preferred stock $172,000

Investment in ABC Common stock $10,000

To record 20X3 unrealized loss on investment in ABC Common and Preferred.

Total net loss and preferred stock dividend ($450,000)

Common stock component reduces the Investment in ABC Common stock
component to $0. (20,000 * 50%)

Total net loss and preferred dividend (-$400,000 - $50,000) $450,000

Less amount used to reduce common stock investment to $0 $20,000

Amount remaining to be allocated to investment in preferred 430,000
7. During the year ended 12/31/20X4, ABC Insurance Company incurred a statutory net loss before dividends of $750,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Receivable</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$458,000</td>
</tr>
<tr>
<td>Investment in ABC Preferred stock</td>
<td>$228,000</td>
</tr>
<tr>
<td>Investment in ABC Surplus note</td>
<td>$230,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X4.

Total net loss and preferred stock dividend ($800,000),
Common stock component reduces the Investment in ABC Preferred stock component to $0. (670,000 * 40%)
Preferred stock component calculated as:
- Total net loss and preferred dividend (-$750,000 - $50,000) $800,000
- Less amount used to reduce preferred stock investment to $0 570,000
- Amount remaining to be allocated to investment in surplus note 230,000
- XYZ ownership % of surplus note 100%
- XYZ reduction in investment in ABC Surplus Notes $230,000

8. During the year ended 12/31/20X5, ABC Insurance Company incurred a statutory net loss before dividends of $500,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Receivable</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$20,000</td>
</tr>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$270,000</td>
</tr>
<tr>
<td>Investment in ABC Surplus note</td>
<td>$270,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X5.

Total ABC net loss and preferred stock dividend (-$500,000 - $50,000),
Surplus Note component calculated as:
- Total net loss and preferred dividend (-$500,000 - $50,000) $550,000
- XYZ ownership % of ABC Surplus Note 100%
- Amount of unrealized loss recognized in 20X5 $270,000
- Amount of unrealized loss suspended $280,000

9. Since XYZ has not guaranteed any liabilities of ABC, the reduction they would recognize is limited to their remaining investment in ABC Surplus Notes. Therefore, they would only recognize a 20X5 unrealized loss on their investment in ABC of $270,000.
10. During the year ended 12/31/20X6, ABC Insurance Company realigned their marketing efforts and modified the products they were selling. ABC also issued an additional 8% surplus note of $500,000. This surplus note was purchased by an unaffiliated third party. During the year ended 12/31/X6, ABC Insurance Company had statutory net income before dividends of $200,000. ABC Insurance Company did not declare any dividends on common stock but declared and paid current and dividends in arrears on preferred. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Cash</th>
<th>$ 80,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Receivable</td>
<td>$ 60,000</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>$ 20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X6, and receipt of preferred dividends receivable for 20X3, 20X4 and 20X5.

11. XYZ did not record any change in their investment in ABC Surplus Notes, ABC Preferred or ABC Common, since ABCs’ net income after preferred dividends did not exceed the losses accumulated during the period that XYZ suspended recording unrealized losses.

13. The following amounts were tracked:

Total ABC net income and preferred stock dividend ($200,000 - $50,000).

Surplus Note component calculated as:

- Total net income and preferred dividend ($200,000 - $50,000) $150,000
- XYZ ownership % of ABC Surplus Note 50%
- Amount of unrealized loss suspended in 20X5 $75,000
- Remaining amount of unrealized loss suspended $280,000

13. During the year ended 12/31/20X7, ABC Insurance Company had statutory net income before dividends of $600,000. At 12/31/20X7, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

<table>
<thead>
<tr>
<th>Cash</th>
<th>$ 20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Income</td>
<td>$ 20,000</td>
</tr>
</tbody>
</table>

To record preferred dividend income from ABC Insurance Company for 20X7.

<table>
<thead>
<tr>
<th>Investment in ABC Surplus Notes</th>
<th>$ 70,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized Gain/Loss</td>
<td>$ 70,000</td>
</tr>
</tbody>
</table>

To record 20X7 unrealized gain on investment in ABC Surplus Notes.

Total ABC net income and preferred stock dividend ($600,000 - $50,000).

Surplus Note component calculated as:

- Total net income and preferred dividend ($600,000 - $50,000) $550,000
- XYZ ownership % of ABC Surplus Note 50%
- Remaining amount of unrealized loss suspended in 20X5 $280,000
- 20X7 amount of unrealized gain on investment in ABC Surplus Note $70,000

14. During the year ended 12/31/20X8, ABC Insurance Company had statutory net income before dividends of $900,000. At 12/31/20X8, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:
Cash $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X8.

Total ABC net income and preferred stock dividend ($900,000 - $50,000).

Surplus Note component calculated as:

- Total net income and preferred dividend ($900,000 - $50,000) $850,000
- XYZ ownership % of ABC Surplus Note 50%
- 20X8 amount of unrealized gain on investment in ABC Surplus Note $425,000

Investment in ABC Surplus Notes $ 425,000

To record 20X8 unrealized gain on investment in ABC Surplus Notes.

15. During the year ended 12/31/20X9, ABC Insurance Company had statutory net income, before interest on surplus notes and dividends, of $1,400,000. The Commissioner approved one year’s interest payment on the surplus notes. At 12/31/20X9, ABC declared and paid a 5% preferred dividend, and a $.10 dividend per share on Common stock. XYZ recorded the following entries:

Cash $ 20,000

To record preferred dividend income from ABC Insurance Company for 20X9.

Cash $ 40,000

To record surplus notes interest income from ABC Insurance Company for 20X9. ($500,000 * 8%)

Investment in ABC Surplus Notes $ 5,000
Investment in ABC Preferred Stock $ 400,000
Investment in ABC Common Stock $ 130,000

To record 20X9 unrealized gain on investment in ABC Common, Preferred and Surplus Notes.

Components computed as follows:

- Total Net Income net of preferred stock dividend and interest on surplus notes $ 1,270,000
  ($1,400,000 - $50,000 - $80,000)
- Less amount needed to restore investment in surplus notes ($ 10,000)
- Amount available for preferred stock and common stock investment restoration $ 1,260,000
- Amount needed to restore preferred stock component ($1,000,000)
- Amount available to restore common stock component $ 260,000

- Surplus Notes component ($10,000 * 50%) $ 5,000
- Preferred Stock component ($1,000,000 * 40%) $ 400,000
- Common stock component ($260,000 * 50%) $ 130,000

Cash $ 10,000

To record 20X9 dividend on ABC Common. (100,000 shares * $.10)
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Prepayments to Service and Claims Adjusting Providers

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Issue or SSAP</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>Interpretation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Description of Issue:
This agenda item seeks to address a regulator inquiry regarding prepayments to providers of claims and adjusting services in which the service provider is prepaid by the insurer. While the initial inquiry for this agenda item was a prepaid roadside assistance provider, the accounting issues are relevant to other providers of claims and adjusting services as well.

The prepayments can take a variety of forms and the provider can take on a variety of duties, but in the example provided, the roadside assistance provider was being prepaid a flat fee for a minimum number of vehicles/policies regardless of claims incurred or sales. The provider additionally received a flat fee per vehicle if actual sales exceed the negotiated minimum number of vehicles. The provider, who is not an insurer, was contracted to provide roadside assistance and administer and settle claims using only the prepaid amounts. So, to use a health care analogy, the provider accepts a “capitated” payment to administer and settle claims.

Roadside assistance is a common feature or rider to many automobile insurance policies that has been available for several years. Roadside assistance provides towing and other services such as jumpstarting car batteries, unlocking doors and gas refills for the insured. Discussions with industry representatives indicate that in most cases, roadside assistance providers may have rates that are negotiated, but providers are not typically prepaid. Rather, when the insured calls for assistance negotiated rate providers are dispatched and subsequently paid at negotiated rates as the claims for assistance are incurred. This agenda item is focused on prepayments to providers.

To provide a fictional numeric example, the minimum annual payment to the provider was for 50,000 vehicles at $10 per vehicle, with additional payments per vehicle required if sales exceed the initial fees. The provider in this example, was also responsible for administering claims and dispatching service in exchange for the “capitated” fee. Therefore, the roadside assistance provider would not bill the insurer further when claims are incurred.

The guidance in SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, paragraphs 4 and 5 (excerpted in the Authoritative Literature section) are relevant to the timing of claims recognition and payment of loss adjustment expenses. The guidance provides that claims are recognized when incurred. The existing guidance indicates that paying a third party in advance to adjust claims in the future does not decrease the claims adjustment liability. The claim adjustment liability is only reduced when the claim has been adjusted, not when it is prepaid. In accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities, prepayments to a third party do not meet the right of offset requirements.

The statutory accounting and reporting questions at issue are how the direct writer accounts for and reports the prepaid claims and adjusting expenses initially and subsequently. The existing guidance notes that claim adjusting expenses are not reduced for payments to third parties. The guidance in SSAP No. 55 indicates liabilities shall be established in an amount necessary to adjust all unpaid claims irrespective of payments to third parties with the
exception that the liability is established net of capitated payments to managed care providers. The prepaid expenses under consideration may include a prepayment for claims administration and or a prepayment for the claims.

In reviewing the annual statement instructions for the Underwriting and Expense Exhibit, Part 3, and the related instructions for property and casualty expenses, the initial prepayment to the provider seems be consistent with miscellaneous underwriting expense.

For policies that purchase the coverage and incurred a claim, it seems appropriate to reclassify a proportionate percentage of the initial prepayment to claims incurred and loss adjustment expenses as losses are incurred and adjusted. However, it would be inappropriate to allocate claims expense and claims adjusting expenses to policies that did not purchase the coverage and inappropriate to allocate the costs of the provider to claims or claims adjusting expenses prior to incurring the claims. Therefore, in the event of prepayment to a third-party provider, some of the costs may remain in miscellaneous adjusting expense.

Existing Authoritative Literature:

- **SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses**, paragraphs 4 and 5 includes the following:

**SUMMARY CONCLUSION**

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

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

**General**

10. 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.
The guidance in SSAP No. 55, paragraph 5 was incorporated from INT 02-21: Accounting for Prepaid Loss Adjustment Expenses and Claim Adjustment Expenses, which was nullified when the guidance was moved to SSAP No. 55.

- **SSAP No. 64—Offsetting and Netting of Assets and Liabilities** provides the following:

  2. Assets and liabilities shall be offset and reported net only when a valid right of setoff exists except as provided for in paragraphs 3 and 4. A right of setoff is a reporting entity’s legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying an amount that the other party owes to the reporting entity against the debt (INT 09-08). A valid right of setoff exists only when all the following conditions are met:

    a. Each of the two parties owes the other determinable amounts. An amount shall be considered determinable for purposes of this provision when it is reliably estimable by both parties to the agreement;
    
    b. The reporting party has the right to set off the amount owed with the amount owed by the other party;
    
    c. The reporting party intends to setoff; and
    
    d. The right of setoff is enforceable at law.

- **Property and Casualty Annual Statement Instructions Underwriting and Investment Exhibit Part 3 – Expenses** provides the following:

  A company that pays any affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Management, administration, or similar fees should not be reported as a one-line expense. The company may estimate these expense allocations based on a formula or other reasonable basis.

  A company that pays any non-affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification item as follows:

    a. Payments for claims handling or adjustment services are allocated to Loss Adjustment Expenses (Column 1) in the Underwriting and Investment Exhibit, Part 3. If the total of such expenses incurred equals or exceeds 10% of the total incurred Loss Adjustment Expenses (Line 25, Column 1), the company shall allocate these costs to the appropriate expense classification items as if these costs had been borne directly by the company. If such expenses are less than 10% of the total, they may be reported on Line 1 of Column 1.

    b. Payments for services other than claims handling or adjustment services are allocated to the appropriate expense classification items as if these costs had been borne directly by the company, if the total of such fees paid equals or exceeds 10% of the total incurred Other Underwriting Expenses (Line 25, Column 2). If the total is less than 10%, the payments may be reported on Line 2 if the fees are calculated as a percentage of premiums, or on Line 3 if the fees are not calculated as a percentage of premiums.

  The total management and service fees incurred attributable to affiliates and non-affiliates is reported in the footnote to the Underwriting and Investment Exhibit, Part 3 of the annual statement, and the
Method(s) used for allocation shall be disclosed in the notes to the financial statements. The company shall use the same allocation method(s) on a consistent basis. Refer to SSAP No. 70—Allocation of Expenses for accounting guidance.

Exclude from investment expenses brokerage and other related fees, to the extent they are included in the actual cost of a bond upon acquisition. Refer to SSAP No. 26R—Bonds for accounting guidance.

Include all other internal costs or costs paid to an affiliated company related to origination, purchase or commitment to purchase bonds.

For the purpose of establishing uniformity in classifications of expenses in reporting entities’ statements and reports filed with the insurance departments, the company shall observe the instructions contained in the Appendix of these instructions for the Uniform Classification of Expenses.

Activity to Details of Write-ins Aggregated at Line 24 for Miscellaneous Expenses

List separately each category of miscellaneous expenses for which there is no pre-printed line on Underwriting and Investment Exhibit, Part 3.

- Property and Casualty Annual Statement Instructions Underwriting Appendix Instructions for Uniform Classifications of Expenses of Property and Casualty Insurers provides the following:

  1.1 Direct

Include: The Following Expenses When in Connection with the Investigation and Adjustment of Policy Claims:

  Independent Adjusters: Fees and expenses of independent adjusters or settling agents

  Legal: Fees and expenses of lawyers for legal services in the defense, trial, or appeal of suits, or for other legal services

  Bonds: Premium costs of bonds

  Appeal Costs and Expenses: Appeal bond premiums, charges for printing records, charges for printing briefs, court fees and incidental to appeals

  General Court Costs and Fees: Entry fees and other court costs, and other fees not includible in losses

  (Note: Interest and costs assessed as part of or subsequent to judgment are includible in losses.)

  Medical Testimony: Fees and expenses of medical witnesses of attendance or testimony at trials or hearings (“Medical” includes physicians, surgeons, chiropractors, chiropodists, dentists, osteopaths, veterinarians, and hospital representatives.)

  Expert Witnesses: Fees and expenses of expert witnesses for attendance or testimony at trials or hearings

  Lay Witnesses: Fees and expenses of lay witnesses for attendance or testimony at trials or hearings

  Services of Process: Constables, sheriffs, and other fees and expenses for service of process, including subpoenas

  Transcripts of Testimony: Stenographers’ fees and fees for transcripts of testimony
Medical Examinations: Fees for medical examinations, fees for performing autopsies, fees for impartial examination, x-rays, etc., for the purpose of trial and determining questions of liability (This does not include fees for medical examinations, x-rays, etc., made to determine necessary treatment, or made solely to determine the extent or continuation of disability, or first aid charges, as such fees and charges are includible in Losses.)

Miscellaneous: Costs of appraisals, expert examinations, surveys, plans, estimates, photographs, maps, weather reports, detective reports, audits, credit or character reports, watchmen (Charges for hospital records and records of other kinds, notary fees, certified copies of certificates and legal documents, charges for Claim Adjustment Services by underwriting syndicates, pools, and associations)

Exclude: Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Items includible in Allowances to Managers and Agents

Payments to State Industrial Commissions (see Taxes, Licenses, and Fees)

Payments to claim adjusting organizations except where the expense is billed specifically to individual companies (see Boards, Bureaus, and Associations)

Cost of services of medical examiners for underwriting purposes (see Surveys and Underwriting Reports)

Salvage and subrogation recovery expense, rewards, lost and found advertising, expenses for disposal of salvage (Such expenses shall be deducted from salvage.)

Any expenses which by these instructions are includible elsewhere

Separation of Claim Adjustment Services:

The Statistical Plans filed by certain rating bureaus contain definitions of “Allocated Loss Adjustment Expenses” which exclude for rating purposes certain types of claim adjustment services as defined herein. For the lines of business thus affected, companies that are members of such rating bureaus shall maintain records necessary to the reporting of Claim Adjustment Services—Direct, as follows:

a. As defined in Statistical Plans

b. Other than as defined in Statistical Plans

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: June 2017 updates to the AICPA Revenue Recognition Guide noted in Issue #9-1: Considerations for applying the scope exception in FASB ASC 606-10-15-2 and 606-10-15-4 to Contracts within the Scope of ASC 944 contains some discussion on roadside assistance that is tangential but does not address the prepayments under discussion. The updates were issued in response to questions regarding Accounting Standards Update (ASU) 2016-20: Technical Corrections and Improvements to Topic 606, Revenue from Contracts from Customers.

At issue was whether to bifurcate insurance contracts within the scope of Topic 944, Financial Services—Insurance that contain noninsurance elements and account for them within the scope of Topic 606, Revenue from Contracts from Customers. Roadside assistance provided with an automobile insurance policy was listed as an
example of activities performed by an insurance entity, included in contracts within the scope of FASB Topic 944, that Financial Reporting Executive Committee (FinREC) believes generally should be considered fulfillment activities (that either mitigate risks to the insurer or contain costs related to services to fulfill the insurer’s obligation) that are not within the scope of FASB Topic 606, but should be considered part of the insurance contract within the scope of FASB Topic 944. Roadside assistance was noted as mitigating the risk of a further accident or damage to the insured automobile.

**Convergence with International Financial Reporting Standards (IFRS):** During the development of *IFRS 17, Insurance Contracts*, the International Accounting Standards Board (IASB) had discussions regarding classification for the revenue which are not on point to roadside assistance prepayments. Similar to the AICPA issue noted above, the issue was whether roadside assistance sold as part of an insurance policy should be included within the scope of insurance contracts or whether it should be accounted for separately as fee for service. The IFRS 17 issued in May 2017 notes that some fixed-fee service contracts meet the definition of an insurance contract (for example, automobile roadside assistance) and IFRS 17 provides an option to use *IFRS 15, Revenue from Contracts with Customers* to account for as fee for service.

**Staff Review Completed by:**
Robin Marcotte, NAIC Staff - September 2018

**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. 55 to provide guidance as follows:

1. The initial prepayment for providers of claims adjusting expense and claim payment is recognized as a miscellaneous underwriting expense.

2. Subsequently, for direct policies that purchased the related insurance coverage which used the claims or adjusting services incur losses which are paid, a proportionate percentage of the initial provider prepayment amounts are reclassified from miscellaneous underwriting expense to claims adjustment expense and or claims expense, as applicable

3. To the extent that additional amounts are prepaid for direct policies that did not purchase services, the prepaid expenses shall remain in miscellaneous underwriting expenses.

Note that NAIC staff envisions that additional annual statement instruction clarifications may be indicated after the Working Group finalizes guidance.

Proposed revisions to SSAP No. 55 recommended for November 2018 exposure:

4. Claims, losses, and loss/claim adjustment expenses shall be recognized as expenses when a covered or insured event occurs. In most instances, the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims-made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event, and in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income.
a. Prepayments to third party administrators, management companies or other entities for unpaid losses/claims, except for capitated payments for manage care contracts, shall not reduce losses/claims and shall be initially reported as miscellaneous underwriting expenses. When incurred losses/claims are paid, claims prepayments to third party administrators, management companies or other entities (except for capitated payments for manage care contracts) are reclassified proportionately based on the losses/claims cost from miscellaneous underwriting expenses to loss/claim expenses paid. Flat fee minimum prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as miscellaneous underwriting expenses and not reclassified to loss/claim adjusting expenses.

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

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

a. Prepayments to third party administrators, management companies or other entities, except for capitated payments for manage care contracts, for unpaid losses/claims adjusting expenses shall be initially reported as miscellaneous underwriting expenses.

b. When incurred losses/claims adjusting expenses are paid, prepayments to third party administrators, management companies or other entities (except for capitated payments for manage care contracts) are reclassified proportionately based on the adjusting expenses from miscellaneous underwriting expenses to paid loss/claim adjusting expenses. Flat fee minimum prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as miscellaneous underwriting expenses and not reclassified to loss/claim adjusting expenses.

Status:
On November 15, 2018, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, as shown above, to provide guidance clarifying that prepayments to providers of claims and adjusting services shall be recognized as miscellaneous underwriting expenses, with guidance for reclassification as claims adjustment expense or claims expense, as applicable, as claims are paid. During the November 2018 Working Group discussion, it was highlighted that the proposed treatment is different than recognizing a nonadmitted prepaid asset, as the amounts are not expected to be material. Comments were requested on this difference and if the amounts are expected to be material.

Spring 2019 National Meeting discussion:

NAIC staff recommends re-exposure of modified proposed language which was developed with interested parties input as illustrated below and in the agenda item. The interested parties responded to the request for comments and noted a preference to “nonadmit a prepaid asset” for prepaid loss and LAE, which is consistent
with existing guidance, instead of the to the previously exposed “expense and reclassify as amounts are paid” approach. NAIC staff has proposed a modification to the interested parties’ proposed language to exclude the reference to **SSAP No. 84—Health Care and Government Insured Plan Receivables** which is not currently referenced in SSAP No. 55. In addition, NAIC staff has recommended guidance regarding flat fee bundled payments which indicates nonadmission of prepaid amounts and allocation to expense categories as benefits or services are rendered.

On April 6, 2019, the Statutory Accounting Principles (E) Working Group exposed modified language, developed with interested parties’ input as described above, which requires nonadmittance for prepaid loss and LAE. This guidance is consistent with existing statutory accounting principles and was revised from the previously exposed “expense and reclassify as amounts are paid” approach. In addition, guidance was exposed regarding flat fee bundled payments which indicates nonadmission of prepaid amounts and allocation to expense categories as benefits or services are rendered. The exposed language is illustrated below.

**2019 Spring National Meeting exposure:**

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

4. Claims, losses, and loss/claim adjustment expenses shall be recognized as expenses when a covered or insured event occurs. In most instances, the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims-made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event, and in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income.

a. All prepayments (i.e., variable, fixed or bundled amounts) to third party administrators, management companies or other entities for unpaid claims, losses and losses/claims adjustment expenses, except for capitated payments for managed care contracts, shall not reduce losses/claims and shall be initially reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29—Prepaid Expenses. When the benefit has been provided to the policyholder or claimant, the claims prepayments to third party administrators, management companies or other entities (except for capitated payments for managed care contracts), are reclassified proportionately from the prepaid nonadmitted asset to claims, losses or loss/claim expenses paid based on the amount of losses/claims cost incurred to provide the benefit.

b. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as miscellaneous underwriting expenses.

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

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

a. When the prepaid benefit as described in paragraph 4 has been provided to the policyholder or the claimant, the associated prepayments to third party administrators, management companies or other entities (except for capitated payments for managed care contracts) are reclassified proportionately from the prepaid nonadmitted asset to paid loss/claim adjusting expenses based on the amount of losses/claims cost incurred to provide the benefit. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as miscellaneous underwriting expenses.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 55, as illustrated below, that emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Prepayments to third party administrators, which are not for claims or loss adjusting expense, are “miscellaneous underwriting expenses.” The revisions also add a reference to SSAP No. 84—Health Care and Government Insured Plan Receivables regarding prepayments to providers.

2019 Summer National Meeting exposure:

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

4. Claims, losses, and loss/claim adjustment expenses shall be recognized as expenses when a covered or insured event occurs. In most instances, the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims-made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event, and in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income.

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

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

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

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

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

For Fall 2019 National Meeting Discussion:

NAIC Staff recommends that the Working Group expose revisions incorporating the majority of interested parties’ comments as reflected below as tracked changes to SSAP No. 55 (rather than as reflected as changes to the Summer 2019 exposure). Interested parties’ comments primarily delete the exposed guidance and move the same or similar concepts into the broad product guidance for property and casualty, life and health or health in SSAP No. 55. These revisions are to reinstate annual statement references by entity type and to adjust scoping language and make the SSAP No. 29 prepaid guidance consistent. Note that shading reflects staff proposed variations in wording from the interested parties proposed wording that accomplishes a similar intent.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, as illustrated below, that 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 that related liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Note that shading reflects staff proposed variations in wording from the interested parties’ proposed wording that accomplishes a similar intent.

2019 Fall Exposure:

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

SUMMARY CONCLUSION

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

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

**Property/Casualty**

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

   a. Reported Losses: Expected payments for losses relating to insured events that have occurred and have been reported to, but not paid by, the reporting entity as of the statement date;

   b. Incurred But Not Reported Losses (IBNR): Expected payments for losses relating to insured events that have occurred but have not been reported to the reporting entity as of the statement date. As a practical matter, IBNR may include losses that have been reported to the reporting entity but have not yet been entered to the claims system or bulk provisions. Bulk provisions are reserves included with other IBNR reserves to reflect deficiencies in known case reserves;

   c. Loss Adjustment Expenses: Expected payments for costs to be incurred in connection with the adjustment and recording of losses defined in paragraphs 6.a. and 6.b. Examples of expenses incurred in these activities are estimating the amounts of losses, disbursing loss payments, maintaining records, general clerical, secretarial, office maintenance, occupancy costs, utilities, computer maintenance, supervisory and executive duties, supplies, and postage. Loss adjustment expenses can be classified into two broad categories: Defense and Cost Containment (DCC) and Adjusting and Other (AO):

   i. DCC include defense\(^4\), litigation, and medical cost containment expenses, whether internal or external. DCC include, but are not limited to, the following items:

      (a) Surveillance expenses;

      (b) Fixed amounts for medical cost containment expenses;

      (c) Litigation management expenses;
(d) Loss adjustment expenses for participation in voluntary and involuntary market pools if reported by accident year;

(c) Fees or salaries for appraisers, private investigators, hearing representatives, reinspectors and fraud investigators, if working in defense of a claim, and fees or salaries for rehabilitation nurses, if such cost is not included in losses;

(f) Attorney fees incurred owing to a duty to defend, even when other coverage does not exist; and

(g) The cost of engaging experts;

ii. AO are those expenses other than DCC as defined in (i) above assigned to the expense group "Loss Adjustment Expense." AO include, but are not limited to, the following items:

(a) Fees and expenses of adjusters and settling agents;

(b) Loss adjustment expenses for participation in voluntary and involuntary market pools if reported by calendar year;

(c) Attorney fees incurred in the determination of coverage, including litigation between the reporting entity and the policyholder;

1 Legal defense costs incurred under the definition of covered damages or losses as the only insured peril would be accounted for as losses, while legal defense costs incurred under a duty to defend would be accounted for as Defense and Cost Containment (DCC). For policies where legal costs are the only insured peril, the insurer would record the legal costs that reimburse the policyholder as loss and, to the extent the insurer participated in the defense, would record its legal costs as DCC. This is not intended to change the classifications of legal expenses for existing long tailed lines of liability coverage, such as medical malpractice and workers' compensation insurance.

(d) Fees and salaries for appraisers, private investigators, hearing representatives, reinspectors and fraud investigators, if working in the capacity of an adjuster; and

(c) Adjustment expenses arising from claims related lawsuits such as extra contractual obligations and bad faith lawsuits.

d. The contractual terms for arrangements (i.e., variable, fixed or bundled amounts) to third party administrators, management companies, or other entities for unpaid claims, losses and losses/claims adjustment expenses, shall be evaluated to determine if the arrangement meets the criteria to be reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29—Prepaid Expenses. These payments shall not be offset against any amounts required to be reported in accordance with paragraphs 4 or 5 within this guidance. Only when loss/claim and related adjusting expense payments which are made by the third-party administrators, management companies or other entities, to the policyholder or claimant, shall the insurer's liability (loss/claim or loss/claim adjustment expense reserves) be reduced.
c. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as aggregate write-in for miscellaneous underwriting benefits in the Underwriting and Investment exhibit Part 3.

Life, Accident and Health

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

a. Accident and Health Claim Reserves: Reserves for claims that involve a continuing loss. This reserve is a measure of the future benefits or amounts not yet due as of the statement date which are expected to arise under claims which have been incurred as of the statement date. This shall include the amount of claim payments that are not yet due such as those amounts commonly referred to as disabled life reserves for accident and health claims. The methodology used to establish claim reserves is discussed in SSAP No. 54R.

b. Claim Liabilities for Life/Accident and Health Contracts:
   i. Due and Unpaid Claims: Claims for which payments are due as of the statement date;
   ii. Resisted Claims in Course of Settlement: Liability for claims that are in dispute and are unresolved on the statement date. The liability either may be the full amount of the submitted claim or a percentage of the claim based on the reporting entity’s past experience with similar resisted claims;
   iii. Other Claims in the Course of Settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date;
   iv. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as death, accident, or illness) but has not been reported to the reporting entity as of the statement date.

c. Claim Adjustment Expenses for Accident and Health Reporting Entities are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in paragraphs 7.a. and 7.b. Certain claim adjustment expenses reduce the number or cost of health services thereby resulting in lower premiums or lower premium increases. These claim adjustment expenses shall be classified as cost containment expenses.

d. Claim Adjustment Expenses for Life Reporting Entities: Costs expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims defined in paragraph 7.b. This would include adjustment expenses arising from claims-related lawsuits such as extra contractual obligations and bad-faith lawsuits.

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

**Managed Care**

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

   a. Claims unpaid for Managed Care Reporting Entities:
      i. Unpaid amounts for costs incurred in providing care to a subscriber, member or policyholder including inpatient claims, physician claims, referral claims, other medical claims, resisted claims in the course of settlement and other claims in the course of settlement;
      ii. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as an accident, illness or other service) but has not been reported to the reporting entity as of the statement date;
      iii. Additional unpaid medical costs resulting from failed contractors under capitation contracts and provision for losses incurred by contractors deemed to be related parties for which it is probable that the reporting entity will be required to provide funding;

   b. Claim Adjustment Expenses for Managed Care Reporting Entities are those costs expected to be incurred in connection with the adjustment and recording of managed care claims defined in paragraph 8.a. Certain claim adjustment expenses reduce the number or cost of health services thereby resulting in lower premiums or lower premium increases. These claim adjustment expenses shall be classified as cost containment expenses.

   c. Liabilities for percentage withholds (“withholds”) from payments made to contracted providers;

   d. Liabilities for accrued medical incentives under contractual arrangements with providers and other risk-sharing arrangements whereby the health entity agrees to share savings with contracted providers.

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

**Managed Care and Accident and Health**

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

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

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

b. For non-capitated advance payments, the liability for unpaid losses/claims and related adjustment expenses shall be established regardless of any payments made to third-party administrators, management companies or other entities, and such payments shall be reported by the insurer as prepayments. All prepayments (i.e., variable, fixed or bundled amounts) to third party administrators, management companies, or other entities for unpaid claims, losses and losses/claims adjustment expenses, shall be initially reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29—Prepaid Expenses. These payments shall not be offset against any amounts required to be reported in accordance with paragraphs 4 or 5 within this guidance. Only when loss/claim and related adjusting expense payments which are made by the third-party administrators, management companies or other entities, to the policyholder or claimant, shall the insurer’s liability (loss/claim or loss/claim adjustment expense reserves) be reduced.

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

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

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses, as illustrated above under “2019 Fall Exposures,” that 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 also emphasize existing guidance that claims and related liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Look-Through with Multiple Holding Companies

Check (applicable entity):

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Description of Issue:
This agenda item was drafted in response to Working Group direction from the 2019 Summer National Meeting. A clarification question arose while discussing agenda item 2019-13, Clarification of a Look-Through Approach. The Working Group verbalized the conclusion that a look-through is permitted through more than one downstream company so long as each look-through entity complies with SSAP No. 97—Investment in Subsidiary, Controlled and Affiliated Entities. In response to interested party request for formal clarification, the Working Group directed a separate agenda item to provide this guidance in SSAP No. 97. This agenda item formally documents this guidance within statutory accounting.

Existing Authoritative Literature:

SSAP No. 97:

27. The process of admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity will be known as a “look through.” In order to admit the investments in audited SCAs or the audited non SCA SSAP No. 48 entities owned by an unaudited downstream noninsurance holding company, a reporting entity may apply the look through approach, provided all of the following conditions are met:

   a. Downstream holding company is an 8.b.iii entity.

   b. The downstream holding company does not own any other assets which are material to the downstream holding company other than the audited SCA entities and/or audited non SCA SSAP No. 48 entities, and

   c. The downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to the downstream noninsurance holding company.

If an investment in a downstream noninsurance holding company meets the requirements set forth above, the reporting entity can admit the individual audited SCA entities and/or audited non SCA SSAP No. 48 entities; however, unaudited immaterial assets of the downstream noninsurance holding company are to be carried at the lesser of the paragraph 8 valuation or nonadmitted (e.g. some equity method investments are required to be carried at a negative value due to either statutory adjustments or to parental obligations to keep funding the subsidiary).

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item 2019-13, Clarification of a Look-Through Approach was disposed at the Summer 2019 National Meeting. As part of the disposal action, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft a new
agenda item clarifying that a more-than-one holding company structure is permitted if each of the holding companies complies with SSAP No. 97.

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 Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.

Proposed Revisions:

27. The process of admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity will be known as a “look through.” In order to admit the investments in audited SCAs or the audited non SCA SSAP No. 48 entities owned by an unaudited downstream noninsurance holding company, a reporting entity may apply the look through approach, provided all of the following conditions are met:

   a. The downstream noninsurance holding company is an 8.b.iii entity, and

   b. The downstream noninsurance holding company does not own any other assets which are material to the downstream holding company other than the audited SCA entities and/or audited non SCA SSAP No. 48 entities, and

   c. The downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to the downstream noninsurance holding company.

If an investment in a downstream noninsurance holding company meets the requirements set forth above, the reporting entity can admit the individual audited SCA entities and/or audited non SCA SSAP No. 48 entities; however, unaudited immaterial assets of the downstream noninsurance holding company are to be carried at the lesser of the paragraph 8 valuation or nonadmitted (e.g. some equity method investments are required to be carried at a negative value due to either statutory adjustments or to parental obligations to keep funding the subsidiary). If a holding company structure has more than one downstream non-insurance holding company, each downstream non-insurance holding company may be looked through provided each downstream non-insurance holding company meets all of the conditions in paragraph 27.

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

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated above, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.
On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, as illustrated above, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the look-through requirements in SSAP No. 97.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Update Withdrawal Disclosures

Check (applicable entity):

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Description of Issue:
In November 2018, the Working Group updated the life, health and separate account liquidity disclosures to provide more granularity of the withdrawal characteristics by product type. These updates were developed by the Financial Stability (Ex) Task Force and were adopted in agenda item 2018-28: Updates to Liquidity Disclosures. Agenda item 2018-28 updated the liquidity disclosures in SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance with an effective date of year-end 2019.

This agenda item proposes minor clarifying edits to the disclosures identified subsequent to the adoption of the related 2019 annual statement blanks proposal. These items include:

- Addition of separate account guaranteed products in one of the illustrations to remedy its omission. As quoted in the authoritative literature section below, SSAP No. 51R, SSAP No. 52 and SSAP No. 61R currently reference both guaranteed and nonguaranteed separate account products. This adds a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures.

- Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting.

- Add a cross-reference from SSAP No. 56—Separate Accounts to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

Existing Authoritative Literature:
The below includes excerpts of text that was updated in agenda item 2018-28.

**SSAP No. 51R—Life Contracts (Bolding added for emphasis):**

45. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, **separate account with guarantees**, **separate account nonguaranteed** as well as the total and percentage of the total, include a separate section for individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

**NOTE: Subparagraphs a-f omitted for brevity.**

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46. Disclose the amounts of account value, cash value and reserve for the breakouts of life insurance by withdrawal characteristics, separately for General Account products and Separate Account Nonguaranteed products, as follows:

a. Subject to discretionary withdrawal, surrender values, or policy loans:
   i. Term Policies with Cash Value
   ii. Universal Life
   iii. Universal Life with Secondary Guarantees
   iv. Indexed Universal Life
   v. Indexed Universal Life with Secondary Guarantees
   vi. Indexed Life
   vii. Other Permanent Cash Value Life Insurance
   viii. Variable Life
   ix. Variable Universal Life
   x. Miscellaneous Reserves

b. Not subject to discretionary withdrawal or no cash value:
   i. Term Policies without Cash Value
   ii. Accidental Death Benefits
   iii. Disability – Active Lives
   iv. Disability – Disabled Lives
   v. Miscellaneous Reserves

c. Total gross (Direct + Assumed)

d. Reinsurance ceded

e. Total net (Net: Total gross (paragraph 46.c.) less Reinsurance ceded (paragraph 46.d.))

The difference between the account value and the cash value is the surrender charge, if any. After the surrender period is over, there is no difference. Some contract types have no account value such as traditional whole life, term, etc. So, if there is no account value, leave it blank. UL typically has an account value and a cash surrender value. Just as account values are not reduced for policy loans taken and outstanding, the cash value amount reported in this disclosure should not be reduced for policy loans taken and outstanding. This will ensure the difference between account value and cash value is the actual surrender charge.

47. Reconcile total life insurance reserves amount disclosed to the appropriate sections of the Aggregate Reserves for Life Policies and Contracts Exhibit (Exhibit 5) of the Life, Accident and Health Annual Statement and the corresponding lines in the Separate Accounts Statement. The reconciliation is
a single presentation including all amounts from the sections on Individual Life Insurance and Group Life Insurance.

**SSAP No. 52—Deposit-Type Contracts (Bolding added for emphasis):**

19. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

**NOTE: Subparagraphs omitted for brevity.**

**SSAP No. 61R (Bolding added for emphasis):**

69. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

**NOTE: Subparagraphs omitted for brevity.**

**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):** This agenda item proposes consistency edits related to the disclosures developed by the Financial Stability (Ex) Task Force, which were adopted in November 2018 in agenda item 2018-28: Updates to Liquidity Disclosures.

**Information or issues (included in Description of Issue) not previously contemplated by the Working Group:** The Blanks (E) Working Group addressed this issue for 2019 reporting in an editorial change in June 2019 and is proposing separate tables for the guaranteed and nonguaranteed separate account products for 2020 reporting in agenda item 2019-21BWG.

**Convergence with International Financial Reporting Standards (IFRS):** Not applicable

**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. 51R, SSAP No. 56 and SSAP No. 61R as described and illustrated below:

1. Add a consistency revision to SSAP No. 51R, to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures.

2. Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting.
3. Add a cross reference from *SSAP No. 56—Separate Accounts* to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

**Proposed Revisions:**

**SSAP No. 51R—Life Contracts**

45. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

   (a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the insurer;

   (b) In installments over five years or more, with or without a reduction in the interest rate during the installment period;

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in paragraph 45.a.v.(d);

iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

iv. Total with adjustment or at fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

   (a) In a lump sum without adjustment;

   (b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

   (c) In a lump sum subject to a fixed surrender charge of less than 5%;

   (d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified “bail out” rate and the “bail out” rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;
b. Not subject to discretionary withdrawal;

c. Total gross;

d. Reinsurance ceded;

e. Total net.

f. Amount with current surrender charge of 5% or more included in the current year in paragraph 45.a.ii. that will have less than a 5% surrender charge (and thus be reported with the amounts at book value with minimal or no charge or adjustment noted in paragraph 45.a.v.) for the first time within the year subsequent to the balance sheet year. (Note that percentage of total is not required for this item.)

46. Disclose the amounts of account value, cash value and reserve for the breakouts of life insurance by withdrawal characteristics, separately for General Account products, Separate Account Guaranteed products and Separate Account Nonguaranteed products, as follows:

a. Subject to discretionary withdrawal, surrender values, or policy loans:
   i. Term Policies with Cash Value
   ii. Universal Life
   iii. Universal Life with Secondary Guarantees
   iv. Indexed Universal Life
   v. Indexed Universal Life with Secondary Guarantees
   vi. Indexed Life
   vii. Other Permanent Cash Value Life Insurance
   viii. Variable Life
   ix. Variable Universal Life
   x. Miscellaneous Reserves

b. Not subject to discretionary withdrawal or no cash value:
   i. Term Policies without Cash Value
   ii. Accidental Death Benefits
   iii. Disability – Active Lives
   iv. Disability – Disabled Lives
   v. Miscellaneous Reserves

c. Total gross (Direct + Assumed)

d. Reinsurance ceded
The difference between the account value and the cash value is the surrender charge, if any. After the surrender period is over, there is no difference. Some contract types have no account value such as traditional whole life, term, etc. So, if there is no account value, leave it blank. UL typically has an account value and a cash surrender value. Just as account values are not reduced for policy loans taken and outstanding, the cash value amount reported in this disclosure should not be reduced for policy loans taken and outstanding. This will ensure the difference between account value and cash value is the actual surrender charge.

SSAP No. 56—Separate Accounts (Note -this revision adds a reference to the other withdrawal characteristics disclosures which included separate account products.)

Disclosures

30. Paragraphs 31-34 detail the separate account disclosure requirements that shall be included within the Life, Accident and Health Annual Statement Blank. Paragraphs 35-38 detail the separate account disclosure requirements that shall be included within the Separate Account Annual Statement Blank.

NOTE: paragraphs 31-34 omitted for brevity.

35. The disclosures in SSAP No. 51R—Life Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

69. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the entity;

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in paragraph 69.a.v.(d) below;

iii. At fair value, where the withdrawal of funds is payable at current market value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current fair value or per unit value of the assets supporting the
liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

iv. Total with adjustment or at fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified “bail out” rate and the “bail out” rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues.

b. Not subject to discretionary withdrawal;

c. Total gross (Direct + Assumed);

d. Reinsurance ceded;

e. Total net (Net: Total gross (paragraph 69.c.) less Reinsurance ceded (paragraph 69.d.)); and

f. Amount with current surrender charge of 5% or more included in the current year in paragraph 69.a.ii. that will have less than a 5% surrender charge (and thus be reported with the amounts at book value with minimal or no charge or adjustment noted in paragraph 69.a.v.) for the first time within the year subsequent to the balance sheet year. (Note that percentage of total is not required for this item.)

Staff Review Completed by: Robin Marcotte – August 2019 - NAIC Staff

Status: On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, as illustrated in the staff recommendation, to:

- Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures;

- Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting; and

- Add a cross-reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosure include separate account products.
On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, as detailed above under “proposed revisions.”
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
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Issue: ASU 2017-11, Financial Instruments with Down Round Features

Check (applicable entity):

- Modification of existing SSAP  [X]  Life  [X]  Health  [X]
- New Issue or SSAP  []  []  []
- Interpretation  []  []  []

Description of Issue: 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 to address issues identified with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. The purpose of this agenda item is to review ASU 2017-11 and to consider statutory accounting guidance on distinguishing liabilities from equity.

This ASU addresses the complexity of accounting for certain freestanding financial instruments (or embedded features such as a conversion option) with down round features. A down round feature is a provision in certain financial instruments (most often warrants or convertible instruments) that allows for the reduction in the strike price of the financial instrument if the issuer sells additional shares of common stock for an amount less than the financial instrument’s stated strike price, or if the issuer issues another equity-linked instrument with a strike price below the current strike price of the original financial instrument. Down (financing) rounds typically occur when additional capital is required, but the company’s valuation is now lower than it was in an earlier stock offering. Financial instruments with down round features help protect the holder from declines in the issuer’s share price because if a company issues additional equity shares at a lower price than had been previously sold, the holder is allowed to exercise its purchase option at a lower strike price than was originally stated on the financial instrument.

Existing U.S. GAAP for financial instruments with down round features requires fair value measurement of the entire instrument or conversion option. Stakeholders asserted that accounting for freestanding and embedded instruments with down round features as liabilities, subject to fair value measurement, created a reporting burden and associated income statement volatility due to changes in an entity’s share price. Stakeholders also suggested that this accounting may not reflect the economics of the down round feature, which exist to protect certain investors from declines in the issuer’s share price. With the current accounting guidance, changes in fair value of an instrument with a down round feature are recognized in earnings for both increases and decreases in share price. However, down round features are only likely to be exercised in the event the share price decreases and the issuer engages in a subsequent equity offering.

Prior to this ASU’s issuance under U.S. GAAP, a free-standing financial instrument or embedded feature was not considered indexed to the issuer’s stock if it has a down round feature. Thus, the instrument was classified as a liability and if it meets the definition of a derivative, it must be measured at fair value with changes recorded through current period earnings. ASU 2017-11 changes the guidance in that a down round feature shall no longer be considered when determining whether the instrument is indexed to a company’s stock. As a result of the ASU, if the instrument is now deemed to be indexed and settled in company stock, a free-standing or embedded equity-linked financial instrument will be classified as equity and the embedded feature that was originally bifurcated and accounted for as a derivative may qualify for scope exception to also be treated as equity.
Revisions in ASU 2017-11 also include earning per share (EPS) guidance detailing that the effect of exercising a down round feature shall be treated as a dividend to reduce the income available to common shareholders for computing and reporting basic EPS. Recognition of the value of the down round feature is calculated when triggered and is measured as the difference between the fair value of the instrument (without regarding the down round feature) of the pre-trigger exercise price and the fair value of the instrument (again, without regarding the down round feature) using the reduced and executed exercise price.

Existing Authoritative Literature:

1. Earnings per share – Rejected as Not Applicable for Statutory Accounting:

   The concept of earnings per share (Topic 260) has previously been reviewed with the following U.S. GAAP standards rejected as not applicable in Appendix D—Nonapplicable GAAP Pronouncements:

   - FASB Statement No. 128, Earnings per Share (FAS 128)
   - EITF 07-04, Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships

2. Distinguishing Liabilities from Equity / Derivatives and Hedging:

   With ASU 2017-11, entities will no longer consider a down round feature when determining whether a freestanding financial instrument is indexed to an entity’s stock. Consequently, upon adoption, these instruments which are currently being reported as a liability may be reclassified as equity. Additionally, fewer embedded features will likely have to be bifurcated and accounted for as a derivative and may qualify for scope exemption to be treated as equity.

   NAIC staff believes the spirit of freestanding down round features represents a quantifiable liability of the issuing company and should remain accounted for as a liability and not as equity. Down round features embedded in derivatives would not be separated from the host contract pursuant to SSAP No. 86—Derivatives.

   As detailed below, the down round feature satisfies the definition of a liability and recognition as a liability would be consistent with existing guidance for share-based payments.

   SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets, defines a liability with excerpts below:

   2. A liability is defined as certain or probable 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 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.
SSAP No. 104R—Share-Based Payments, Exhibit A – Classification Criteria: Liability or Equity, details circumstances under which certain financial instruments are to be identified as liabilities. While this guidance is limited to share-based payments, the overall accounting concepts are applicable in these situations. Specifically, Exhibit A, paragraph 7, supports recognition as a liability as the company is obligated to sell additional common stock for an amount less than the originally stated strike price as both circumstances require a unilateral outflow of assets or equity. The liability associated with a down round feature, although settled with the issuance of additional shares (without the receipt of assets), will adversely affect the economic interests of current equity shareholders by diluting ownership. Additionally, paragraph 10 broadly indicates instruments that obligate the issuer to transfer assets are to be reported as liabilities.

Excerpts from SSAP No. 104R, Exhibit A:

Mandatorily Redeemable Financial Instruments

3. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity.

4. A financial instrument that embodies a conditional obligation to redeem the instrument by transferring assets upon an event not certain to occur becomes mandatorily redeemable if that event occurs, the condition is resolved, or the event becomes certain to occur.

5. In determining if an instrument is mandatorily redeemable, all terms within a redeemable instrument shall be considered. The following items do not affect the classification of a mandatorily redeemable financial instrument as a liability:
   a. A term extension option
   b. A provision that defers redemption until a specified liquidity level is reached
   c. A similar provision that may delay or accelerate the timing of a mandatory redemption.

6. If a financial instrument will be redeemed only upon the occurrence of a conditional event, redemption of that instrument is conditional and, therefore, the instrument does not meet the definition of mandatorily redeemable financial instrument in this statement. However, that financial instrument would be assessed at each reporting period to determine whether circumstances have changed such that the instrument now meets the definition of a mandatorily redeemable instrument (that is, the event is no longer conditional). If the event has occurred, the condition is resolved, or the event has become certain to occur, the financial instrument is reclassified as a liability.

Obligations to Repurchase Issuer’s Equity Shares by Transferring Assets

7. An entity shall classify as a liability (or an asset in some circumstances) any financial instrument, other than an outstanding share, that, at inception, has both of the following characteristics:
   a. It embodies an obligation to repurchase the issuer’s equity shares, or is indexed to such an obligation, and
   b. It requires or may require the issuer to settle the obligation by transferring assets.

8. In this statement, “indexed to” is used interchangeably with “based on variations in the fair value of.” The phrase “requires or may require” encompasses instruments that either conditionally or unconditionally obligate the issuer to transfer assets. If the obligation is conditional, the number of conditions leading up to the transfer of assets is irrelevant.
9. Examples of financial instruments that meet the criteria in paragraph 7 of this Exhibit include forward purchase contracts or written put options on the issuer's equity shares that are to be physically settled or net cash settled.

10. All obligations that permit the holder to require the issuer to transfer assets result in liabilities, regardless of whether the settlement alternatives have the potential to differ.

As noted in SSAP No. 86, paragraph 16, down round features embedded in derivative contracts (such as a warrant) would not be separated from the host contract. Such features would impact the fair value accounting for derivatives (assuming fair value accounting is followed) in recognizing the derivative asset or derivative liability. Recognizing freestanding down round features as a liability (and not as equity) would be consistent with the impact of such features embedded in a derivative contract.

**SSAP No. 86—Derivatives**

16. Contracts that do not in their entirety meet the definition of a derivative instrument, such as bonds, insurance policies, and leases, may contain "embedded" derivative instruments—implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of embedding a derivative instrument in another type of contract ("the host contract") is that some or all of the cash flows or other exchanges that otherwise would be required by the contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more underlyings. An embedded derivative instrument shall not be separated from the host contract and accounted for separately as a derivative instrument.

**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):** IAS 32 – Financial Instruments outlines the accounting requirements for the presentation of certain financial instruments, particularly as to the classifications into assets, liabilities, or equity. The fundamental principle of IAS 32 is that a financial instrument should be classified as either a financial liability or as an equity instrument according to the substance of the contract, not its legal form. IAS 32.20 states a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity’s own equity instruments to be received or delivered equals the fixed monetary amount of the contractual right or obligation is a financial liability.

**Staff Recommendation:** NAIC staff recommends the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 86 to reject ASU 2017-11 (Topics 480 & 815) and expose revisions to SSAP No. 5R and SSAP No. 72 to incorporate guidance on when certain freestanding instruments shall be recognized as liabilities and not equity.

1) **Proposed Revisions to SSAP No. 86—Derivatives:**

63. This statement adopts with modification revisions to ASC 815 as reflected within ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This guidance is modified to require prospective application, as such it is only applicable to future counterparty changes in derivative instruments, and this guidance cannot be used to adjust derivative transactions previously terminated. This statement adopts revisions to ASC 815-20-25-15 as reflected within ASU 2010-08, Technical Corrections to Various Topics. This statement adopts revisions to ASC 815-10-50-4K as reflected within ASU 2010-11, Derivatives and Hedging (Topic 815), Scope Exception Related to Embedded Credit Derivatives.
This statement, but rejects all other GAAP revisions from ASU 2010-11 and ASU 2014-16, Derivatives and Hedging, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity and ASU 2016-06, Derivatives and Hedging, Contingent Put and Call Options in Debt Instruments. These GAAP revisions are rejected as embedded derivatives are not separated from the host contract and recognized as derivatives under SSAP No. 86. Revisions are also incorporated to SSAP No. 86 to require disclosures on embedded credit derivatives that expose the holder of a financial instrument to the possibility of being required to make future payments. This disclosure is a modification to the GAAP disclosures specific to statutory accounting as embedded credit derivatives are not separately recognized under statutory accounting.

b. This statement rejects 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.

64. It should be noted that the conclusions reached in this statement are not intended to usurp the rules and regulations put forth by states in their respective investment laws. The contents of this statement are intended to provide accounting guidance on the use of derivatives as allowed by an insurer’s state of domicile. It is not intended to imply that insurers may use derivatives or cash instruments that the insurer’s state of domicile does not allow under the state’s insurance regulatory requirements, e.g., in replication transactions.

2) Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets:

Although NAIC previously believed that instruments with both characteristics of debt and equity were not commonly issued by insurance entities, NAIC Staff has recently received a state query focused on this issue. NAIC staff recommends introducing key concepts from ASC Topic 480, Distinguishing Liabilities from Equity, Subsection 25, (which are materially identified in SSAP No. 104R—Share-Based Payments) into SSAP No. 5R.

SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets.

Financial Instruments with Characteristics of both Liabilities and Equity

26. Issued, free-standing financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation of the issuer. (Pursuant to SSAP No. 86, embedded features in derivative contracts shall not be separated from the host contract for separate recognition.) Free-standing financial instruments that meet any of the criteria below meet the definition of a liability:

a. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the issuing reporting entity.

b. A financial instrument, other than an outstanding share, that at inception both 1) embodies an obligation to repurchase the issuer’s equity shares or is indexed to such an obligation and 2) requires or may require the issuer to settle the obligation by transferring assets.

c. Obligations that permit the holder to require the issuer to transfer assets.

d. A financial instrument is a liability if the issuer must settle the obligation by issuing a variable number of its equity shares and the obligation’s monetary value is based solely or predominantly on: 1) a fixed monetary amount, 2) variation in something other than the fair
value of the issuer’s equity shares, or 3) variations inversely related to changes in the fair value of the issuer’s equity shares.

e. Instruments in which the counterparty (holder) is not exposed to the risks and benefits that are similar to those of a holder of an outstanding share of the entity’s equity shall be classified as a liability.

27. If a free-standing financial instrument will be redeemed only upon the occurrence of a conditional event, redemption of that instrument is conditional and, therefore, the instrument does not meet the definition of mandatorily redeemable financial instrument. However, that financial instrument shall be assessed each reporting period to determine whether circumstances have changed such that the instrument meets the definition of a mandatorily redeemable instrument (that is, the event is no longer conditional). If the event has occurred, the condition is resolved, or the event has become certain to occur, the financial instrument shall be reclassified as a liability.

28. The classification of a free-standing financial instrument as a liability or equity shall only apply to the instrument issuer. Holders or purchasers of such instruments shall refer to the appropriate investment statement for valuation and reporting.

For brevity, the remaining paragraphs for SSAP No. 5R have been omitted but will be renumbered accordingly.

3) Proposed Revisions to SSAP No. 72—Surplus and Quasi-Reorganizations:

While proposed key concepts from ASC Topic 480 are detailed in SSAP No. 5R, additional reference language for the statutory accounting of capital stock is detailed below.

**SSAP No. 72—Surplus and Quasi-Reorganizations**

**Capital Stock**

3. The articles of incorporation set forth the number of authorized shares of capital stock and the par value of each share. The capital stock account represents the number of shares issued times the par value of each share. When no par value is set forth, the reporting entity shall declare a “stated value” and record such amount in the capital stock account. Changes in the par value of a reporting entity’s capital stock shall be reflected as a reclassification between the capital stock account and gross paid-in and contributed surplus. Issued, free-standing financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent described in SSAP No. 5R.

**Staff Review Completed by: Jim Pinegar – October 2019**

**Status:**
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions, as illustrated above, to SSAP No. 86—Derivatives to reject ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging and incorporate guidance into SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets and SSAP No. 72—Surplus and Quasi-Reorganizations for when certain freestanding instruments shall be recognized as liabilities and not as equity.
On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions, as illustrated above, to SSAP No. 86—Derivatives to reject ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging and incorporate guidance into SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets and SSAP No. 72—Surplus and Quasi-Reorganizations for when certain freestanding instruments shall be recognized as liabilities and not as equity.
Issue: ASU 2013-11, Presentation of an Unrecognized Tax Benefit

Check (applicable entity):

- Modification of existing SSAP: P/C
- New Issue or SSAP: Life
- Interpretation: Health

Description of Issue:

Topic 740, Income Taxes did not include explicit guidance for the financial statement presentation of an “unrecognized tax benefit” when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit generally reflects a tax position that does not meet the ASC 740 more-likely-than-not recognition threshold, but to a certain extent owes their existence to an uncertain tax position. A more-likely-than-not threshold requires a recognized benefit of having a greater than 50 percent likelihood of being realized upon settlement. Prior to ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, there was diversity in the U.S. GAAP presentation of unrecognized tax benefits. Some entities reported unrecognized tax benefits as a liability in certain circumstances, while others presented unrecognized tax benefits as a reduction of a deferred tax asset for net operating loss or tax credit carryforwards.

The objective of ASU 2013-11 is to eliminate the reporting diversity to better reflect the manner in which an entity would settle additional income taxes that would result from the disallowance of a tax position when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists.

ASU 2013-11 states that unrecognized tax benefits should generally be presented in the financial statements as a reduction to a deferred tax asset when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This presentation should be followed except in circumstances in which a net operating loss / tax credit carryforward is not available as of the reporting date to settle any additional income taxes that would result from the disallowance of a tax position, or the entity does not intend to use the deferred tax asset for such purpose. In these cases, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets.

The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exists at the reporting date and should be made presuming disallowance of the tax position at that reporting date.

The FASB definition of an Unrecognized Tax Benefit (per the FASB Codification Glossary) is as follows:

Unrecognized Tax Benefit - The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to Subtopic 740-10.

Existing Authoritative Literature:

By definition, unrecognized tax benefits have a lower than 50 percent likelihood of being realized upon final settlement. As required in SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets and again referenced in SSAP No. 101—Income Taxes, for the purposes of determining a tax contingency, it shall be presumed that the reporting entity will be examined by a relevant taxing authority. Further, as there is a lower than 50 percent
likelihood of these items being sustained, they should be recognized in current income taxes as covered in SSAP No. 101.

**SSAP No. 101, paragraph 3 excerpts:**

3. "Income taxes incurred" shall include current income taxes, the amount of federal and foreign income taxes paid (recovered) or payable (recoverable) for the current year. Current income taxes are defined as:

   a. Current year estimates (including quarterly estimates) of federal and foreign income taxes payable or refundable, based on tax returns for the current and prior years, except as addressed in paragraph 3.b., and tax loss contingencies (including related interest and penalties) for current and all prior years, computed in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets with the following modifications:

      i. The term "probable" as used in SSAP No. 5R shall be replaced by the term "more likely than not (a likelihood of more than 50 percent)" for federal and foreign income tax loss contingencies only.

      ii. For purposes of the determination of a federal and foreign income tax loss contingency, it shall be presumed that the reporting entity will be examined by the relevant taxing authority that has full knowledge of all relevant information.

      iii. If the estimated tax loss contingency is greater than 50% of the tax benefit originally recognized, the tax loss contingency recorded shall be equal to 100% of the original tax benefit recognized.

   b. Amounts incurred or received during the current year relating to prior periods, to the extent not previously provided, as such amounts are deemed to be changes in accounting estimates as defined in SSAP No. 3—Accounting Changes and Corrections of Errors.

   c. In determining when tax loss contingencies associated with temporary differences should be included in current income taxes under paragraph 3.a., and therefore included in deferred taxes under paragraph 7, a reporting entity is not required to "gross-up" its current and deferred taxes until such time as an event has occurred that would cause a re-evaluation of the contingency and its probability of assessment, e.g., the IRS has identified the item as one which may be adjusted upon audit. Such an event could be the reporting entity's (or its affiliate or parent in a consolidated income tax return) receipt of a Form 5701, Proposed Audit Adjustment, or could occur earlier upon receipt of an Information Document Request. At such time, the company must reassess the probability of an adjustment, reasonably re-estimate the amount of tax contingency as determined in accordance with paragraph 3.a., make any necessary adjustment to deferred taxes, and re-determine the admissibility of any adjusted gross deferred tax asset as provided in paragraph 11.

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

IFRS does not include specific guidance on the presentation of unrecognized tax benefits.
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. 101 to reject ASU 2013-11 for statutory accounting.

By definition, unrecognized tax benefits have a lower than 50 percent likelihood of being utilized (resulting in future tax savings), and as such, should be recognized in current income taxes as required by SSAP No. 101, paragraph 3. This ASU allows, as an election of the reporting entity, reporting of unrecognized tax benefits on the balance sheet (as a reduction to deferred tax assets) while statutory accounting requires immediate recognition through current income tax expense. As these unrecognized tax benefits are not deferred tax items and NAIC SAP tries to limit optionality in the financial statements, NAIC staff proposes to reject the ASU and retain existing statutory accounting guidance.

Proposed Revisions to SSAP No. 101:


Staff Review Completed by Jim Pinegar – August 2019

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 101—Income Taxes, illustrated above, to reject ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists for statutory accounting.

Consideration for the 2020 Spring National Meeting:
While not affecting statutory guidance, NAIC staff support the removal of the IFRS convergence statement as proposed by interested parties, in the agenda item. (This is shown as a tracked change in the agenda item and does not impact the proposed statutory accounting resolution.)

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 101—Income Taxes, as illustrated above, to reject ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists for statutory accounting.
Issue: Disclosure Update for Reciprocal Jurisdiction Reinsurers

Check (applicable entity):

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Description of Issue:
On June 25, 2019, NAIC Executive Committee and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance” (collectively referred to as the Covered Agreement). The purpose of this agenda item is to revise one disclosure in SSAP No. 62R—Property and Casualty Reinsurance to reference “reciprocal jurisdictions.”

Existing Authoritative Literature:
The Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786), as they are adopted by the states are the primary legal guidance for credit for reinsurance.

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):
Revisions to Appendix A-785 were exposed at the Summer National Meeting, and a Blanks proposal will be exposed at the Reinsurance (E) Task Force at the Fall National Meeting and by the Blanks (E) Working Group after the Fall National Meeting.

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


Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions SSAP No. 62R to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions. The proposed revisions are illustrated below:

106. Unsecured Reinsurance Recoverables:

a. If the entity has with any individual reinsurers, authorized, reciprocal jurisdiction, unauthorized, or certified an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, that exceeds 3% of the entity's policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer; and

Staff Review Completed by: Jake Stultz—July 2019
Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 62R—Property and Casualty Reinsurance*, as illustrated above, to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the revisions to *SSAP No. 62R—Property and Casualty Reinsurance*, as illustrated below, to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.

106. Unsecured Reinsurance Recoverables:

   a. If the entity has with any individual reinsurers, authorized, reciprocal jurisdiction, unauthorized, or certified an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, that exceeds 3% of the entity’s policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer; and

   W:\National Meetings\2020\Summer\TF\App\SAP\Minutes\03_18_2020 Attachments\H\Att One-H9_19-48 - Disclosure Update for Reciprocal Jurisdiction Reinsurers.docx
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities

Check (applicable entity):

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Description of Issue: The FASB issued ASU 2016-14 to provide more useful information to donors, grantors, creditors, and other financial statements users of not-for-profit (NFP) entities. This update is to improve the current net asset classification requirements and the information presented in financial statements regarding liquidity, financial performance, and cash flows. While several changes were implemented within this ASU, the main provisions include:

- The presentation of two classes of net assets – *with donor restrictions* and *without donor restrictions*. Due to complexities regarding the appropriate use of the previous three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) that focused on the absence or presence of donor-imposed restrictions and whether those restrictions were temporary or permanent, this ASU designates presentation of two classes of net assets. Changes in these two classes of net assets are to be reported on the statement of activities.

- The presentation of operating cash flows may continue to use the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

Additionally, numerous disclosures enhancements were included this update, several are highlighted below:

- The composition of net assets with donor restrictions and how the restrictions affect the use of such resources.
- For resources without donor-imposed restrictions, the applicable amounts and designated purposes, appropriations, and similar actions that result in self-imposed limits on the use of such resources.
- Information that communicates how the NFP manages liquid resources to meet its cash needs for general expenditures for one year following the balance sheet date.
- Regarding ‘underwater endowment funds’ (a fund in which its fair value is less than the original gift amount or the amount required to be maintained by donor restrictions); disclosures concerning the NFP’s policy, and any actions taken during the period concerning appropriation from underwater endowment funds and the fair value of such funds. Additionally, disclosures regarding the original gift amounts (or level required by donor or law) to be maintained and amount by which the funds are deficient.
- Use, in the absence of donor restrictions, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, thus reclassifying amounts from “net assets with donor restrictions” to “net assets without donor restrictions” as long-lived assets that have been placed in service as of the beginning of the period of adoption (eliminating
the previous option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

**Existing Authoritative Literature:** While there is SAP guidance for the financial statement presentation of assets, the concept of separating assets based on imposed donor restrictions and the inclusion of other similar related disclosures is not a presentation format that is applicable for statutory accounting purposes.

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

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

**Convergence with International Financial Reporting Standards (IFRS):** None - There are no specific NFP accounting and reporting standards in IFRS.

**Staff Recommendation:** NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as statutory accounting guidance does not separately present assets based on donor restrictions. If assets are restricted, they must be identified as restricted in the investment schedules and captured in the restricted note disclosure. Furthermore, the concept of donor-restrictions for insurance reporting entities is not identified to be a prevalent concept.

**Staff Review Completed by: Jim Pinegar – August 2019**

**Status:**
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Update Reporting Deposit-Type Contracts

Check (applicable entity):

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Description of Issue: This agenda item has been drafted in response to questions identified by the Financial Stability (EX) Task Force in developing liquidity disclosure changes to the 2019 life blank, and the noted inability to fully identify and assess deposit-type contracts - (particularly guaranteed investment contracts) - within the statutory financial statements. From information received, it appears that in some instances deposit-type contracts are being reported along with life contracts in Exhibit 5 – Aggregate Reserves for Life Contracts or in Exhibit 6 – Aggregate Reserves for Accident and Health Contracts, rather than in Exhibit 7 – Deposit-Type Contracts.

This issue has been raised as payout requests for deposit-type contracts are significantly different than payouts generated by an insured event (mortality or morbidity). The Task Force identified that information on liabilities, particularly those that can be called with little or no surrender penalty, must be known to properly complete liquidity assessments.

After various discussions, it is anticipated that guaranteed investment contracts (GICs) are reported as a life contract or accident and health contract (and not a deposit-type contract) for one of the following reasons:

- The GIC was a “supplemental” contract formed from the proceeds of a life / A&H insurance contract.
- The GIC, although absent mortality or morbidity risk, was written on a life / A&H insurance “paper.”
- The state insurance department has approved the GIC to be classified as a life / A&H insurance contract.
- Contracts may be designed as GICs, but could potentially have mortality / morbidity components, which qualifies the contract to be reported as a life or A/H insurance contract.

The purpose of this agenda item is to solicit information regarding the reporting of GICs (and other deposit-type contracts) as life or A/H contracts in the reporting exhibits, and consider revisions to statutory accounting and reporting instructions to ensure that information regarding all GICs can be separately identifiable and aggregated from the financial statements.

Existing Authoritative Literature:

SSAP No. 50—Classifications of Insurance or Managed Care Contracts

5. **Insurance contracts providing any protection against death, disability, accident or illness in which the reporting entity assumes mortality or morbidity risk shall be classified as life or accident and health contracts, as applicable.** Managed care contracts provide defined health care services to subscribers, members or policyholders, collectively referred to hereafter as subscribers, in return for fixed, periodic premiums (usually paid monthly) that are generally due at or before the beginning of the coverage period and shall be classified as health contracts. Contracts which insure against damage to property by an insured peril or damage or injury to the insured or third parties, generally over a fixed/limited period of time, shall be classified as property and casualty contracts.
Contracts in which the reporting entity does not assume any mortality, morbidity, health benefit costs incurred, or casualty risk and which act exclusively as investment vehicles shall be classified as deposit-type contracts. Such classification shall be made at the inception of the contract and shall not change.

14. Supplementary contracts with life contingencies are a type of agreement between the insurance company and either the insured or the beneficiary, usually to provide for full or partial settlement of the amount payable upon the termination of an original contract. Generally, the proceeds are paid over the lifetime of one or more beneficiaries. This differs from a supplementary contract without life contingencies under which the proceeds are paid over a definite period without regard to the life of the beneficiary.

Deposit-Type Contracts

43. Deposit-type contracts do not incorporate insurance risk. Contracts issued by insurers that do not incorporate risk from the death or disability of policyholders (mortality or morbidity risk) are more comparable to financial or investment instruments issued by other financial institutions than to insurance contracts.

44. Deposit-type contracts shall include contracts without any life or disability contingencies, including, but not limited to, certain types of the following policy categories:
   a. Supplemental contracts
   b. Lottery payouts
   c. Structured settlements
   d. Guaranteed interest contracts
   e. Income settlement options
   f. Dividend and coupon accumulations
   g. Annuities certain
   h. Premium and other deposit funds
   i. Funding Agreements without well-defined class-based (e.g. age, gender) annuity purchase rates defining either specific or maximum purchase rate guarantees (see SSAP No. 15, paragraph 19, paragraph 20 of this statement and SSAP No. 52—Deposit-Type Contracts, paragraph 21.)

45. Under deposit-type contracts, the policyholder may assume all, some, or none of the investment risk, depending on the contract terms. Amounts can be deposited in lump sum, or periodically as allowed by the policy contract. Deposit-type contracts would include annuities certain, whose income payments have no reference to life contingencies and benefits are paid over a specified period (i.e., 10 years, 20 years, etc.).

SSAP No. 51R—Life Contracts

Policy Reserves

15. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the insurance contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A.
These statutory policy reserves have historically been calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. For policies issued on or after the operative date of the Valuation Manual, these formulaic calculations will be supplemented for some policies with more advanced deterministic and stochastic reserve methodologies to better reflect company experience, possible economic conditions and inherent policy risks. Statutory policy reserves meet the definition of liabilities as defined in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R). The actuarial methodologies referred to in paragraph 16 meet the criteria required for reasonable estimates in SSAP No. 5R.

The reserving methodologies and assumptions used in computation of policy reserves shall meet the provisions of Appendices A-820 and A-822. Policies written prior to the operative of the Valuation Manual shall additionally follow the actuarial guidelines found in Appendix C of this Manual. Policies written on or after operative of the Valuation Manual shall additionally follow the Valuation Manual and be subject to the actuarial guidelines referenced therein. Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Supplemental Benefits

In addition to the basic policy benefit, the insurance contract may provide supplemental benefits. Supplemental benefits include, but are not limited to, accidental death benefits and waiver of premium benefits. If the terms of the contract provide for these benefits, appropriate reserves shall be established in accordance with the applicable standards within the Accounting Practices and Procedures Manual.

SSAP No. 52—Deposit-Type Contracts

As discussed in SSAP No. 50, deposit-type contracts are those contracts that do not subject the reporting entity to any risks arising from policyholder mortality or morbidity. A mortality or morbidity risk is present if, under the terms of the contract, the reporting entity is required to make payments or forego required premiums contingent upon the death or disability (in the case of life and disability insurance contracts) or the continued survival (in the case of annuity contracts) of a specific individual or group of individuals.

Deposit-type contracts frequently grant policyholders significant discretion over the amount and timing of deposits and withdrawals. Reporting entities are frequently granted significant discretion over amounts that accrue to or that are assessed against policyholders.

Due to the absence of mortality and/or morbidity risk and the discretionary characteristics noted in paragraph 3, the accounting principles for income recognition and policy reserves for deposit-type contracts differ from the accounting for life contracts set forth in SSAP No. 51R—Life Contracts, accident and health contracts established in SSAP No. 54R—Individual and Group Accident and Health Contracts, and credit insurance contracts as discussed in SSAP No. 59—Credit Life and Accident and Health Insurance Contracts.

Categories of contracts that may not subject the reporting entity to risks arising from policyholder mortality or morbidity include, but are not limited to, certain types of the following policy categories:

a. Supplemental contracts
b. Lottery payouts
c. Structured settlements
d. Guaranteed interest contracts
e. Income settlement options
f. Dividend and coupon accumulations

g. Annuities certain

h. Premium and other deposit funds

Income Recognition

6. Contracts issued by a reporting entity that do not incorporate mortality or morbidity risk shall not be accounted for as insurance contracts. Amounts received as payments for such contracts shall not be reported as revenues but shall be recorded directly to an appropriate policy reserve account. (INT 00-03)

Policy Reserves

7. Statutory policy reserves shall be established for all contractual obligations of the reporting entity arising out of the provisions of the contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. Statutory policy reserves meet the definition of liabilities as defined in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R). The actuarial methodologies referred to in paragraph 8 meet the criteria required for reasonable estimates in SSAP No. 5R.

8. The reserving methodologies and assumptions used in computation of policy reserves shall meet the provisions of Appendices A-820 and A-822, and the actuarial guidelines found in Appendix C of this Manual. Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

9. The policy reserve for contracts without life contingencies where the future benefits are fixed and guaranteed (e.g., certain supplemental contracts, lottery payouts, structured settlements, guaranteed interest contracts, income settlement options, annuities certain, and unmatured coupon accumulations) shall be based on the present value of the future guaranteed benefits discounted at the valuation interest rate. The policy reserve for all other contracts (e.g., certain premium and other deposit funds, and dividend and matured coupon accumulations) shall be based on the accumulated amounts paid plus an income accumulation based on the contract provisions, less any withdrawals and applicable surrender charges.

10. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer’s obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

11. Policy reserves shall be increased for reinsurance assumed and decreased for reinsurance ceded as further described in SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda Item 2018-28: Updates to Liquidity Disclosures, and proposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, were adopted by the SAPWG during the Fall 2018 National Meeting. This agenda item was developed in response to Financial Stability (Ex) Task Force recommendations to enhance existing disclosures on annuity actuarial reserves and deposit-type liabilities.
Information or issues (included in Description of Issue) not previously contemplated by the Working Group: None


Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose this agenda item with a request for comments on why GICs, or other deposit-type contracts, are reported in Exhibit 5 – Life Contracts or Exhibit 6 – Accident and Health Contract, instead of Exhibit 7 – Deposit Type Contracts. With exposure, a referral will be sent to the Life Actuarial Task Force to inform them of the inquiry and request their comments. Although NAIC staff recommends delaying revisions to statutory accounting or reporting instructions until better knowing why these classifications occur, it is anticipated that clarification may be considered to ensure that separate reserve recognition, which is already required in SSAP No. 51R, requires separate reporting on the appropriate exhibit.

Staff Review Completed by:
Julie Gann, NAIC Staff – January 2019

Status:
On April 6, 2019, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed this agenda item with a request for comments on why guaranteed investment contracts (GICs), or other deposit-type contracts, are reported in Exhibit 5 – Life Contracts or Exhibit 6 – Accident and Health Contract, instead of Exhibit 7 – Deposit Type Contracts. With exposure, the Working Group directed a referral to the Life Actuarial (A) Task Force to inform them of the exposure and request comments.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group exposed this agenda item with the inclusion of the items and questions noted below, with a request for additional comments from industry and state insurance regulators, and directed notifications of the exposure with a request for comments to the Financial Stability (EX) Task Force and the Life Actuarial (A) Task Force on the reporting of insurance contracts that do not have a mortality or morbidity risk.

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

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

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

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

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

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

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

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

*Excerpt from SSAP No. 50, paragraph 20:*

1. **Annuity contract** is an arrangement whereby an annuitant is guaranteed to receive a series of stipulated amounts commencing either immediately or at some future date. The contract shall be issued to or for the benefit of an identifiable individual or group of individuals. **Such a contract containing well-defined class-based (e.g., age, gender) annuity purchase rates used in defining either a specific or maximum purchase rate guarantee would constitute an annuity contract containing a life contingency that would require it to be classified as a life contract.** Some examples of contracts issued for the benefit of a group of individuals include pension plan sponsors purchasing contracts for the benefit of their plan participants, employers or associations purchasing contracts for the benefit of their employees or members, and collective trusts purchasing contracts for the benefit of participating pension plans and their plan participants. **The main types of annuity contracts with life contingencies are discussed below.**

   a. A deferred annuity provides for the accumulation of funds to be applied at some future period designated by the policyholder. Premium payments can be made in a lump sum amount (single premium deferred annuity), or periodically (flexible or fixed premium deferred annuity) as allowed by the policy contract. At the end of the accumulation period, the policyholder may elect to receive a lump sum distribution or may elect to receive periodic payments for life, or over a specific period, or some combination thereof;

   b. A variable annuity is an annuity which includes a provision for benefit payments which vary in accordance with the rate of return of the underlying investment portfolio selected by the policyholder. The considerations for a variable annuity are usually invested in a separate account in which the value of the contract share varies according to the performance of the separate account before the commencement of annuity payments as well as after. Premium payments can be made in lump sum amounts or periodically as allowed by the policy contract. A minimum death benefit is often guaranteed during the annuity consideration accumulation period and these contracts are, therefore, classified as life contracts;
c. A straight-life annuity provides for periodic payments to the annuitant as long as the annuitant lives. Death of the annuitant constitutes completion of the contract and no further payments are made by the insurance company;

d. A life annuity with a period certain works essentially the same way as the straight-life annuity as the annuitant receives periodic payments for as long as the annuitant lives. However, if the annuitant dies before the end of the specified “certain” period, payments are continued to a beneficiary until the specified number of “certain” payments (i.e., the specified period in the contract) is completed;

e. A refund annuity is similar to the life annuity with a period certain in which the annuitant receives periodic payments for as long as the annuitant lives. There are two variants of this type of annuity. Under the cash refund annuity, a lump-sum payment is made at the death of the annuitant equal to the excess, if any, of the purchase price of the annuity over the sum of the annuity payments made to date of death. The installment refund annuity provides that annuity payments are to continue to a beneficiary after the death of the annuitant until the sum of all payments made equals the purchase price;

f. A joint and survivorship annuity provides for the continuation of payments after the death of one of the annuitants during the lifetime of the surviving annuitant.

**Updates for 2019 Fall National Meeting:**

NAIC staff recommend exposing agenda item 2019-08 to: 1) request feedback on the inclusion of a footnote excerpt for Exhibit 5 to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit, 2) request feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) industry input for instruction clarifications regarding the classifications of deposit-type contracts captured in Exhibit 7.

**Proposed Exhibit 5 Footnote Disclosure:**

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(a) Included in the above table are amounts that originally contained a mortality risk. Amounts that no longer contain a mortality risk are $__________ in Column 2 (Life Insurance), $__________ in Column 2 (Annuities), $__________ (Supplementary Contracts with Life Contingencies), $__________ (Accidental
Exhibit 7 Classification Instructions:

Instructions for Exhibit 7 (Deposit-Type Contracts) are detailed below. NAIC staff believes ambiguity exists in reporting categories and definition improvements would benefit financial statement preparers and users. NAIC staff requests industry input on the definitional terms and suggestions for improvement/clarification to ensure items are appropriately captured and reported without the risk of category (column) crossover.

This exhibit is intended to capture information about the activity, before and after any reinsurance, for deposit-type contracts. Include supplementary contracts without life contingencies, annuities certain, income settlement options, premium and deposit funds, and other contracts as defined in SSAP No. 52—Deposit-Type Contracts.

- Column 2: Guaranteed Interest Contracts – contracts that do not subject the reporting entity to any morality or morbidity risk
- Column 3: Annuities Certain – amounts settled under contracts without any mortality or morbidity risk, e.g., certain immediate annuity contracts amounts associated with lottery payouts, structured settlements, income settlement options or other amounts where payments are for a fixed period or amount. To exclude amounts reported in Column 2 or 4.
- Column 4: Supplemental Contracts (without life contingencies) - amounts resulting from proceeds settled under a settlement option provision of a life or annuity contract without any mortality or morbidity risk.
- Column 5: Dividend Accumulations or Refunds - amounts held on account related to contracts without any mortality or morbidity risk.
- Column 6: Premium and Other Deposit Funds - amounts not reported elsewhere in this exhibit for contracts that do not incorporate any mortality or morbidity risk.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed this agenda item to: 1) request feedback on the inclusion of a footnote excerpt for Exhibit 5 (as shown above) to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit, 2) request feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) requested industry and regulator input for instruction clarifications regarding the classifications of deposit-type contracts captured in Exhibit 7. With this exposure, there are no proposed edits for statutory accounting. The Working Group directed NAIC staff to notify the Financial Stability (Ex) Task Force of this exposure.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted a recommendation for annual statement revisions to Exhibit 5, Life Contracts, including minor edits from the exposure which are illustrated below. This adopted Exhibit 5 footnote recommendation will disclose when mortality risk is no longer present. The proposal will also be forwarded to the Blanks (E) Working Group. There are no statutory accounting revisions from this agenda item.

The previously exposed Exhibit 5 Footnote, with shaded revisions highlighting the changes from the original exposure, are shown below:

\[
\begin{array}{l}
\text{Included in the above table are amounts that originally contained a mortality risk. Amounts in Column 2, that no longer contain a mortality risk are$____________ in Column 2 (Life Insurance), $____________ in} \\
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Column 2 (Annuities), $__________ (Supplementary Contracts with Life Contingencies), $__________ (Accidental Death Benefits), $__________ (Disability – Active Lives), $__________ (Disability – Disabled Lives), $__________ (Miscellaneous Reserves).

The following Exhibit 5 Footnote, as adopted is as follows:

Included in the above table are amounts that originally contained a mortality risk. Amounts in Column 2, that no longer contain a mortality risk are $__________ (Life Insurance), $__________ (Annuities), $__________ (Supplementary Contracts with Life Contingencies), $__________ (Accidental Death Benefits), $__________ (Disability – Active Lives), $__________ (Disability – Disabled Lives), $__________ (Miscellaneous Reserves).
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Reporting of Installment Fees and Expenses

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

Description of Issue:
NAIC staff has recently received questions regarding whether certain fees shall be reported as policy premium. SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 6, provides specific guidance that allows for installment fees that meet specified criteria to be excluded from premium and reported as other income. An installment fee is the amount the policyholder pays if they make the choice to pay their premium on an installment basis. This fee is allowed to be excluded from premium income if it is an avoidable amount by the policyholder and the policy would not be cancelled for nonpayment of the installment fee.

NAIC staff has received regulator requested clarifications regarding potential diversity in the application of the SSAP No. 53 installment fee guidance on the following issues:

1. The first issue recommends additional language to ensure that the installment fee guidance continues to be narrowly applied, because the regulator became aware of some reporting entities seeking to analogize the application of the installment fee guidance to exclude other fees from premium income. Given the historical discussion on this paragraph, NAIC staff notes that the installment fee guidance is intended to be applied narrowly to a specific instance described in SSAP No. 53, footnote 1 and it should not be used to exclude other fees from being reported as premium.

2. The second issue pertains to the reporting of expenses related to the installment fee (other revenue). The regulator noted that while reporting entities were reporting the installment fees in other income, there was diversity in practice for the related installment fee expenses. Most entities were reporting the installment fee expenses in underwriting expenses where there are clear reporting lines for such expenses in the underwriting exhibits. Other entities were reporting the installment fee expenses either as a contra amount to finance and service charges not included in premium or as a contra amount to “aggregate write-ins for miscellaneous income.” The amounts are being reported as “contra” to other income because there is not an explicit reporting line in the property and casualty statement of income for expenses not related to underwriting (See Authoritative Literature). This agenda item requests feedback to address potential diversity in reporting.

Note that SSAP No. 35R—Guaranty Fund and Other Assessments also provides guidance regarding when a reporting entity is acting as an agent on behalf of a state or federal agency. This guidance is different than the installment fee guidance under discussion.

Existing Authoritative Literature:

SSAP No. 53—Property Casualty Contracts—Premiums (bolding added for emphasis)

3. Except as provided for in paragraph 4, written premium is defined as the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the
coverage provided by the terms of the insurance contract. Frequently, insurance contracts are subject to audit by the reporting entity and the amount of premium charged is subject to adjustment based on the actual exposure. Premium adjustments are discussed in paragraphs 10-13 of this statement.

4. For workers’ compensation contracts, which have a premium that may periodically vary based upon changes in the activities of the insured, written premiums may be recorded on an installment basis to match the billing to the policyholder. Under this type of arrangement, the premium is determined and billed according to the frequency stated in the contract, and written premium is recorded on the basis of that frequency.

5. Premiums for prepaid legal expense plans shall be recognized as income on the gross basis (amount charged to the policyholder or subscriber exclusive of copayments or other charges) when due from policyholders or subscribers, but no earlier than the effective date of coverage, under the terms of the contract. Due and uncollected premiums shall follow the guidance in SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers (SSAP No. 6), to determine the admissibility of premiums and related receivables.

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums1 (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.

Footnote: 1 If the policyholder elects to pay an installment rather than the full amount or the full remaining balance, the policyholder is traditionally charged a flat fee service charge on the subsequent billing cycle(s). The amount charged is primarily intended to compensate the insurer for the additional administrative costs associated with processing more frequent billings and has no relationship to the amount of insurance coverage provided, the period of coverage, or the lost investment income associated with receiving the premium over a period of time rather than in a lump sum. As described, there is no underwriting risk associated with this service charge. If a policyholder does not pay the service charge, the policy is not cancelled (unlike non-payment of premium), but instead the policy is converted back to an annual pay plan. If a policyholder cancels coverage, the premium is returned but the service charge is not, as the service charge is not a part of premium. Clarification of finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

SSAP No. 35R—Guaranty Fund and Other Assessments

Acting as an Agent for Collection and Remittance of Fees and Assessments

15. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity’s obligation is to collect and subsequently remit the fee or assessment.(INT 02-22) When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:
a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and

b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

16. The impact to the statement of operations depends on the nature of the charge:

a. For charges which are the ultimate responsibility of the policyholder, follow existing guidance in paragraph 15, and pass these charges and recoveries through the balance sheet with no impact to the statement of operations

b. For charges which are the ultimate responsibility of the reporting entity and may be recovered all or in part, apply gross or net reporting in the statement of operations as appropriate based on the nature of the charge and recovery. For example, charges which are considered in rate development or for which the recovery is classified as premium should be reported gross, charges for which recovery is considered a reduction of the expense should be reported net.

c. For collection or administrative fees, report such fees as revenue in the statement of operations as "Finance and Service Charges Not Included in Premiums" or "Aggregate Write-Ins for Miscellaneous Income".

SSAP No. 71—Policy Acquisition Costs

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.

Property/Casualty Annual Statement Instructions

Statement of Income

Line 13 – Finance and Service Charges Not Included in Premiums

Report finances and service charges pursuant to the recognition guidance in SSAP No. 53—Property Casualty Contracts—Premiums. If a company cedes 100% of its business to an affiliate or utilizes an intercompany pooling arrangement and pools finance and service charges, include intercompany assumed and ceded amounts (i.e., report such income net of intercompany pooling). Charges should also be reported on Schedule T by jurisdiction.

Schedule T EXHIBIT OF PREMIUMS WRITTEN ALLOCATED BY STATES & TERRITORIES

Column 8 – Finance and Service Charges Not Included in Premiums

Report finance and service charges on direct business pursuant to the recognition guidance in SSAP No. 53—Property Casualty Contracts—Premiums. If a company cedes 100% of its business to an pooling arrangement and pools such charges, exclude the intercompany assumed and ceded amount incorporated in Page 4, Line 13.
APPENDIX

PROPERTY AND CASUALTY LINES OF BUSINESS

These definitions should be applied when reporting all applicable amounts for the following schedules: Underwriting and Investment Exhibit Parts 1, 1A, 1B, 2, and 2A; Exhibit of Premiums and Losses (Statutory Page 14); and the Insurance Expense Exhibit. 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 footnote to SSAP No. 53, paragraph 6 was previously updated by agenda item 2001-34: SSAP No. 53 and reporting of installment fees which was adopted in June 2002.

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

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose proposed revisions to SSAP No. 53 and request comments as detailed below. In addition, it is recommended that the Working Group request comments on reporting installment fee expenses as detailed below.

1. Installment fee and services charges guidance should be applied narrowly to the specific situation described and not analogized to exclude other fees from written premium.

Property and Casualty Annual Statement Blank

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<td>7. Net income of protected cells .............................................................................</td>
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<td>11. Net investment gain (loss) (Lines 9 + 10) ..........................................................</td>
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<td>19. Federal and foreign income taxes incurred ..........................................................</td>
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<tr>
<td>20. Net income (Line 18 minus Line 19) (to Line 22) ..................................................</td>
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</table>
2. Request comments on incurred installment fee expenses and notify the Casualty Actuarial (C) Task Force and the Property and Casualty Risk Based Capital (E) Working Group of the exposure, particularly regarding installment fee expenses.

Detailed Recommendations:

Issue 1 – The installment fee and services charges guidance in SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 6, footnote 1, for evaluating flat fee service charges on installment premiums, should be applied narrowly to the specific situation described and not analogized to exclude other fees from written premium.

Prior Working Group revisions (in agenda item 2001-34) to footnote 1 in SSAP No. 53 illustrate that the installment premium processing fee guidance is meant to be interpreted narrowly and that the payment in full or by installment is a choice by the policyholder and represents an avoidable amount. The criteria is intentionally narrow and specific to installment fees. It is incorrect to apply this guidance to other fees. Key underlying points to this response are:

**Reporting** - All insurance reporting entities bear the cost of issuing a policy, issuing endorsements, and cancelling or reinstating policies whether that is accomplished directly or indirectly through an outside party. SSAP No. 71 provides that policy acquisition costs are expensed as incurred. Costs of issuing and servicing a policy are part of underwriting expenses therefore most “fees” are not intended to be excluded from premium.

**Premium tax** - NAIC staff notes that classifying amounts collected from policyholders by agents / managing general agents or third-party administrators as fees, which are excluded from written or earned premium, is an issue that many jurisdictions are familiar with as an attempt to avoid paying premium taxes. In addition, SSAP No. 53, paragraph 6, footnote 1 provides that “Clarification of finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.”

**Risk Based Capital** - The classification of amounts out of premium revenue and into other income and other expense instead of underwriting expenses changes the risk-based capital charges for insurance risk. The RBC charge on insurance risk is based on the loss / loss adjustment expense ratio and the combined ratio which includes underwriting expenses.

**Issue 2 – Should incurred installment fee expenses be reported in other expenses?**

- SSAP No. 53 allows for installment fee income that meets specified criteria to be excluded from premium and reported as other income with finance and service charges, however it does not separately address the related installment fee expenses incurred by the reporting entity.
- The annual statement instructions provide that the expenses that are most commonly associated with installment expense such as postage printing and stationery are reported in underwriting expenses. These expenses and their related revenue are typically immaterial for most property and casualty products but are material for some nonstandard product writers. Having a mismatch between underwriting revenue / underwriting expenses and other revenue / other expenses can affect a reporting entity’s combined ratio as the combined ratio considers the losses, loss adjusting expenses and underwriting expenses.
- From a purely conceptual basis, it might be more consistent if the installment fee expenses are reported in other expenses. This is because it is a theoretical mismatch in the annual statement to report the installment fees in other revenue and have the related expenses in underwriting expenses. While this might be better theoretical match to have both the revenue and expense in the same category, NAIC staff notes that not
having “other expenses” in the property and casualty income statement seems to be an intentional choice as there are no “other expense” reporting lines. Therefore an “other expense” would have to be reported as a contra revenue.

- If incurred installment fee expenses were to be reported in other expenses, a reporting location would need to be determined as there is not an annual statement line to accommodate such reporting. If it was reported, it would most likely have to be report as a contra amount in “Aggregate Write-Ins for Miscellaneous Income” (not in underwriting expenses) as netting it in Finance and service charges would not provide transparency. Further, if reported, limitations would need to be determined – i.e. expenses not to exceed installment fee revenue.

Questions for exposure:

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

b. If included in Other Income, should the expense be classified as a contra revenue in or “Aggregate Write-Ins for Miscellaneous Income”?

c. Installment fees and expenses are often immaterial for property and casualty except for nonstandard writers. Comments are also requested on allowing diversity in reporting installment fee expenses (that is optional to report as other expense category of contra other revenue “Aggregate Write-Ins for Miscellaneous Income”, particularly for immaterial amounts.

Ultimately adoption of any such guidance would also require updates to the existing annual statement instructions.

NAIC staff recommends that the Working Group expose the following revisions to the existing footnote in SSAP No. 53:

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.

1 If the policyholder elects to pay an installment rather than the full amount or the full remaining balance, the policyholder is traditionally charged a flat fee service charge on the subsequent billing cycle(s). The amount charged is primarily intended to compensate the insurer for the additional administrative costs associated with processing more frequent billings and has no relationship to the amount of insurance coverage provided, the period of coverage, or the lost investment income associated with receiving the premium over a period of time rather than in a lump sum. As described, there is no underwriting risk associated with this service charge. If a policyholder does not pay the service charge, the policy is not cancelled (unlike non-payment of premium), but instead the policy is converted back to an annual pay plan. If a policyholder cancels coverage, the premium is returned but the service charge is not, as the service charge is not a part of premium. Note that this footnote on flat fee service charges on installment premium is intentionally narrow and specific and this guidance should not be applied to other fees or service charges. Clarification reporting of installment fees in finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.
Staff Review Completed by:
Robin Marcotte - October 2019

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 53—Property Casualty Contracts—Premiums, as illustrated above. Comments are also requested on the reporting of installment fee expenses, as noted above. Additionally, the Casualty Actuarial (C) Task Force and Property and Casualty Risk Based (E) Working Group will be notified of this exposure.

For 2020 Spring National Meeting Discussion:
Because the items under discussion can impact loss ratios and information reported in Schedule P, during the 2019 Fall National Meeting exposure, the Working Group directed notice of the exposure and the request for comments to the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group. Both groups have indicated that they do not expect to have a response on the installment fee expense comments until after the Spring National Meeting. NAIC staff has forwarded the 2020 comments received to both groups.

NAIC staff recommends that the Working Group take the following actions:

1. Adopt the exposed revision with the minor edit from interested parties. This revision clarifies that existing installment fee revenue guidance should be narrowly applied.

2. When comments on the installment fee expense are received from the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group it is recommended that those comments be discussed as a separate agenda item (if needed).

Proposed Revisions:

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums1 (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.

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should not be applied to other fees or service charges. Clarification reporting of installment fees in finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

On March 18, 2020, The Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 53—Property and Casualty Contracts—Premiums, as illustrated below, with the minor edit of deleting the word “clarification” in the exposed footnote. The adopted revisions specify that existing installment fee revenue guidance should be narrowly applied. When comments on the installment fee expense are received from the Casualty Actuarial and Statistical (C) Force and the Property and Casualty Risk-Based Capital (E) Working Group, they will be discussed in a separate agenda item.

**Adopted Revisions:**

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums1 (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.

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

Issue: SSAP No. 25 – Disclosures

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
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<tr>
<td>New Issue or SSAP</td>
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<tr>
<td>Interpretation</td>
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Description of Issue:
This agenda item has been drafted to data-capture disclosures from SSAP No. 25—Affiliates and Other Related Parties. Currently, all disclosures from SSAP No. 25 are completed in a narrative (pdf) format. With the proposal to data-capture disclosures, the regulators can aggregate and query related party relationships.

This item is separate from an agenda item (Ref #2019-34) that is considering revisions to SSAP No. 25 to clarify the identification of related parties and consider enhanced disclosures for when there is a disclaimer of control approved by a domiciliary state and when a company outside of the holding company group owns more than 10% of the insurance reporting entity. This agenda item will follow a separate work stream to allow for year-end 2020 data capturing. If the revisions being considered under the separate agenda item are adopted by June 2020 (blanks deadline), then those disclosures may modify or expand the data templates proposed in this agenda item.

Existing Authoritative Literature:
(Note: The entire SSAP No. 25 has been included for ease of reference of existing guidance.)

SSAP No. 25—Affiliates and Other Related Parties

1. Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny. This statement establishes statutory accounting principles and disclosure requirements for related party transactions.

2. This statement shall be followed for all related party transactions, even if the transaction is also governed by other statutory accounting principles. Furthermore, this statement shall be followed in all transactions which involve unrelated parties as intermediaries between related parties. In determining whether a transaction is a related party transaction, consideration shall be given to the substance of the agreement and the parties whose actions or performance materially impact the insurance reporting entity under the transaction. For example, an investment acquired from a non-related intermediary in which the investment return is predominantly contingent on the performance of a related party shall be considered a related party investment. As a general principle, it is erroneous to conclude that the mere inclusion of a non-related intermediary eliminates the requirement to assess and properly identify the related party transaction in accordance with the provisions of this statement. It is also erroneous to conclude that the presence of non-related assets in a structure predominantly comprised of related party investments eliminates the requirement to assess and identify the investment transaction as a related party arrangement.

3. If a company receives the stock of an affiliated company as a capital contribution rather than through a purchase, the transaction shall be accounted for according to SSAP No. 25—Affiliates and Other Related Parties, SSAP No. 95—Nonmonetary Transactions, or SSAP No. 97—Investments in...
Subsidiary, Controlled and Affiliated Entities, based on the details of each transaction. The statutory purchase method within SSAP No. 68—Business Combinations is not applicable for stock received as a capital contribution.

**SUMMARY CONCLUSION**

4. Related parties are defined as entities that have common interests as a result of ownership, control, affiliation or by contract. Related parties shall include but are not limited to the following:

   a. Affiliates of the reporting entity, as defined in paragraph 5;
   
   b. Trusts for the benefit of employees, such as pension and profit-sharing trusts and Employee Stock Ownership Plans that are managed by or under the trusteeship of management of the reporting entity, its parent or affiliates;
   
   c. The principal owners of the reporting entity;
   
   d. The management of the reporting entity, its parent or affiliates (including directors);
   
   e. Members of the immediate families of principal owners and management of the reporting entity, its parent or affiliates and their management;
   
   f. Parties with which the reporting entity may deal if either party directly or indirectly controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interest;
   
   g. A party which can, directly or indirectly, significantly influence the management or operating policies of the reporting entity, which may include a provider who is contracting with the reporting entity. This is not intended to suggest that all provider contracts create related party relationships;
   
   h. A party which has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests;
   
   i. Attorney-in-fact of a reciprocal reporting entity or any affiliate of the attorney-in-fact; and
   

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity.

6. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by contract for goods or nonmanagement services where the volume of activity results in a reliance relationship (d) by common management, or (e) otherwise. Control shall be presumed to exist if a reporting entity and
its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.

7. Control as defined in paragraph 6 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13%, and therefore, each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment based on the criteria in FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18. The corollary is required to demonstrate control when a reporting entity owns less than 10% of the voting securities of an investee. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner. Examples of situations where the presumption of control may be in doubt include the following:

   a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.

   b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

   c. An entity where the insurer has given up participation rights1 as a shareholder to the investee.

8. Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principles (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

Related Party Loans

9. Loans or advances (including debt, public or private) made by a reporting entity to its parent or principal owner shall be admitted if approval for the transaction has been obtained from the domiciliary commissioner and the loan or advance is determined to be collectible based on the parent or principal owner's independent payment ability. An affiliate's ability to pay shall be determined after consideration of the liquid assets or revenues available from external sources (i.e., determination shall not include dividend paying ability of the subsidiary making the loan or advance) which are available to repay the balance and/or maintain its account on a current basis. Evaluation of the collectibility of loans or advances shall be made periodically. If, in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made. Pursuant to SSAP No. 72—Surplus and Reorganization, forgiveness by a reporting entity of any debt, surplus note or other obligation of its parent or other stockholder shall be accounted for as a dividend.

10. Loans or advances by a reporting entity to all other related parties shall be evaluated by management and nonadmitted if they do not constitute arm's-length transactions as defined in paragraph 13. Loans or advances made by a reporting entity to related parties (other than its parent or principal owner)

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1 The term "participating rights" refers to the type of rights that allows an investor to effectively participate in significant decisions related to an investee's ordinary course of business and is distinguished from the more limited type of rights referred to as "protective rights". Refer to the sections entitled: “Protective Rights” and “Substantive Participating Rights” in EITF 96-16, Investor's Accounting for an Investee When the Investor Owns a Majority of the Voting Stock but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights. The term “participating rights” shall be used consistent with the discussion of substantive participating rights in this EITF.
that are economic transactions as defined in paragraph 13 shall be admitted. This includes financing arrangements with providers of health care services with whom the reporting entity contracts with from time to time. Such arrangements can include both loans and advances to these providers. Evaluation of the collectibility of loans or advances shall be made periodically. If, in accordance with SSAP No. 5R, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made.

11. Any advances under capitation arrangements made directly to providers, or to intermediaries that represent providers, that exceed one month’s payment shall be nonadmitted assets.

12. Indirect loans are loans or extensions of credit to any person who is not an affiliate, where the reporting entity makes loans or extensions of credit with the agreement or understanding that the proceeds of the transactions, in whole or in substantial part, are to be used to make loans or extensions of credit to, to purchase assets of, or to make investments in, any affiliate of the reporting entity making the loans or extensions of credit. The admissibility of indirect loans made by a reporting entity for the benefit of its parent or principal owner shall be determined in accordance with the guidelines in paragraph 9. Indirect loans or advances made for the benefit of all other related parties shall be evaluated and accounted for consistent with loans or advances to related parties as described in paragraph 10 and paragraph 11.

Transactions Involving the Exchange of Assets or Liabilities

13. An arm’s-length transaction is defined as a transaction in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing to participate. A transaction between related parties involving the exchange of assets or liabilities shall be designated as either an economic transaction or non-economic transaction. An economic transaction is defined as an arm’s-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., “permanence.” The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. If subsequent events or transactions reverse the effect of an earlier transaction prior to the issuance of the financial statements, the reversal shall be considered in determining whether economic substance existed in the case of the original transaction. Subsequent events are addressed in SSAP No. 9—Subsequent Events. An economic transaction must represent a bonafide business purpose demonstrable in measurable terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

14. In determining whether there has been a transfer of the risks and rewards of ownership in the transfer of assets or liabilities between related parties, the following—and any other relevant facts and circumstances related to the transaction—shall be considered:

a. Whether the seller has a continuing involvement in the transaction or in the financial interest transferred, such as through the exercise of managerial authority to a degree usually associated with ownership;

b. Whether there is an absence of significant financial investment by the buyer in the financial interest transferred, as evidenced, for example, by a token down payment or by a concurrent loan to the buyer;

c. Whether repayment of debt that constitutes the principal consideration in the transaction is dependent on the generation of sufficient funds from the asset transferred;

d. Whether limitations or restrictions exist on the buyer’s use of the financial interest transferred or on the profits arising from it;
e. Whether there is retention of effective control of the financial interest by the seller.

15. A transaction between related parties may meet the criteria for treatment as an economic transaction at one level of financial reporting, but may not meet such criteria at another level of financial reporting. An example of such a transaction is a reporting entity purchasing securities at fair value from an affiliated reporting entity that carried the securities at amortized cost. This transaction meets the criteria of an economic transaction at this level of financial reporting, and therefore, the selling reporting entity would record a gain and the acquiring reporting entity would record the securities at their cost (fair value on the transaction date). At the common parent level of reporting, this transaction has resulted in the mere inflation of surplus, and therefore, is a non-economic transaction. The parent reporting entity shall defer the net effects of any gain or increase in surplus resulting from such transactions by recording a deferred gain and an unrealized loss. The deferred gain shall not be recognized by the parent reporting entity unless and until arms-length transaction(s) with independent third parties give rise to appropriate recognition of the gain.

16. A non-economic transaction is defined as any transaction that does not meet the criteria of an economic transaction. Similar to the situation described in paragraph 15, transfers of assets from a parent reporting entity to a subsidiary, controlled or affiliated entity shall be treated as non-economic transactions at the parent reporting level because the parent has continuing indirect involvement in the assets.

17. When accounting for a specific transaction, reporting entities shall use the following valuation methods:

a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under common control, the controlling reporting entity shall defer the effects of such transactions that result in gains or increases in surplus (see paragraph 15);

b. Non-economic transactions between reporting entities, which meet the definition of related parties above, shall be recorded at the lower of existing book values or fair values at the date of the transaction;

c. Non-economic transactions between a reporting entity and an entity that has no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, that gain shall be deferred until such time as permanence can be verified;

d. Transactions which are designed to avoid statutory accounting practices shall be reported as if the reporting entity continued to own the assets or to be obligated for a liability directly instead of through a subsidiary.

Examples of transactions deemed to be non-economic include security swaps of similar issues between or among affiliated companies, and swaps of dissimilar issues accompanied by exchanges of liabilities between or among affiliates.

Transactions Involving Services

18. Transactions involving services between related parties can take a variety of different forms. One of the significant factors as to whether these transactions will be deemed to be arm’s length is the amount charged for such services. In general, amounts charged for services are based either on current market rates or on allocations of costs. Determining market rates for services is difficult because the circumstances surrounding each transaction are unique. Unlike transactions involving the exchange of assets and liabilities between related parties, transactions for services create income on one party’s books and expense on the second party’s books, and therefore, do not lend themselves to the mere inflation of surplus. These arrangements are generally subject to regulatory approval.
19. Transactions involving services provided between related parties shall be recorded at the amount charged. Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action. Expenses that result from cost allocations shall be allocated subject to the same fair and reasonable standards, and the books and records of each party shall disclose clearly and accurately the precise nature and details of the transaction. See SSAP No 70—Allocation of Expenses for additional discussion regarding the allocation of expenses.

Disclosures

20. The financial statements shall include disclosures of all material related party transactions. In some cases, aggregation of similar transactions may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm's-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:

a. The nature of the relationships involved;

b. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

   i. Date of transaction;
   
   ii. Explanation of transaction;
   
   iii. Name of reporting entity;
   
   iv. Name of affiliate;
   
   v. Description of assets received by reporting entity;
   
   vi. Statement value of assets received by reporting entity;
   
   vii. Description of assets transferred by reporting entity; and
   
   viii. Statement value of assets transferred by reporting entity.

c. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period;

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2 The amount charged shall be reviewed when there are any modifications or waivers subsequent to the establishment of the contract terms. If waivers or modifications to amounts charged occur, the related party transaction shall be reassessed to determine whether the contract continues to reflect fair and reasonable standards. If the transaction was with a parent or other stockholder and the charge for services has been fully waived, then the guidance in SSAP No. 72 for recognition as contributed capital (forgiveness of reporting entity obligation) or as a dividend (forgiveness of amount owed to the reporting entity) shall apply.
d. **Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement:**

e. Any guarantees or undertakings, written or otherwise, shall be disclosed in accordance with the requirements of SSAP No. 5R. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed;

f. **A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party.** This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts, which remove assets otherwise recordable (and potentially nonadmitted) on the reporting entity's financial statements;

g. The nature of the control relationship whereby the reporting entity and one or more other enterprises are under common ownership or control and the existence of that control could result in operating results or financial position of the reporting entity significantly different from those that would have been obtained if the enterprises were autonomous. The relationship shall be disclosed even though there are no transactions between the enterprises; and

h. The amount deducted from the value of an upstream intermediate entity or ultimate parent owned, either directly or indirectly, via a downstream subsidiary, controlled, or affiliated entity, in accordance with the *Purposes and Procedure Manual of the NAIC Investment Analysis Office,* “Procedures for Valuing Common Stocks and Stock Warrants.”

**Current Annual Statement Illustrations for Completing Disclosures:**

**Illustration:**


D. At December 31, 20____, the Company reported $__________ as amounts due to the Parent Company, The ABC Insurance Company. The terms of the settlement require that these amounts be settled within 30 days.

E. The Company has given XYZ Inc., an affiliated company, a standing commitment until January 1, 20____, in the form of guarantees in the event of a default of XYZ on various of its debt issues as disclosed in Note 14.

F. The Company has agreed to provide the Parent Company, The ABC Insurance Company, certain actuarial investment services with respect to the administration of certain large group insurance contracts that are subject to group experience rating procedures.

The Parent Company has agreed to provide collection services for certain contracts for the Company.

G. All outstanding shares of The Company are owned by the Parent Company, The ABC Insurance Company, an insurance holding company domiciled in the State of ______________.

H. The Company owns shares of the stock of its ultimate parent, The ABC Insurance Company. A wholly owned subsidiary of the Company, The XYZ Insurance Company, owns shares of The ABC Insurance Company. In accordance with Securities Valuation Office guidelines, the asset value of
The ABC Insurance Company has been reduced by $__________, and the asset value of the XYZ Insurance Company has been reduced by $__________.

I. The Company owns a_______ % interest in ABC Non-Insurance Company, whose carrying value is equal to or exceeds 10% of the admitted assets of The Company. The Company carries ABC Non-Insurance Company at GAAP equity plus the remaining Goodwill balance of $ _______. Goodwill is amortized on a straight-line basis over a ten-year period.

At 12/31/20___, The Company’s interest in ABC Non-Insurance Company per the New York Stock Exchange quoted price was valued at $__________, that was $ ________ in excess of the carrying value.

Based on The Company’s ownership percentage of ABC Non-Insurance Company, the statement value of ABC Non-Insurance Company assets and liabilities as of 12/31/20__ were $ _______ and $_______, respectively.

The Company’s share of net income of ABC Non-Insurance Company was $ _______ for the year ended 12/31/20__.

The Company has a 25% limited partnership interest in XYC Real Estate Partners. The partnership investment in office properties in the NE United States has been adversely affected by corporate restructuring. This has affected the value of the properties that resulted in the write-down of the Company’s investment in XYC Real Estate Partners of $ _______ for the year ended 12/31/20__.

Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): On August 3, 2019, the Working Group adopted revisions to SSAP No. 25—Affiliates and Other Related Parties, SSAP No. 26R—Bonds, SSAP No. 32—Preferred Stock, SSAP No. 43R—Loan-backed and Structured Securities, and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies to clarify the application of SSAP No. 25, as well as an “affiliated” classification, when a transaction is in substance a related party transaction. The revisions to SSAP No. 25 clarified that when determining a related party transaction, consideration shall be given to the substantive of the agreements, and the parties whose actions or performance materially impact the insurance reporting entity under the transaction. From these revisions, the following guidance was added as a new paragraph 2 to SSAP No. 25:

2. This statement shall be followed for all related party transactions even if the transaction is also governed by other statutory accounting principles. Furthermore, this statement shall be followed in all transactions which involve unrelated parties as intermediaries between related parties. In determining whether a transaction is a related party transaction, consideration shall be given to the substance of the agreement, and the parties whose actions or performance materially impact the insurance reporting entity under the transaction. For example, an investment acquired from a non-related intermediary, in which the investment return is predominantly contingent on the performance of a related party, shall be considered a related party investment. As a general principle, it is erroneous to conclude that the mere inclusion of a non-related intermediary eliminates the requirement to assess and properly identify the related party transaction in accordance with the provisions of this statement. It is also erroneous to conclude that the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to assess and identify the investment transaction as a related party arrangement.

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

Convergence with International Financial Reporting Standards (IFRS) and U.S. GAAP: None
Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose the proposed data-capture templates. A blanks proposal to expose is anticipated to occur concurrently with the Working Group exposure. With inclusion of the data templates, narrative (pdf) reporting shall still occur to provide additional information regarding the related party transactions. NAIC staff notes that the current narrative illustrations are fairly simple. NAIC staff requests comments on whether more robust illustrations are necessary, or whether the disclosures that historically have been provided in the financial statements have included the extent of information necessary and more detailed illustrations are not necessary in the annual statement instructions. **Note:** Transactions with affiliates detailed in Schedule Y – Part 2, Summary of Insurer’s Transactions with Any Affiliates would not need to be duplicated in these data-captured charts. Narrative disclosure information regarding the transactions captured in Schedule Y-2 shall continue to be reported consistently with past reporting.

**Proposed Data Capture Templates:**

1) **Detail of Material Related Party Transactions**

This data-template includes aspects from paragraphs 20, 20.b.i, 20.b.ii, 20.b.iii, 20.b.iv and 20.c.

Note – The information regarding the written agreement and due date are not specifically named in the SSAP No. 25 disclosure listing but are addressed in paragraph 7 of SSAP No. 25. Since paragraph 7 requires a written agreement with an established due date for admittance, these components are anticipated elements that would be disclosed in the 20.b provisions that require “description of the transactions for each of the periods in which financial statements are presented, and other such information considered necessary to obtaining an understanding of the effect of the transactions on the financial statements.”

Material related party transactions shall be captured in this template each year until the agreement / transaction has termination. (For example, if the agreement is a material service contract, it shall be disclosed in this template each year after origination of the contract until the contract is terminated.)

**Proposed Data-Capturing Templates:**

Each Material Related Party Transaction Listed Separately:

(Related parties may be listed more than once if more than one material related party transaction.)

**Note:** Transactions involving affiliates captured on Schedule Y-2 do not need to be duplicated in these charts.

<table>
<thead>
<tr>
<th>Date of Transaction</th>
<th>Name of Related Party</th>
<th>Nature of Relationship</th>
<th>Type of Transaction</th>
<th>Written Agreement (Y/N)</th>
<th>Due Date</th>
<th>Reporting Period Date Due From (To)</th>
</tr>
</thead>
</table>

Options for Type of Transaction:

- Loan
- Exchange of Assets or Liabilities (e.g., buys, sells and secured borrowing transactions)
- Management Services
- Cost-Sharing Agreement
• Other Transactions Involving Services
• Guarantee (e.g., guarantees to related parties, on behalf of, and when beneficiary is related party)
• Other

2) **Detail of Material Related Party Transactions Involving Services**

This data-template includes aspects from paragraphs 20, 20.b.ii, 20.c and 20.f. (This chart provides additional information on service arrangements captured in chart 1.)

Note – The information regarding the amount charged, and whether the amount charged was based on an allocation of costs or market rates are not specifically named in the SSAP No. 25 disclosure listing but are addressed in paragraph 17 of SSAP No. 25. These components are anticipated elements that would be addressed in disclosure 20f with the “description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party.”

**Transactions Involving Services:**
*Include transactions involving management services, cost-sharing agreements and other transactions involving services.*

<table>
<thead>
<tr>
<th>Name of Related Party</th>
<th>Overview Description</th>
<th>Amount Charged</th>
<th>Amount Based on Allocation of Costs or Market Rates</th>
<th>Amount Charged Modified or Waived (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3) **Detail of Material Related Party Transactions Involving Exchange of Assets and Liabilities**

This data-template includes aspects from paragraphs 20, 20.b.ii, 20.b.v, 20.b.vi, 20.b.vii, 20.b.viii, and 20.c. (This chart provides additional information on asset/liability exchanges captured in chart 1.)

**Transactions Involving Exchange of Assets and Liabilities:**
*Include loans, buys, sells and secured borrowing transactions.*

<table>
<thead>
<tr>
<th>Name of Related Party</th>
<th>Overview Description</th>
<th>Description of Assets Received</th>
<th>Description of Assets Transferred</th>
<th>Statement Value of Assets Received</th>
<th>Statement Value of Assets Transferred</th>
<th>Have Terms Changed from Preceding Period? (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4) **Detail of Amounts Owed To/From a Related Party**

This data-template includes aspects from paragraph 20d. This data template shall include each related party that is identified with material transactions in chart 1 but shall include the total amount due from / to from that
related party. If there are transactions with the related party that were not captured in Chart 1 (perhaps as they were not material), they should be captured in the overall amount due from / to the related party.

This chart shall include related parties with immaterial transactions (not captured in Chart 1), if the aggregation of all transactions with the related party would be material to the reporting entity. (It is not required to include related parties in this chart if the transactions with the related party were individually immaterial and immaterial in the aggregate.)

Note: Pursuant to SSAP No. 64, paragraph 5 amounts due to or from affiliates shall be offset and reported net only when the provisions of paragraph 2 (valid right of setoff exists).

Aggregate Reporting by Related Party

<table>
<thead>
<tr>
<th>Name of Related Party</th>
<th>Aggregate Reporting Period Amount Due From</th>
<th>Aggregate Reporting Period (Amount Due To)</th>
<th>Amount Offset in Financial Statement (if qualifying)</th>
<th>Net Amount Recoverable / (Payable) by Related Party</th>
<th>Admitted Recoverable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Each related party shall be included only once.

Staff Review Completed by: Julie Gann – October 2019

Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the proposed data-capture templates, as illustrated above. This exposure does not propose revisions to SSAP No. 25.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 25—Affiliates and Other Related Parties, as illustrated below.

1. The exposed data-capture templates, as illustrated above, to data-capture disclosures from SSAP No. 25—Affiliates and Other Related Parties, which are currently in narrative format. A referral will be sent to the Blanks (E) Working Group to consider this for 2020 annual reporting.

2. Added an additional phrase to the existing disclosure in SSAP No. 25, paragraph 20, recommended by interested parties and illustrated below.

Disclosures

19. The financial statements shall include disclosures of all material related-party transactions. In some cases, aggregation of similar transactions, that on a stand-alone basis are not material, may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm’s-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:
a. The nature of the relationships involved;

b. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Acceptable Collateral - Counterparty Exposure for Derivative Instruments.

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of Existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Issue or SSAP</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>Interpretation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Summary of Issue:
Potential misinterpretation for Blank instructions on Schedule DB-D, section 1, column 4 (Fair Value of Acceptable Collateral) exist as collateral is reported as 1) the fair value of collateral pledged by a counterparty, or 2) for central clearinghouses as the net positive variation margin received by the reporting entity.

NAIC staff believes the intent of net positive variation margin was originally meant to reflect net realizable margin. For example, if a reporting entity originally paid $5k as collateral to initiate a position, then subsequently received $15k in variation margin true-up, the reporting entity should report $10k in the fair value of acceptable collateral (assuming the counterparty has the legal right to offset the original $5k received). With the legal right to offset, in this example the holder can only realize a net $10k in collateral if liquidation were to occur. As the instructions indicate “net positive variation margin,” the variation collateral of $15k could be reported, disregarding the $5k initial margin.

Conversely, had the reporting entity received $5k in initial margin, and a subsequent $20k in variation margin, a total of $25k should be reported as collateral, thus giving credit for the initial margin received. NAIC staff believe this intent is articulated in SSAP No. 86, as collateral is defined in the disclosures as “net assets held.”

This agenda item included proposed clarification language that states collateral shall be determined by the summation of any assets held less any collateral paid/pledged from collateral received, if the counterparty has a legal right to offset as defined in SSAP No. 64.

Further Background:
Schedule DB – Part D, Section 1 of the Blanks facilitates reporting of counterparty exposure from open derivative instruments. As described in the Blanks instructions, counterparty exposure is credit risk associated with certain types of transactions; in relation to schedule DB, it is the credit risk associated with the use of derivative instruments. Schedule DB-D, Section 1 displays the book/adjusted carrying value and the fair value of counterparty exposure, net of acceptable collateral held by or pledged to the reporting entity. Due to the nature of risk being calculated and displayed net of collateral, this Form A is to facilitate a discussion regarding the technical definition regarding determination of value as it relates to collateral.

In 2012, the Blanks (E) Working Group adopted modifications to numerous derivative statements and related instructions. These updates were driven by differing clearing and collateral requirements for certain types of derivative investments as well as the need to ensure consistent and accurate reporting of derivative investment activity of insurers.

Various concepts were introduced including Schedule DB – Part D, Section 2, which captures detailed collateral information for open derivative instruments. Collateral held or received through a pledge typically covers some or all of the credit risk the holder possesses due to transactions exchanged with a counterparty. In terms of derivative
contracts, **collateral may be pledged** to exchanges, counterparties, clearing brokers or central clearinghouses by the **reporting entity** or pledged from these organizations to the **reporting entity**. While the specific items that are considered acceptable collateral are detailed herein, a common term for collateral is “margin.” There are typically three types of margin that apply to these financial instruments, broadly defined as:

- **Initial Margin** - the minimum amount of equity that must be held/pledged to **initiate** a position.
- **Maintenance Margin** - the minimum amount of equity that must be **maintained** in order to not have the position forcibly liquidated. Also defined as the net sum of initial and variation margin.
- **Variation Margin** - payments generally made based on adverse price movements, often paid by clearing members to reduce exposures created by open derivative positions. Variation margin could also be as a result of changes in maintenance margin requirements. The term **Variation Margin** for statutory purposes is defined below.

In the normal course of business, all applicable cashflows are typically utilized in the reporting of an activity. In the instance of margin, initial margin plus/minus variation margin equals total margin. Remaining within **SSAP No. 86—Derivatives**, there are many instances that demonstrate this principal. As described for the initial carrying value of a futures contract (reported as an asset), paraphrased guidance states that positions should be valued at the initial amount of cash deposits plus/minus any subsequent cash flows. Additionally, options, warrants, caps, and floors are initially valued at total premium paid or received. While subsequent valuations may differ (amortized cost or fair value depending on the reporting of the item being hedged), all associated cash flows were utilized for reporting.

**Existing Authoritative Literature:**
While described in general terms above, statutory accounting guidance for variation margin is as follows:

**SSAP No. 86 – Derivatives**

15. **“Variation Margin”** reflects the daily change in market value of derivative contracts (e.g., daily gain/loss on a derivative contract due to market movements). Amounts received/paid to adjust variation margin on derivative contracts that are both cleared and settled on an exchange shall be recognized as an adjustment to the carrying value of the derivative contract (e.g., futures). Amounts received/paid to adjust variation margin on all other derivative contracts shall be recognized on the balance sheet as an asset or liability separate from the carrying value of the derivative instrument. This treatment shall occur under statutory accounting regardless if the counterparty/exchange considers amounts exchanged for variation margin to be legal settlement or collateral. Changes in variation margin shall not be treated as realized gains or adjustments to the basis of the hedged item until the derivative contract has been sold, matured or expired.

Blanks instructions regarding the reporting of acceptable collateral, as it relates to counterparty exposures from open derivative investments, is as follows:

**Schedule DB – Part D – Section 1, Column 4 (Fair Value of Acceptable Collateral)**

- Fair Value of Acceptable Collateral
- Leave blank for the aggregate reporting of Exchange-Traded Derivatives (Line 0199999999).
- For OTC counterparties, show the Fair Value of acceptable collateral pledged by the counterparty.
- For central clearinghouses, this amount would be the **net positive variation margin received** by the reporting entity.

"**Acceptable collateral**" means cash, cash equivalents, securities issued or guaranteed by the United States or Canadian governments or their government-sponsored enterprises, letters of credit, publicly
traded obligations designated 1 by the SVO, government money market mutual funds, and such other items as may be defined as acceptable collateral in the Purposes and Procedures Manual of the NAIC Investment Analysis Office. For purposes of this definition, the term “letter of credit” means a clean, irrevocable and unconditional letter of credit issued or confirmed by, and payable and presentable at, a financial institution on the list of financial institutions meeting the standards for issuing such letter of credit published pursuant to the Purposes and Procedures Manual of the NAIC Investment Analysis Office. The letter of credit must have an expiration date beyond the term of the subject transaction.

SSAP No. 86 defines several disclosure items related to collateral. The primary intent of such disclosures is to reflect amounts available to cover exposure in the event the liquidation of collateral assets occurs. Key areas are highlighted herein.

Disclosure Requirements

59. Reporting entities shall disclose the following for all derivative contracts used:

e. A seller of credit derivatives shall disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives to enable users of financial statements to assess their potential effect on its financial position, income and cash flows. The seller of a credit derivative shall disclose the following information for each credit derivative, or each group of credit derivatives, even if the likelihood of the seller’s having to make any payments under the credit derivative is remote. With respect to hybrid instruments that have embedded credit derivatives, the seller of the embedded credit derivative shall disclose the required information for the entire hybrid instrument, not just the embedded credit derivative.

i. The nature of the credit derivative, including the approximate term of the credit derivative, the reason(s) for entering into the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the credit derivative. For example, the current status of the payment/performance risk of a credit derivative could be based on either recently issued external credit ratings or current internal groupings used by the seller to manage its risk. An entity that uses internal groupings shall disclose how those groupings are determined and used for managing risk.

ii. The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed under paragraph 59.e.iv.). If the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the seller shall disclose the reasons why it cannot estimate the maximum potential amount.

iii. The fair value of the credit derivative as of the date of the statement of financial position.

iv. The nature of (1) any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative and (2) any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. The seller shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the credit derivative. In its estimate of potential recoveries, the seller of credit...
protection shall consider the effect of any purchased credit protection with identical underlying(s).

f. A holder of a financial instrument with an embedded credit derivative that exposes the holder to the possibility (however remote) of being required to make future payments (not merely receive reduced cash inflows) because the possibility of those future payments is not caused by subordination (such as the subordination of one beneficial interest to another tranche of a securitization, thereby redistributing credit risk) shall provide the following disclosures for the entire hybrid instrument, not just the embedded credit derivative:

i. The nature of the embedded credit derivative, including the approximate term of the embedded credit derivative, the events or circumstances that would require the holder to perform under the embedded credit derivative, and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the embedded credit derivative.

ii. The maximum potential amount of future payments (undiscounted) the holder could be required to make under the embedded credit derivative. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the embedded credit derivative (which are addressed under paragraph 59.f.iv.). If the terms of the embedded credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. If the holder is unable to develop an estimate of the maximum potential amount of future payments under the embedded credit derivative, the holder shall disclose the reasons why it cannot estimate the maximum potential amount.

iii. The fair value of the hybrid instrument containing the embedded credit derivative as of the date of the statement of financial position.

iv. The nature of (1) any recourse provisions that would enable the holder to recover from third parties any of the amounts paid under the embedded credit derivative and (2) any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the embedded credit derivative, the holder can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. The holder shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the embedded credit derivative. In its estimate of potential recoveries, the holder of credit protection shall consider the effect of any purchased credit protection with identical underlying(s).

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, categorized as nonsubstantive and expose revisions to SSAP No. 86 to clarify that the fair value of collateral received or held, for derivative disclosure purposes, shall be reported net of collateral paid/pledged, in the event a counterparty
has the legal right to offset against as defined in SSAP No. 64. Further, minor updates to applicable annual statement instructions are proposed to be concurrently exposed.

Disclosure Requirements
60. Reporting entities shall disclose the following for all derivative contracts used:

e. A seller of credit derivatives shall disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives to enable users of financial statements to assess their potential effect on its financial position, income and cash flows.

A seller of credit derivatives shall disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives to enable users of financial statements to assess their potential effect on its financial position, income and cash flows. The seller of a credit derivative shall disclose the following information for each credit derivative, or each group of credit derivatives, even if the likelihood of the seller’s having to make any payments under the credit derivative is remote. With respect to hybrid instruments that have embedded credit derivatives, the seller of the embedded credit derivative shall disclose the required information for the entire hybrid instrument, not just the embedded credit derivative.

i. The nature of the credit derivative, including the approximate term of the credit derivative, the reason(s) for entering into the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the credit derivative. For example, the current status of the payment/performance risk of a credit derivative could be based on either recently issued external credit ratings or current internal groupings used by the seller to manage its risk. An entity that uses internal groupings shall disclose how those groupings are determined and used for managing risk.

ii. The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed under paragraph 59.e.iv.). If the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the seller shall disclose the reasons why it cannot estimate the maximum potential amount.

iii. The fair value of the credit derivative as of the date of the statement of financial position.

iv. The nature of (1) any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative and (2) any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. The seller shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the credit derivative. In its estimate of potential recoveries, the seller of credit protection shall consider the effect of any purchased credit protection with identical underlying(s).

1 Collateral, as calculated on an individual derivative instrument basis, shall be determined by deducting collateral paid/placed from collateral received if the counterparty has a legal right to offset as defined in SSAP No. 64.
f. A holder of a financial instrument with an embedded credit derivative that exposes the holder to the possibility (however remote) of being required to make future payments (not merely receive reduced cash inflows) because the possibility of those future payments is not caused by subordination (such as the subordination of one beneficial interest to another tranche of a securitization, thereby redistributing credit risk) shall provide the following disclosures for the entire hybrid instrument, not just the embedded credit derivative:

i. The nature of the embedded credit derivative, including the approximate term of the embedded credit derivative, the events or circumstances that would require the holder to perform under the embedded credit derivative, and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the embedded credit derivative.

ii. The maximum potential amount of future payments (undiscounted) the holder could be required to make under the embedded credit derivative. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the embedded credit derivative (which are addressed under paragraph 59.f.iv.). If the terms of the embedded credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed. If the holder is unable to develop an estimate of the maximum potential amount of future payments under the embedded credit derivative, the holder shall disclose the reasons why it cannot estimate the maximum potential amount.

iii. The fair value of the hybrid instrument containing the embedded credit derivative as of the date of the statement of financial position.

iv. The nature of (1) any recourse provisions that would enable the holder to recover from third parties any of the amounts paid under the embedded credit derivative and (2) any assets held either as collateral\(^2\) or by third parties that, upon the occurrence of any specified triggering event or condition under the embedded credit derivative, the holder can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. The holder shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the embedded credit derivative. In its estimate of potential recoveries, the holder of credit protection shall consider the effect of any purchased credit protection with identical underlying(s).

Proposed Blank Instructions Updates – Schedule DB-B, Section 1, Column 4

**Fair Value of Acceptable Collateral**

Leave blank for the aggregate reporting of Exchange-Traded Derivatives (Line 0199999999).

For OTC counterparties, show the Fair Value of acceptable net collateral pledged by the counterparty.

For central clearinghouses, this amount would be the total net positive variation margin received by the reporting entity.

Staff Review Completed by: Jim Pinegar, October 2019

\(^2\) See footnote 1.
Status:
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 86—Derivatives, as illustrated above, to clarify that the fair value of collateral received or held, for derivative disclosure purposes, shall be reported net of collateral paid/pledged, in the event a counterparty has the legal right to offset against, as defined in SSAP No. 64—Offsetting and Netting of Assets and Liabilities. Minor updates to the applicable annual statement instructions were also proposed to be concurrently exposed.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group disposed this agenda item without statutory revisions. The original intent was to facilitate a discussion regarding whether a reporting entity should report or potentially receive ‘credit’ for initial margin pledged from a counterparty in central clearinghouse transactions, but it is noted that third-party derivative exposure is appropriately captured in the existing disclosure requirements and in the annual statements.
# Comment Letters Received

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May 29, 2020

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 During the NAIC Spring National Meeting Conference call with Comments due May 29

Dear Mr. Bruggeman:

Interested parties thank the NAIC Statutory Accounting Principles (E) Working Group (the “Working Group”) for your continuing effort to address the various statutory accounting issues arising from the ongoing pandemic caused by the novel coronavirus, COVID-19. We appreciate the opportunity to comment on the exposure drafts released for comment by the Working Group during its discussion on March 18, 2020. We offer the following comments:

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

The Working Group exposed the Issue Paper No. 1XX—Preferred Stock and substantively-revised draft SSAP No. 32—Preferred Stock with edits to reflect comments received from interested parties as well as a January 1, 2021 effective date.

Interested parties agree with the revisions made in response to our comments and the January 1, 2021 effective date.

Interested parties acknowledge the proposed footnote regarding preferred units issued by SSAP 48 entities. However, we suggest the wording changes in underline below so not to introduce a change in accounting or diversity in practice since the issuance of preferred units that are similar to preferred stock of a corporation generally occur in LLCs that are more corporate-like.

“Certain legal entities captured in SSAP No. 48 such as LLCs that are corporate-like do not issue preferred stock in legal form, but instead issue identical instruments labeled preferred units, interests, or shares. These instruments shall be captured in this statement...
provided they meet the structural characteristics as defined in paragraph 3. Additionally, these instruments shall not be in-substance common stock in which the holder has risk and reward characteristics that are substantially similar to common stock.”

Ref #2019-14: Attribution of Goodwill

The Working Group exposed this agenda item, with a revision from the prior exposure to exclude “pushdown” goodwill until the decision from the Working Group on that issue has been addressed. Additionally, the proposed disclosure included in the last exposure has been slightly modified to detail the downstream holding company application and the attribution of goodwill.

Interested parties thank the NAIC staff for meeting with a group of us to discuss this proposal and the circumstances it is intended to address. After discussing the proposal further with additional companies, we believe the draft guidance is complex and should be supplemented with illustrative guidance, i.e., a decision tree and an expansion of the examples in the proposal, to fully illustrate how the guidance is to be applied and improve consistency of application. To that end, we request a three-week extension during which we can develop the illustrative guidance and bring it back to the Working Group for consideration.

Ref #2019-38: Financing Derivatives

The Working Group exposed this agenda item with slight revisions from the prior exposure to delete the proposed new paragraph 19.c., as recommended by interested parties. The exposed revisions are intended to ensure consistency in the gross reporting of derivatives, without inclusion of financing components, and in reporting amounts owned to/from the reporting entity from the acquisition or writing of derivatives. With this exposure, a blanks proposal will be sponsored and notice of the proposed edits will be provided to the Capital Adequacy (E) Task Force.

Interested parties have no comments on this item.

Ref #2020-02: Accounting for Bond Tender Offers

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 26R—Bonds, to clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a call or a tender offer, shall be similarly applied. The current guidance refers to “prepayment penalties or acceleration fees in the event the bond is liquidated prior to its schedule termination date,” and includes all dynamics in which an issuer provides a penalty/fee to the holder to terminate the bond.

Interested parties request that the effective date for the updated guidance be set at January 1, 2021, so that insurers have sufficient time to make necessary systems changes to treat the excess compensation over market as a prepayment penalty as described in the updated guidance.
Ref #2020-03: Enhanced Goodwill Disclosures

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 68—Business Combinations and Goodwill, as illustrated above, to add additional goodwill disclosures. The proposed disclosures will improve the validity and accuracy of numbers currently being reported and will assist with the regulators’ review of reported assets not readily available for the payment of policyholder claims. Revisions to Schedule D, Part 6, Section 1 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies and Schedule D, Part 6, Section 2 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies primarily focus on the current reference to intangible assets.

Interested parties request that the proposal be revised (similar to Ref #2019-14) to exclude “pushdown” goodwill until the Working Group concludes on that issue. We also note that item 3 of the Description of the Issue on page 1 should be corrected as follows:

The goodwill limitation of 10% of the insurance reporting entity’s goodwill capital and surplus is a calculation. . .

Ref #2020-04: Commissioner Discretion in the Valuation Manual

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 54R—Individual and Group Accident and Health Contracts to note that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the Valuation Manual, shall be reported as a change in valuation basis. A notification of this exposure will be sent to the Life Actuarial (A) Task Force.

Interested parties have no comment on this item.

Ref #2020-05: Repeal of the Affordable Care Act Section 9010 Assessment

The Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the intent to supersede SSAP No. 106—Affordable Care Act Section 9010 Assessment and nullify INT 18-02: ACA Section 9010 Assessment Moratoriums which would move both SSAP No. 106 and INT 18-02 to Appendix H—Superseded Statements of Statutory Accounting Principles and Nullified Interpretations, effective Jan. 1, 2021.

Referrals will be sent to the Blanks (E) Working Group, to ensure the annual statement disclosures related to SSAP No. 106 in Note 22 are removed from the annual statement instructions and annual statement blank beginning in reporting year 2021, and to the Health Risk Based Capital (E) Working Group for RBC implications related to the 2021 removal of the federal ACA adjustment sensitivity test which uses data from the SSAP No. 106 disclosures.
Interested parties support the conclusion reached for this item. We note, however, that annual statement disclosures in the 2020 blanks would apparently still be required and recommend that the disclosures be simplified considering the repeal of the Assessment. Specifically, the disclosures should be moved to note 21.C as Other Disclosures for year-end 2020 (since not a subsequent event) and then removed entirely for year-end 2021 as proposed; the disclosures should be limited to the amount of the assessment paid in the current and prior year, the amount of premium written for the prior year that is the basis for the determination of the section 9010 fee assessment paid in the current year (net assessable premium), and the estimated amount of the assessment that was payable in the current year as of the end of the prior year.

* * *

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
April 27, 2020

Dale Bruggeman, Chairman  
Statutory Accounting Principles (E) Working Group  
c/o National Association of Insurance Commissioners

Attn: Robin Marcotte  
Via e-mail: RMarcotte@NAIC.org

Ref: 2020-13 – Request on 2020 Health Insurance Assessment

Dear Chairman Bruggeman:

To confirm our recent email transmission, after discussion with members and review of the referenced exposure and the NAIC staff’s recommendation that SAPWG reject our request, please consider this letter as AHIP’s withdrawal of that request.

We appreciate NAIC Staff’s view (as expressed in SAPWG exposure 2020-13) that the subject of SSAP No. 106 interim reporting relief is a matter that could warrant domiciliary state regulator review for consideration as either a permitted or prescribed practice. We would be grateful if you would share with SAPWG members our concerns that the dynamic nature of the pandemic might make such action appropriate in some states, and that other issues may yet arise that would require involvement by SAPWG at the NAIC level.

As always, we appreciate the courtesies, accessibility, and candor extended to AHIP by you, Ms. Marcotte, and Ms. Gann.

Sincerely,

America’s Health Insurance Plans

Bob Ridgeway
Re: INT 20-09T – Basis Swaps – LIBOR Transition

Dear Mr. Bruggeman:

Thank you for the opportunity to comment and provide suggested edits to INT 20-09, Basis Swaps – LIBOR Transition. We appreciate the ongoing collaboration with NAIC staff, in particular their efforts to bring this matter to the forefront so quickly.

Interested parties support the staff’s recommendation.

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: Interested Parties
Statutory Accounting Principles (E) Working Group  
March 18, 2020 Conference Call*  
(*When originally posted, was previously referred to as the 2020 Spring National Meeting)  

Comment Letters Received

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January 31, 2020

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 During the NAIC Winter National Meeting with Comments due January 31

Dear Mr. Bruggeman:

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

Ref #2018-26: SCA Loss Tracking – Accounting Guidance

The Working Group exposed revisions, with modifications suggested by interested parties to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets to expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the equity value of an SCA investment. With the revisions, the equity value of an SCA would not go negative, and guaranteed 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 also be inserted into SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

Interested parties have no comment on this item.

Ref #2018-38: Prepayments to Service and Claims Adjusting Providers

NAIC Staff recommended that the Working Group expose revisions incorporating the majority of interested parties’ comments to SSAP No. 55 (rather than the changes reflected in the draft for the Summer 2019 exposure). Interested parties’ comments primarily delete the exposed guidance and move the same or similar concepts into the broad product guidance for property and casualty, life and health or health in SSAP No. 55. These revisions are to reinstate annual statement references by entity type and to adjust scoping language and make the SSAP No. 29
prepaid guidance consistent. (Staff proposed variations in wording are shaded to differentiate from the interested parties proposed wording that accomplishes a similar intent.)

The exposed revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses incorporate interested parties’ previous 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 related liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted.

Interested parties have no comment on this item.

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

The Working Group exposed a revised Issue Paper No. IXX—Preferred Stock and a substantively-revised draft SSAP No. 32—Preferred Stock as part of the Investment Classification Project.

Interested parties substantially agree with the objectives of the proposal and appreciate Staff’s inclusion of revisions for previously communicated comments. We have the following additional comments related to the issue paper:

Scope

Interested parties note that the scope retains, albeit edited, the guidance that preferred stock of subsidiary, controlled and affiliated entities is included and therefore accounted for under the guidance for preferred stock regardless of their SCA character. We acknowledge the current exposure added the requirement to file investments in response to our request. The existing wording in SSAP No. 32 and the exposed language for SSAP No. 32 is below with interested parties suggested clarifying sentence and additional wording (underlined).

Existing language in SSAP No. 32:

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

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

Exposed language in SSAP No. 32 and interested parties suggested additional sentence (underlined):
SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

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

Definitions

We are opposed to the proposed edits to the definitions of redeemable and perpetual preferred stock for the following reasons:

a. The change would create a divergence from GAAP that does not exist under the current definitions. Both the definition and accounting for redeemable securities under the current definition aligns with the GAAP definition and accounting for debt securities. Preferred stock accounted for as debt securities under GAAP are those where ability for the holder to collect repayment is assured by the contract terms. We have not identified any benefit to diverging from this view for statutory reporting. The NAIC guidance is different from the GAAP ASC 480 guidance for issuers in multiple ways:

- Preferred stock redeemable at the option of the holder for GAAP is classified as equity (mezzanine equity for SEC filers) but under statutory reporting currently (and proposed) is classified as debt-like in valuation. This conflicts with GAAP ASC 480 guidance for issuers and so it is more straightforward to use the GAAP ASC guidance for holders.
- Alignment of statutory accounting with the ASC 320 guidance for holders results in more equity-like classification in the valuation of preferred stock which is generally more conservative than debt-like classification in valuation.
- Preferred stock redeemable for other reasons outside of issuer’s control is equity (mezzanine equity for SEC filers) for GAAP but equity-like in valuation under current statutory reporting and debt-like in valuation under the proposed statutory reporting.

b. The definition that the NAIC staff has proposed to align to is used in GAAP only for compliance with SEC Regulation S-X, Rule 5-02, which is relevant only to the issuer of preferred stock and does not apply to nonpublic companies. Further, the definitions under Rule 5-02 were designed to include preferred stock with redemption features outside of the control of the issuer in order to provide investors information regarding...
potential future cash obligations. This is not a relevant consideration for the holder of preferred stock, which is why GAAP does not consider this from the holder’s perspective. From the holder’s perspective, the only relevant consideration is whether the holder is able to redeem its investment, either through a fixed and determinable date, or through a redemption option that the holder can control.

c. Evaluation of whether there are any features that are outside the control of the issuer is a very complex and cumbersome analysis, even on an infrequent basis as is the case under GAAP (as it only applies to issuers). This is because there are a vast number of potential features that could be outside the control of the issuer (i.e., change in control, lapse in SEC registration, failure to pay dividend, etc.). Insurance companies frequently invest in preferred stock and often purchase many such securities each reporting period. Evaluating every preferred stock investment at this level of detail would be operationally burdensome and would provide no additional benefit as the investor is often economically indifferent to many of these low-probability redemption features that are outside of the control of both the issuer and investor.

As a result, we propose the following edits to the proposed definitions:

a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the option of the issuer-holders. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; or 2) is redeemable at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three-two criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights;

b. Perpetual preferred stock, which is preferred stocks which are not redeemable or for which redemption is not at the option of the holder are redeemable solely at the option of the issuer (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a.

Balance Sheet Amount

The issue paper discusses carrying perpetual preferred at fair value capped by any stated call price. However, it did not provide guidance on timing for application of the cap. Because the call may not be effective for a period of time, and to ensure that purchases of perpetual preferred stock could still be carried at values greater than par (assuming market values remain above par), we recommend the following revisions to paragraph 10.a.ii, 10.b.ii and the correspondingly to paragraph 11 (underlined):

Paragraphs 10.a.ii and 10.b.ii:
i. Perpetual preferred stocks shall be valued at fair value, not to exceed any currently effective call price.

Paragraph 11:

11. An other-than-temporary (INT 06-07) 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.

Income

The issue paper clarifies the guidance on dividends on preferred stock. Specifically, paragraph 14 states:

“14. Dividends on preferred stock shall be recorded as investment income for qualifying preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon dividend settlement.”

Interested parties request clarification on the use of the term “qualifying” preferred stock as the term is not defined within the issue paper or within the new glossary of terms. If the inclusion of the word “qualifying” was unintentional, interested parties recommend deleting the word from paragraph 14 to avoid confusion.

Ref #2019-08: Update Reporting Deposit-Type Contracts

The Working Group exposed this agenda item to: 1) request feedback on the inclusion of a footnote excerpt for Exhibit 5 to disclose cases when a mortality risk is no longer present or a significant factor – i.e., due to a policyholder electing a payout benefit, 2) request feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) requested industry and regulator input for instruction clarifications regarding the classifications of deposit-type
contracts captured in Exhibit 7. With this exposure, there are no proposed edits for statutory accounting. The Working Group directed NAIC staff to notify the Financial Stability (Ex) Task Force of this exposure.

Interested parties support the proposed Exhibit 5 footnote which, among other things, would provide clarification on contracts where a mortality risk is no longer present or a significant factor.

With respect to the implementation of additional disclosures for Exhibit 6, interested parties believe that the current product disaggregation in Exhibit 6 is sufficient to analyze the risks present in the subject contracts, and would suggest no changes.

Interested parties have no additional clarifications for Exhibit 7 instructions – we believe the current instructions are sufficiently clear for deposit type contracts

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

The Working Group adopted, as final, a clarification edit to SSAP No. 68—Business Combinations and Goodwill to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (With adoption of this edit, paragraph 9 was split into two separate paragraphs with the additional wording shown below.) The remainder of this agenda item was re-exposed to allow additional time for specific examples of pushdown accounting to be provided by interested parties, as well as consider comments received on pushdown.

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

Interested parties is working on developing examples to illustrate the various ways in which goodwill can be generated and suggested approaches to how the statutory limitations could be applied. As a result of these efforts, we request an extension for this and the following item.
Ref #2019-14: Attribution of Goodwill

The Working Group re-exposed this agenda item to clarify that the “assignment” of goodwill is a disclosure element. The Working Group directed NAIC staff to prepare revisions to the Sub 1 Acquisition Overview template to capture this information for new SCA acquisitions.

Please see the comments on the preceding item.

Ref #2019-20: Rolling Short-Term Investments

The Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as shown in the “Proposed Revisions for Fall 2019 Discussion” to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Fall revisions to the prior Summer National Meeting exposure incorporate guidance to exclude qualifying cash pools from the short-term rolling provisions.

With the Fall exposure, comments were requested from regulators and industry representatives on whether other investments should be included / excluded from the short-term rolling provisions. In particular, comments are requested on whether short-term lending (both collateral loans and affiliated loans) should be permitted to be continuously rolled/renewed as short-term, whether non-affiliated SSAP No. 26R investments should be subject to the short-term rolling restrictions, and whether an assessment of “re-underwriting” could be used as support to allow the rolling of short-term investments.

Interested parties appreciate the staff’s exclusion of qualifying cash pools from the provisions of the short-term rolling re-exposure. There remain two types of short-term lending arrangements within the scope of the re-exposure that should be addressed separately. We respectfully request that the Working Group give consideration to the broader implications discussed below prior to moving forward with this proposal. Specifically, it might be advantageous to split the exposure into two work streams – one for affiliated investments and another for unaffiliated investments.

Non-affiliate Short-Term Lending

In the case of non-affiliated loans (i.e., Schedule BA Other Invested Assets), in order to provide appropriate flexibility to both the lender and the borrower, a loan facility may be structured as a short-term obligation. Such short-term obligations permit an insurer to more efficiently deploy its capital and streamline its underwriting process. Specifically, short term, non-affiliated loans: (a) provide the insurer with the ability to review and consider credit and collateral on a regular basis, (b) allow the insurer to reevaluate each investment at maturity and make new investments based on current market conditions if desired, and (c) allow the insurer to consider a renewal with an existing base of knowledge about the borrower and collateral, making the underwriting...
process more streamlined and allowing for better informed credit decisions. As with any investment, diligent underwriting of the borrower and the collateral, and structuring of the investment with appropriate safeguards is critical and should not deviate from standards used for longer-term investments. These facilities fill a market need for borrowers that require short-term or warehouse-type financings on assets prior to reaching the window for securitization and provide the insurer with attractive risk-adjusted returns relative to other short-term investments.

In this context, interested parties propose that all non-affiliated short-term obligations, obligations in scope of either SSAP No. 26 or SSAP No. 43R, where the counterparty is not an affiliate or related party of the reporting entity, including collateral loans, which meet certain objective criteria should be defined, reported, and monitored in the existing Schedule DA as a non-affiliated short-term investment. In order for a non-affiliated transaction to qualify as short term for reporting purposes, such investment must include the following features:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and

2) Any subsequent renewal is only completed in the sole discretion of BOTH the borrower and the lender.

Given that the transaction is between unaffiliated counterparties, interested parties believe the terms of these transactions, including the interest rate and advance rate, are on arms’ length terms.

Finally, with no obligation at any time to renew a transaction, the reporting entity is required to re-evaluate and re-underwrite the transaction at maturity. If any of the relevant underwriting criteria have changed, the insurer can require repayment or can request adjustments to the terms and conditions to conform to market conditions. If, but only if, both the borrower and lender agree to renew the transaction on the same or adjusted terms, the transaction may be renewed. This process, however, requires an independent credit decision and results in a new transaction.

Interested parties acknowledges the NAIC staff’s concern about the ability of auditors and regulators to discern between renewals that have been re-underwritten and those that have not; however, without an appreciation for the nuanced economic differences of these transactions, interested parties have concerns about unintended consequences of the re-exposure. Consider a transaction in which an entity purchases a GNMA with less than a one-year maturity, which was classified as a short-term investment or cash equivalent and matures/is settled as expected. Shortly after, that entity decides to purchase another GNMA with less than a one-year maturity. As proposed, the guidance precludes short-term investment or cash equivalent reporting for reacquired investments (or substantially similar investments) when purchased within one year from the initial investment. Without further clarification regarding substantially similar investments, or alternative objective criteria like those proposed above, we anticipate that diversity in practice could result. Additionally, regarding the example described, operationally burdensome tracking requirements would be required for entities to ensure appropriate reporting.
Therefore, we believe that unaffiliated SSAP No. 26 investments should be excluded from the scope of this exposure for the reasons discussed above. The scope of this exposure should also continue to exclude other unaffiliated SSAP No. 26 investments such as treasury bills, commercial paper, certificates of deposits and other similar short-term investments since such investments are used for short-term liquidity and do not have long-term investment risk.

**Affiliate Short-Term Lending**

Interested parties believe that the same principles discussed above and in our previous letter apply to affiliated short-term investments to merit continued classification as short term in nature, even when a subsequent short-term investment is re-underwritten to the same borrower within a year. We believe there is already sufficient regulatory oversight on the fundamental objectives, usage and risks of material affiliated transactions to validate the alignment of these vehicles with the fundamental characteristics implied by the statutory short-term investment classification. In this case, prudently managed, governed and executed liquidity optimization across an insurance holding company system can be observed with the current regulatory oversight mechanisms. While re-underwriting may be warranted based on liquidity needs, the risk profile continues to be commensurate with that of short-term investments.

**NAIC Guidance should not supersede regulatory oversight.** The domiciliary commissioners already have authority to disapprove of material affiliated transactions as deemed necessary. The NAIC Model Holding Company Act (the “Act”), which has been broadly incorporated into state laws, requires filing and domiciliary commissioner approval of affiliated transactions over certain materiality thresholds. As the Act was promulgated by the NAIC, interested parties believe that through use of the Act, commissioners put in place filing and approval requirements they deemed satisfactory to address their regulatory needs. Through these filings, state regulators have oversight over both the risk elements considered and the methodology utilized by companies in underwriting each material extension of credit within the holding company system. It would run counter to state authority to implement requirements resulting in NAIC guidance that would effectively supersede the authority of domiciliary commissioners or cast doubt, even implicitly, upon states’ ability to appropriately regulate the domiciled insurers with which they are intimately familiar. Principally, the Act allows regulators to verify the appropriateness of the short-term classification of material affiliated investments, providing oversight to ensure consistency in classification between affiliated and unaffiliated short-term investments.

Prudent and appropriately governed liquidity management within a holding company structure enhances insurance company solvency. Appropriately managed, governed and regulator-approved affiliate lending programs create opportunities for liquidity optimization across a holding company system, essentially sharing objectives similar to that of affiliated liquidity pools. This management is necessary due to diversification of product offerings as timing of cash receipts and disbursements will vary across such products and different entities within a holding company system. The ability to prudently draw upon excess liquidity surplus within one entity at a time when another entity has a short-term need for liquidity serves as an immediate buffer against uneconomic alternatives such as forced asset sales or relatively costly external short-term.
financing. If adopted as written, the exposed guidance could result in entities foregoing this powerful in-house liquidity tool, which enables companies within a holding company system to more effectively manage inherent cash flow timing mismatches, and instead resort to alternatives that would result in an unnecessary drain on capital available to support policyholder obligations.

SSAP 43R—Loan-backed and Structured Securities

Investments in the scope of SSAP 43R, *Loan-backed and Structured Securities*, have payments that are driven by underlying collateral with modifications that are driven by the performance of the underlying assets and typically overseen by a collateral manager or otherwise laid out in deal documents. In many cases, these instruments also have clean-up call provisions that would remove the investment from the market while the remaining underlying collateral may be repackaged into a re-securitization. The concept of rolling a short-term investment that would be in the scope of SSAP 43R is often-times outside the control of investors in these instruments and possibly part of the normal life cycle of a small portion of the underlying collateral. Because of these characteristics, the interested parties propose that any non-affiliated investment that would qualify within SSAP 43R—Loan-backed and Structured Securities be exempt from the proposed new concepts like what is proposed for non-affiliated investment that would qualify within SSAP 26R—Bonds. Further consideration of affiliated investments that fall within SSAP 43R is recommended, given the underlying assets drive these investments and the other considerations for affiliate short-term lending outlined previously in this response.

Interested parties respectfully requests that the Working Group give consideration to these broader implications prior to moving forward with this proposal. If the Working Group has lingering concerns or appetite for additional elaboration as to the character and traditional efficacy of existing regulatory oversight mechanisms, interested parties would request that staff work with industry to draft materials for future dialogue and examination of this topic.

Ref #2019-24: Levelized and Persistency Commission

The Working Group exposed revisions to SSAP No. 71—*Policy Acquisition Costs and Commissions*, to include additional NAIC staff modifications regarding persistency commission and levelized commission arrangements to address certain comments received and to allow for further discussion. With this exposure, the Working Group directed a notification of the exposure to be sent to the Life Actuarial (A) Task Force.

Interested parties appreciate staff’s availability to discuss the proposed revisions. Based on that discussion and the discussion at the Fall Meeting, interested parties propose suggested edits that we believe achieve the goal of a nonsubstantive change and clarify the original intent of SSAP 71. (Note: the *NAIC Accounting Practices and Procedures Manual-Life* which was in force prior to the effective date of current SAP includes the same wording as current SSAP No. 71). The suggested edits add a clear definition of a funding agreement. This will clarify the distinction between funding agreements and persistency-based commissions, without unintentionally changing the existing accounting. We welcome the opportunity to discuss the suggested edits further with the Working Group.
Ref #2019-25: Working Capital Finance Notes (WCFN)

The Working Group exposed substantive revisions to SSAP No. 105—Working Capital Finance Investments (SSAP No. 105) to incorporate industry revisions to program requirements, as previously directed by the Working Group during the Summer National Meeting. The Working Group directed NAIC staff to prepare an issue paper.

In 2016, the American Council of Life Insurers (ACLI) advised the NAIC that the implementation of SSAP No. 105 was not successful and that adoption had been low. ACLI began a dialogue with staff and regulators about both the shortcomings of the 2013 adopted rules and outlined required changes to make the rules suitable. As part of that process, ACLI marked up both the SSAP and NAIC SVO Purposes and Procedures Manual (P&P Manual) with the suggested changes which have subsequently been characterized as "10 required items", which staff have in turn opined on, and noted that four of the items are not supported by staff. Absent all 10 required items, WCFI adoption will remain low. Staff have noted an immaterial number of programs have been filed with only a subset of those approved, resulting in limited investments made. The existing Exposure provided to staff and regulators by ACLI and was utilized by staff to produce the current proposal, without addressing the proposed language by ACLI on the four required items not supported by staff.

Objections to the four required changes are:

1) evaluating non-rated subsidiaries of obligors (even though the existing SSAP already provides guidance to do).
2) expanding covered investment credit quality to include NAIC 3 and 4 investments,
3) requiring domiciliary regulator authorization for investment, and
4) requiring reporting on Schedule BA even though the asset class qualifies for look through RBC treatment.

In the ACLI draft provided to the NAIC, ACLI proposed an evaluation mechanism that is suitable for NAIC implementation on un-rated subsidiaries. With regard to NAIC objection on lower rated investments, such position is inexplicable as statutory RBC requirements reflect investment quality decisions in capital calculations limiting Industry investments to compliant assets. Domiciliary regulator prior approval for investment is a transfer of transaction review from staff to state insurance departments when, if regulators are concerned about the asset class, they can uniformly limit investment as a whole. Finally, Schedule BA reporting is both cumbersome and expensive for industry further exacerabating adoption without useful purpose. Regulators can track any specific asset class or investment by requiring the use of a specific investment code on the appropriate accounting schedule, which in the case of WCFI is Schedule DA).

Interested parties note that private placements, as opposed to public investments, are typically available only to large industry participants and that the economic impact of a $10,000 industry filing fee per issue per filing entity has an operating impact on a $1,000,000 investment in
WCFI, which for the avoidance of doubt would be sizable for most industry investors, of 1% of the investment income in year 1 of that investment. Current investment yields for NAIC 1 and 2 investments in WCFI offer gross returns of 2 – 2.5%. Such a high cost to a small industry investor, coupled with the fact that dealers would unlikely choose to document such investments bilaterally with small industry investors, limits access to the assets to large industry investors. In summary, interested parties request that regulators re-consider ACLI markup with the additional four requirements as originally submitted by ACLI and ultimately, after appropriate exposure and review, to direct staff to implement these changes.

**Ref #2019-32: Look-Through with Multiple Holding Companies**

The Working Group moved this agenda item to the active listing and exposed revisions to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.

Interested parties have no comment on this item.

**Ref #2019-33: SSAP No. 25 – Disclosures**

The Working Group moved this agenda item to the active listing and exposed the proposed data-capture templates. This exposure does not propose revisions to SSAP No. 25.

Interested parties believe that clarifications to paragraph 20 of SSAP No. 25 are necessary. We believe that the aggregation of similar transactions may result in immaterial transactions becoming material, meeting the threshold of 1/2 of 1% of the total admitted assets of the reporting entity. Therefore, we propose the edits highlighted below to ensure that aggregation occurs subsequent to the application of the criteria in paragraph 20.b. for materially identified transactions.

**Proposed Edits to the exposure**

**Disclosures**

20. The financial statements shall include disclosures of all material related-party transactions. In some cases, aggregation of similar transactions, that on a stand-alone basis are not material, may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm’s-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:

   a. **The nature of the relationships involved:**
   b. **A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the**
transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

**Ref #2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities**

The Working Group Staff exposed revisions to SSAP No. 25—*Affiliates and Other Related Parties*. Key elements for discussion in the exposure draft are to:

- Clarify the identification of related parties and ensure that any related party identified under U.S. generally accepted accounting principles (GAAP) or Securities Exchange Commission (SEC) reporting requirements would be considered a related party under statutory accounting principles (SAP).

- Clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

- Clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. As detailed, such disclaimers impact holding company group allocation and reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a “related party” and the disclosure of material transactions as required under SSAP No. 25.

- Incorporate a new disclosure of known non-arm’s-length transactions with any entity not identified as a related party.

- Propose rejection of several U.S. GAAP standards addressing variable interest entities.

Interested parties understand and agree with the need for transparency in disclosures of related party transactions. However, we have significant concerns with the proposal as it is not very clear based on the proposed changes to SSAP No. 25 what it is that will be required going forward based on the expansion of the definition of a related party. We include some of our observations below.

Interested parties would like clarity around the new proposed wording that states that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation. One of our concerns in this area relates to limited partnership/joint ventures/limited liability company (LPs/JVs/LLCs) investments where the insurer owns more than 10% of the equity of the investee but has no affiliation to the investee’s general partner/asset manager. SSAP No. 97 currently includes a possible scope exception in paragraph 6 for these types of investments so that they are not considered affiliated or controlled investees of the insurer. It is not clear from the proposal what the expected impact is from now having to consider all investments in unaffiliated LPs/JVs/LLCs where the insurer owns more than 10% of the equity but has no other affiliation, as related parties. If the intent is just to have insurers disclose material transactions with these entities other than the equity
investment held in each entity, we believe that this needs to be more clearly stated in the proposal so that there is no misrepresentation of what needs to be disclosed or whether these investments need to be reported in a different section of Schedule BA (i.e., affiliated vs. non-affiliated).

Another, but similar concern relates to certain entities consolidated under U.S. GAAP based on the Variable Interest Entity (VIEs) guidance. For some of these consolidated VIEs, the insurer has no control or affiliation with the VIE other than its debt investment in the entity. The insurer is simply a passive investor in the structure. However, under the VIE rules, the insurer must consolidate the entity as the insurer may be able to make decisions for the VIE if there is ever an event of default of the assets at some point in the future. These rights are given to certain classes of bonds issued by the securitization as a protection to the investors, but do not give the investors any type of power or control over the VIE at inception or on a day-to-day basis. It is important to note that consolidation rules under FASB Codification Topic 810 are very complex with some insurers concluding consolidation is required under a set of fact and circumstances and others concluding consolidation is not required under the same set of facts and circumstances. In the example just shared, some insurers have concluded consolidation is required because when no day-to-day decisions are being made for the VIE, decisions upon the occurrence of a certain event which may be unlikely to occur, rise to the point where they are the decisions that have the most significant impact on the economic results of the VIE. We believe that even though insurers have to consolidate these entities, there is no true related party affiliation. The proposal requires that any entity identified as a related party under U.S. GAAP will also be considered a related party for statutory reporting. Since these entities are consolidated for GAAP, the presumption would be that they are a related party of the insurer. If these entities will be considered related parties on a statutory basis going forward, the exposure needs to clarify that the inclusion of these types of entities only impacts related party disclosures for any material transactions held with these entities other than the debt investment held by the insurer in the VIE and that the debt instrument is still reported on Schedule D as unaffiliated.

Interested parties also have concerns with SSAP No. 25 including references to U.S. GAAP and SEC reporting for mutual insurers that do not prepare U.S. GAAP financial statements and do not file with the SEC. Therefore, interested parties recommend that the specific guidance from the GAAP and SEC be stated in SSAP No. 25 (rather than incorporated by reference) so that any future changes in GAAP and SEC guidance are subject to NAIC review prior to being applicable. Also, it is important to note that even when an entity is considered a related party under U.S. GAAP, disclosure of that relationship is only required when there are material transactions with that party. U.S. GAAP allows reporting entities to evaluate the significance of a relationship and determine when disclosure of that relationship is material/significant enough for disclosure to a user of the financial statements. As a result, we suggest this be clarified in the exposure as well so that it is clear that the reference to related parties under GAAP and SEC rules is only relevant if the insurer has material transactions with such parties outside of the insurer’s investment in the entity.
Ref #2019-35: Update Withdrawal Disclosures

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance, as illustrated in the staff recommendation, to:

- Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures;

- Correct an identified inconsistency in one of the new disclosures that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting; and

- Add a cross-reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosure include separate account products.

Interested parties have no comment on this item.

Ref #2019-36: Expand MGA and TPA Disclosures

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 51R—Life Contracts, paragraph 50, SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 19, SSAP No. 54R—Individual and Group Accident and Health Contracts, paragraph 33 and SSAP No. 59—Credit Life and Accident and Health Insurance Contracts, paragraph 19, as illustrated in the staff recommendation above, to expand the MGA/TPA note as follows:

- Aggregate direct written premium and total premium written by MGA/TPA;

- Aggregate dollar amount of claims process / total claims processed by MGA/TPA; and

- Information on related party / affiliate status and if the MGA/TPA is independently audited and / or bonded.

Interested parties note that the proposal does not define a TPA. It just states that TPAs “that write direct policies or provide claims adjusting or other services” That is overly broad and could include a variety of entities that provide services. The NAIC model (NAIC Third Party Administrator Act, or NAIC model) guidelines define TPAs as it relates to life/health and workers compensation. Also, the NAIC model definition has a long list of activities that are excluded from the definition, such as self-insured employers administering its own workers’ compensation, insurers administering coverage, producers engaged in selling insurance, attorneys handling claims, MGAs, etc. We recommend that the proposed disclosure reference the NAIC model so that there is consistency in the definition used in applying the guidance.
Additionally, it is unclear how the reporting threshold should be applied. The reporting applies to TPAs if “the claims adjusting services are greater than 5% of annual average claims volume”. Is that threshold based on the amount of claim dollars paid or the number of claims handled? Is that measured across all lines of business for the company? Would claims paid within insureds’ deductibles/SIRs be included? Depending on how this is defined, it could be quite burdensome for insurers to monitor. We recommend that the threshold be based on written premium, consistent with how other thresholds have been applied.

Ref #2019-37: Surplus Notes – Enhanced Disclosures

During the 2018 Spring National Meeting, the Working Group exposed revisions to SSAP No. 41R – Surplus Notes (“SSAP No. 41R”) to indicate that surplus notes, where the proceeds from the issuance of the surplus note were used to purchase an asset directly or indirectly from the holder of the surplus note, are not subordinate and do not qualify for reporting as surplus and should be classified as debt. Furthermore, the exposure draft stated that these assets were not considered available for policyholder claims and should be non-admitted. The exposure was the result of a referral from a Subgroup of the Reinsurance Task Force that was more narrowly focused on whether specific securities could be considered Primary Securities.

At the 2019 Summer National Meeting, the Working Group agreed to have an industry data call, due by December 31, 2019, to determine what financing structures existed that utilized the types of surplus notes described above.

At the 2019 Fall National Meeting, the Working Group exposed additional disclosures that should be captured in SSAP No. 41R. The Working Group does intend, later in 2020, to continue discussions on how to treat surplus notes where an associated asset is received by the surplus note issuer. This discussion will occur after a review and analysis of the data call.

General Comments

Interested parties understand regulators’ concerns that the details of certain transactions involving surplus notes may not be transparent to regulators who were not involved in the initial approval or ongoing review of such transactions. However, these transactions and the related pricing represent confidential information that we believe is inappropriate for public disclosure and may be misleading if presented in the proposed format.

Our concerns with the proposed disclosures are outlined in detail below, followed by our suggested revisions.

The proposed disclosures may not provide the desired transparency or consistency

Throughout the discussion on any potential revisions to SSAP No. 41R over the past twenty-two months, interested parties have agreed that robust disclosures should be added to SSAP No. 41R to fully reflect situations where a reporting entity receiving proceeds from the issuance of surplus notes used those proceeds to purchase an asset directly or indirectly from the holder of the
surplus note. However, we also believe that these disclosures should be included in the financial statements of a ceding company, which would provide a much greater level of transparency and consistency in disclosure. We believe that in most situations where a surplus note issuer uses proceeds from the issuance to purchase an asset directly or indirectly from the holder of the surplus note, the surplus note issuer is an affiliated captive reinsurer. As some captive financial statements are not provided to the NAIC, we believe disclosure in the financial statements of the ceding company would provide a much greater level of transparency and consistency in disclosure for these transactions. Our proposed revisions include suggested language for this disclosure requirement.

The proposed disclosure goes beyond the stated regulatory concern and requires additional information that may be incorrectly interpreted.

We believe that the proposed disclosure departs from the original regulatory concern expressed in the public meetings of the Working Group, namely that a reporting entity should not be permitted to circumvent regulatory authority as it relates to the preservation of capital at a regulated entity by contractually linking the cash outflows associated with a surplus note to cash inflows from another financial instrument held by the surplus note issuer. However, rather than identify such transactions, the proposed disclosure would require detailed information about surplus note interest regardless of whether cash flows are contractually linked. We are concerned that the operational burden of compiling this information for all surplus notes with netting provisions exceeds the benefit to regulators of providing information on the few transactions of concern.

Interested parties note that the scope of the proposed disclosure is substantially identical to that of the recent surplus note data call issued by the NAIC. The stated intent of this data call was to obtain information on surplus note transactions without regard to whether offsetting of cash flows was due to: a) contractual linkage or b) administrative offset provisions. While we agree that this scope was appropriate to assess the universe of affected transactions, we do not believe it is the appropriate scope for an Annual Statement disclosure and could be misleading in certain cases as outlined below.

The proposed disclosure includes confidential information that is not appropriate for public filings.

The proposal would require the disclosure of surplus note interest paid, net of any payments made by the surplus note holder. As a practical matter, for many captive structures, this amount often corresponds to the fees paid to the financing provider(s) to provide liquidity in the event of adverse experience or other conditions with respect to the subject policies, as defined in the applicable agreement.

The pricing and terms of the subject transactions were heavily vetted, negotiated, and submitted to state regulators for approval with the reasonable understanding that this information was subject to robust confidentiality protections. We do not object to this information being made available to regulators in the context of a confidential data call or regulator communication.
However, we are concerned with its inclusion in public filings. The primary focus should be on whether the surplus note issuer is statutorily solvent rather than its surplus note pricing terms.

*The net presentation of interest paid could be misleading for some transactions*

We also believe that the change to the current disclosure to replace surplus note interest paid with interest paid net of amounts offset is problematic. We believe this disclosure could be misleading for many of the transactions in the scope of the disclosure, given that the full amount of surplus note interest paid was/would be due regardless of whether a portion is offset pursuant to an administrative netting arrangement.

**Proposed Revisions**

Interested parties recommend revisions to the proposed disclosures which would provide regulators who are not involved in the approval and ongoing review of a surplus note transaction with information to assess the nature of the transaction and to determine whether more detailed review is needed. Specifically, our revisions would require disclosure of whether cash flows are offset but would differentiate between administrative offsetting and the contractual “linkage” that is of concern to regulators. These revisions would also remove information that we believe is confidential in nature and would not be appropriate for public disclosure. Finally, we have proposed several additions to the required disclosures, which we believe would provide useful information about transactions involving surplus notes.

Our suggested revisions to the disclosures are included in Exhibit A and summarized below. For ease of review, revisions proposed by NAIC staff have been accepted, and interested parties’ comments are presented as tracked changes.

**Summary of Proposed Revisions**

- Expand the disclosure requirement to the financial statements of the ceding company as well as the surplus note issuer.
- Retain the current disclosure of total interest paid (gross of any administrative or other netting)
- Replace quantitative disclosure of “interest remitted” and “cost of liquidity” with three Y/N disclosure columns which correspond to the criteria used in the data call scoping:
  1. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus notes and amounts receivable under other agreements contractually linked? (For example, the asset provides interest payments only when the surplus note provides interest payments.)
  2. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets...
that would normally occur throughout the duration, or at maturity, of the agreement. (This may be referred to as administrative offsetting.)?

3. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note?

- Replace confidential information about 3rd party liquidity (e.g. maximum liquidity amount and cost of liquidity source) with a description of terms under which liquidity would be provided should a triggering event occur.
- Add requirement for narrative disclosure of any related guarantees or support agreements.

Ref #2019-38: Financing Derivatives

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 86—Derivatives, to clarify the reporting of derivatives with financing premiums. The reporting revisions propose allowing the present value of the derivative premium receivable (and payable) for financed derivatives to be factored into the counterparty risk assessment for life RBC. (If supported, RBC changes would be subsequently referred to the Capital Adequacy (E) Task Force for consideration.) Comments are also requested as to whether derivatives and related financing provisions that would generally not meet the SSAP No. 64—Offsetting and Netting of Assets and Liabilities right to offset criteria and if explicit guidance allowing offset should be considered.

Interested parties request the exposure be given an effective date of at least January 1, 2021. The exposure represents a significant change to how certain companies account for derivatives and must be implemented in our investment systems prior to adoption. Interested parties do not believe the assets and liabilities under this exposure meet the right to offset criteria in SSAP No. 64—Offsetting and Netting of Assets and Liabilities, because they originate within the same contract. Additionally, we believe the netting guidance outlined in paragraph 19c would be difficult to implement and recommend it be removed.

Ref #2019-39: Acceptable Collateral - Counterparty Exposure for Derivative Instruments

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 86—Derivatives, to clarify that the fair value of collateral received or held, for derivative disclosure purposes, shall be reported net of collateral paid/pledged, in the event a counterparty has the legal right to offset against, as defined in SSAP No. 64—Offsetting and Netting of Assets and Liabilities. Minor updates to the applicable annual statement instructions were also proposed to be concurrently exposed.

Interested parties fully support the appropriate depiction within the statutory financial statements and schedules of the availability of insurance company assets to fulfill policyholder obligations, including consideration of a reporting entity’s access to and control over the assets and any contingencies pertaining to the attendant rights & benefits of ownership. We appreciate the opportunity to dialogue further on this matter and ensure the regulatory objective is achieved.
regarding both financial statement presentation and the risk-based assessment of capital. The ability to make efficient use of derivative instruments as part of hedging transactions, income generation transactions and replication (synthetic asset) transactions, in accordance with SSAP No. 86 – Derivatives (“SSAP No. 86”), is a crucial component of insurers’ ability to effectively manage risk and prudently maintain yields in support of our ability to deliver on promises to our policy and contract holders. With broader federal regulation now driving a migration for many of the interest rate and credit derivatives insurers use to these ends towards the central clearinghouse or “cleared” space, the significance of appropriately depicting the specific economic substance and attendant risks associated with each of the various forms of collateral posted to central clearinghouses has never been greater.

Given this backdrop, our concerns with exposure 2019-39 are as follows:

1) The language in the proposal does not provide clear, consistent definition of scope or objective(s);
2) The exchange of initial margin on cleared trades represents a contingency distinct from that associated with the exchange of variation margin; and
3) The existing statutory accounting, reporting and risk-based capital models already appropriately depict the economic substance and inherent risk associated with the exchange of initial margin, and the proposed changes would result in inappropriate duplication of risk-based capital charges.

In terms of intended scope, the narrative commentary and proposed updates to existing guidance make it unclear as to whether the proposal aims to refine accounting & reporting guidance for:

- initial margin, variation margin, or both;
- bilateral (over-the-counter, “OTC”) trades, trades executed with central clearinghouses, or both;
- exchanges of cash collateral, non-cash collateral (e.g. securities) or both.

The summary introduction to the proposal appears to target a perceived issue with the Schedule DB-D, Section 1 reporting of initial margin exchanged with central clearinghouses. The narrative commentary provided does not identify specific concerns pertaining to the reporting of collateral associated with bilateral OTC trades or variation margin. However, the attendant proposed edits to SSAP No. 86 and the Blank Instructions for Schedule DB-D, Section 1 encompass collateral exchanges with both bilateral OTC counterparties and central clearinghouses…inherently scoping in both OTC and cleared trades as well as all forms of collateral (variation margin, initial margin and traditional margin on legacy bilateral OTC trades). In addition, the proposal makes no clear distinction between proposed updates regarding exchanges of cash collateral vs exchanges of non-cash collateral, often using the terms collectively and interchangeably, whereas the guidance within the AP&P Manual makes clear distinctions regarding their respective accounting and reporting - as they have distinct implications for users of statutory financial statements. The guidance for cash collateral exchanges under SSAP No. 103R – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (“SSAP 103R”) paragraphs 19 & 20 is distinct from that of non-

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cash collateral exchanges, which is also further detailed in INT 01-31 – *Assets Pledged as Collateral* (“INT 01-31”). Anecdotally, though the SSAP No. 86 Appendix C guidance for the initial carrying value on futures paraphrased in the 2019-39 exposure commentary applies to exchange traded derivatives (which do not appear to be within the scope of this current exposure), it maintains conceptual symmetry with the distinct cash collateral guidance from SSAP No. 103R; classifying only cash postings of initial margin as a form of basis deposit necessitating distinct accounting and financial statement presentation. Additional clarification regarding both the perceived issue(s) and the objective(s) underlying the proposed updates is requested in order to ensure industry can assist in fully and appropriately addressing each underlying concern in light of the applicable regulatory objective(s).

The exchange of initial margin with central clearinghouses is clearly distinct in function from the exchange of variation margin. As referenced in the proposal, initial margin is a minimum amount of equity that must be provided to a clearinghouse to initiate a position. It effectively represents the deposit of chips required to play at the table (“table stakes”), and is required from both respective parties entering into the derivative transaction as protection for the clearinghouse against the potential that either respective party will not make good on its respective commitments (i.e., initial and continuing participation in the transaction and the associated exchanges of variation margin driven by the derivative price movements until expiry or novation) – leaving the clearinghouse exposed, as intermediary, to the remaining party. Once such a trade expires or is novated, assuming the respective party has made good on all its variation margin payments during the course of the trade being open, the asset(s) posted to the clearinghouse as initial margin is returned to that exiting party. In the instance that a party exiting the derivative transaction has not stayed current with its respective variation margin obligations, the clearinghouse will return the remaining value of the initial margin after settling up the unpaid variation margin obligations. As such, the contingencies associated with maintenance of exclusive control over the rights and benefits of asset ownership for an entity posting initial margin are primarily a function of the entity’s continuing involvement in the trade with the clearinghouse, which is distinct from the derivative price movement contingencies directly associated with variation margin.

Reporting entities often utilize non-cash collateral (e.g., US Treasuries) for posting as initial margin to clearinghouses, as the required initial margin value can be comparatively high (driven by risk adjusted trailing price volatility of the underlying derivative and overcollateralization conventions) but the reporting entity maintains the full rights & benefits of ownership over an already held yield generating asset – in many instances preferable to locking up a chunk of otherwise investible cash. The ability to maintain full control over the rights and benefits of ownership on this yield generating non-cash collateral posted (e.g., avoiding forced sales of the non-cash collateral to satisfy unfulfilled variation margin obligations) also incentivizes a reporting entity to remain current on variation margin obligations while the trade remains open. Existing statutory accounting guidance (e.g., the previously referenced SSAP No. 103R and INT 01-31) already provides for appropriate classification, measurement and presentation of collateral posted as initial margin. In the much more likely instance that non-cash collateral has been posted to a clearinghouse as initial margin, the pledging insurer continues to record the pledged collateral as an admitted asset until they have committed a contract default that has not
been cured. In the unlikely instance that the non-cash collateral has to be liquidated in order to satisfy unmet variation margin payment obligations associated with a trade being exited, any associated realized loss would be recognized and the reclassification of the remaining initial margin value due back from the clearing house will be recorded – likely as either cash or a receivable - in accordance with applicable statutory guidance. The Blanks instructions require that any such non-cash or cash collateral posted as initial margin be marked as such on the attendant investment schedule, identified at the specific asset level on Schedule DB-D Section 2 (complete with an identifier indicating that the posting represents initial margin) and summarized within Note 5 (Restricted Assets). As such, the availability of the assets to fulfill policyholder obligations, as well as identification at the specific asset level of the unique and specific contingencies associated with initial margin posting are already presented appropriately for the consideration of financial statement users. Altering the presentation of initial margin postings on the summary Schedule DB-D Section 1 would not augment a financial statement user’s understanding of the reporting entity’s solvency or financial condition, as the “net realizable margin” associated with the open derivative contracts is already appropriately presented – initial margin posted is not directly or typically subject to the derivate price movement contingencies inherent in arriving at an appropriate “Exposure Net of Collateral” total on Schedule DB-D Section 1.

Equally as important, incorporation of initial margin posted into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would lead to inappropriate and misleading downstream consequences for a reporting entity’s Risk Based Capital calculation. Any collateral (whether non-cash or cash) posted as initial margin is already captured in the Life RBC formula on LR017 (Off Balance Sheet and Other Items), where all collateral postings are pulled directly from Schedule DB-D Section 2 and assessed RBC charges associated with the specific contingency of pledging of the assets to an external counterparty. Thus, netting initial margin postings into the “Exposure Net of Collateral” total on Schedule DB-D Section 1 would make the total derivative exposure (net of collateral) that flows through to LR012 in the Life RBC formula too high – inappropriately double counting the RBC charges associated with the posting of initial margin to a clearinghouse. In addition, the understatement of net realizable collateral (Fair Value of Acceptable Collateral) on Schedule DB-D Section 1 would also, in many instances, mechanically carry through to overstate the “Off Balance Sheet Exposure” reported on the same schedule – which would result in even further overstatement of RBC charges as this “Off Balance Sheet Exposure” flows through the Life RBC formula to be assessed charges on LR017. Doubling, and possibly tripling the RBC charges associated with the posting of initial margin to a central clearinghouse is not an appropriate depiction of true risk for such margin.

Given the ambiguities in the exposure language, the appropriate depiction of economic substance and inherent risk associated with exchanging initial margin within the existing statutory accounting, reporting and RBC frameworks, and the importance of maintaining insurers’ ability to utilize cleared derivatives to effectively manage risk and prudently support yields, we respectfully request that the Working Group withdraw the current proposal and direct NAIC Staff to collaborate with industry to specify and appropriately address any remaining concerns. We stand ready to work through any lingering misgivings the Working Group may have with regard to financial statement presentation but request that such endeavors be empirically
grounded in specific observed instances of incomplete or inappropriate reporting.

**Ref #2019-40: Reporting of Installment Fees and Expenses**

The Working Group proposed revisions to SSAP No. 53 – *Property and Casualty Contracts* (SSAP No. 53) to clarify that the installment fee reporting guidance should be narrowly applied. Comments are also requested on whether guidance should be developed to allow expenses associated with installment fees to be reported as a contra revenue in “aggregate write-ins for miscellaneous income” and whether diversity should be permitted in reporting installment fee expenses. Additionally, the Casualty Actuarial (C) Task Force and Property and Casualty Risk Based (E) Working Group will be notified of this exposure.

With regard to the proposed change to emphasize that current guidance in SSAP No. 53 should be interpreted narrowly, interested parties recommend the following revision to the last sentence of the proposed wording in the footnote to SSAP No. 53 paragraph 6:

> Clarification: Reporting of installment fees in finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

Although interested parties did not survey companies, we believe the assertion by NAIC staff that expenses associated with installment fees are often immaterial is reasonable. We also believe that current reporting of the related installment fee expenses in other underwriting expenses is appropriate. For practical purposes, we do not see the benefit of isolating the expense related to processing the relatively small fee component of a premium billing for separate expense reporting purposes. We believe the reporting of expenses should be consistent and would not support the reporting of the related expenses as an “aggregate write-ins for miscellaneous income” or as a contra revenue to “finance and service charges not included in premiums.”

**Ref #2019-41: Eliminating Financial Modeling Process**

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 43R—*Loan-backed and Structured Securities*, to eliminate the multi-step financial modeling designation guidance in determining final NAIC designations for residential mortgage-backed securities (RMBS) / commercial mortgage-backed securities (CMBS) securities. Exposure was contingent upon the Valuation of Securities (E) Task Force’s concurrent exposure, which occurred on December 8, 2019. The Working Group noted that final action on this would not be taken until the Valuation of Securities (E) Task Force takes action on their related item.

Interested parties have no comment on this item at this time.
Ref #2019-42: Inclusion of Cash / Liquidity Pools - Cash Equivalents as defined in SSAP No. 2R

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to specify that cash pooling structures that meet specified criteria qualify as cash equivalents.

Interested parties appreciate that a separate Form A (Ref #2019-42) was written related to Cash/Liquidity Pools (“pools”) to clarify the accounting associated with them. We agree with the addition of a paragraph, similar to paragraph 8, to SSAP No. 2R to provide guidance related to pools; however, given that the characteristics of pools differ by company, we propose some modifications to paragraph 8 in order to address those varied characteristics.

Interested parties’ comments related to the proposed paragraph 8 are as follows:

1) Regarding the proposal to look through the ownership structure to report the assets held as cash equivalents, we agree that look through is appropriate. Some pools, as approved by regulators, consist of assets that meet the Statutory definition of cash equivalents and thus the interest held in the pools are reported as cash equivalents on Schedule E2. However, other pools, also approved by regulators, include assets that meet the definition of short-term investments in SSAP No. 2 and thus the interest held in the pools are reported as short-term investments on Schedule DA. Some pools may include both short-term investments and cash equivalents.

   Given the varied characteristic discussed above, we recommend paragraph 8 be modified to state that, if the requirements of paragraph 8 are met, the reporting entity may look through the ownership structure and report the assets as either cash equivalents or short-term assets based on the predominant characteristic of the underlying assets. This would allow companies the flexibility to report their investments in the pools in the Statutory statement schedule that is more reflective of the type of underlying investments in their pool and prevent the need for companies to reclassify/change their existing reporting to Schedule E2 from DA if they currently report the pools in DA due to the underlying assets.

2) Regarding paragraph 8d (i.e., the requirement to produce annual U.S. GAAP audited report of the pools including schedules showing each affiliate’s prorata share of the investments), insurance companies already receive an independent audit under Statutory Accounting Principles ("SAP"), which would include the insurance company’s investment in a pool. Requiring cash pools to be separately audited under U.S. GAAP would come at a cost, in time and resources, to insurers with pools. In addition, some insurers have pools which are not in the form of legal entities.

   An alternative to the U.S. GAAP audit requirement of paragraph 8d. is to require a footnote disclosure at the reporting date for each insurer that participates in a pool, which identifies that the insurer is invested in a cash pool, provides the reporting entity’s share
of the pool, and the insurers dollar share of cash equivalents and short-term investments in the pool. This disclosure would be subject to audit on an SAP basis of accounting. IPs believe the audit of the disclosure along with the audit of the insurance company would be adequate to meet the objectives of ensuring that the pool allocation process is accurate. Other alternatives include targeted financial examination procedures for pools, which could include procedures to confirm the balance of the pool and verify the individual legal entities’ balances for participating in the pool.

3) We note that the addition of the proposed pool language in SSAP No. 2 does not specifically address the reporting and accounting for the interests held in the pool. We recommend, if the pool is managed on a fair value basis (i.e., interest in the pool are bought and sold at fair value), that the book/adjusted carrying value for the interest held in the pool would be reported at fair value with changes in fair value reported in unrealized gains and losses. If the pool is not managed on a fair value basis, the interest held in the pool would be reported at amortized cost. It is important to note that pools managed on a fair value basis may use amortized cost as the best estimate of fair value, depending on the characteristics of the underlying assets.

Finally, in the issue paper, NAIC staff questioned whether changes to SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies are needed, since many pools are held in a Limited Liability Company (“LLC”). Interested parties do not believe such changes are needed to SSAP No. 48; however, it would be helpful to users of the SSAPs to add a footnote to paragraph 8 of proposed SSAP No. 2R stating that pools may be held in LLCs, for example, and if so, SSAP No. 2 is to be applied and not SSAP No. 48.

Ref #2019-43: ASU 2017-11 - Financial Instruments with Down Round Features

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 86—Derivatives to reject ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging and incorporate guidance into SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets and SSAP No. 72—Surplus and Quasi-Reorganizations for when certain freestanding instruments shall be recognized as liabilities and not equity.

Interested parties have no comment on this item.

Ref #2019-45: ASU 2013-11, Presentation of an Unrecognized Tax Benefit

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 101—Income Taxes to reject ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists for statutory accounting.

Interested parties support adoption of this item but note that the following statement should be removed from the document as it is incorrect (see IFRC 23, Uncertainty over Income Tax Treatments):
Convergence with International Financial Reporting Standards (IFRS):
IFRS does not include specific guidance on the presentation of unrecognized tax benefits.

**Ref #2019-46: ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities**

The Working Group moved this agenda item to the active listing and exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.

Interested parties have no comment on this item.

**Ref #2019-47: Grade in of Variable Annuity Reserves**

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 51R—Life Contracts and SSAP No. 3—Accounting Changes and Corrections of Errors. The revisions add reference, disclosures and accounting for Section 21 of the Valuation Manual, Requirements for Principle-Based Reserves for Variable Annuities, and grade-in requirements for reporting changes in the valuation basis for years beginning January 1, 2020.

This exposure consists of several parts, some of which we agree with and others we find both confusing and unnecessary. We agree that documentation of the choices made among the options for phase-in in VM-21 and the impact of those choices is important. The exposed edits focus on the adoption of the new reserve requirements for variable annuities (revised VM-21 and AG-43). Information on those choices and impacts will be provided to regulators through the PBR Actuarial Memorandum required by VM-31. This includes highlighting the elements of any Phase-in in the executive summary of the PBR Actuarial Memorandum. Given the current requirements of SSAP3 and SSAP51, documentation in the notes to the Annual Statement is also appropriate.

In Recommendation #2, the proposal would require the amounts from the Phase-in to be designated as “special surplus”. We disagree with this recommendation for the following reasons:

- This is a new requirement whose need has not been established. Disclosure of the amounts will provide information necessary for users of the financial statements to understand the basis of the reported financials.
- SSAP72 defines Special Surplus as amounts designated for specific contingencies. Recommendation #2 would be a change to the definition and purpose of special surplus that is inappropriate and would create an undesirable precedent.

Finally, the proposed language is unnecessary, and possibly confusing. VM-21 defines the minimum reserve requirement. Within that requirement, the company has the option to compute the reserves using the Phase-in provision of Section 2.B. Whichever option is elected, VM-21 defines the reserve. SSAP51 defines the amount of the “Change in Basis” as the difference
between the amount under the prior VM-21 and the amount required by the current VM-21 as of 1/1/2020. If the Phase-in has been elected, that difference will generally be zero. The change in basis amount as defined in SSAP51 paragraph 39 is not being graded in – it is what it is following the VM-21 reserve requirements as stated. As such, SSAP51 does not need to make provision for a grade in. We propose the attached language as being clearer in defining the amounts to be disclosed, to use language consistent with VM-21, and to recognize the role of VM-21 to define the reserve requirement.

Ref #2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers

The Working Group moved this agenda item to the active listing and exposed revisions to SSAP No. 62R—Property and Casualty Reinsurance, to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.

Interested parties have no comment on this item.

Ref #2019-49: Retroactive Reinsurance Exception

The Working Group moved this agenda item to the active listing with a request for comments on the preferred approaches to reporting and the advantages and disadvantages to each approach being used, including impacts on the Schedule P (and related loss analysis) and risk-based capital. Industry and state insurance regulator volunteers are requested to assist with developing guidance to clarify both the accounting and reporting for retroactive contracts which are accounted for prospectively. The Working Group directed NAIC staff to notify the Casualty Actuarial and Statistical (C) Task Force of the request for comments.

With regard to retroactive portfolio transfer deals within the same group that qualify for prospective treatment, interested parties identified the following issues related to reporting transactions in Schedule P.

Main Issues

- Should there be a requirement to have offsetting entries for the ceding and assuming entity within the group, such that the group Schedule P is not impacted (and industry Schedule P is not impacted)? (If so, then the ceding entity can’t record ceded amounts for prior AYs while the assuming company records assumed amounts all in the current CY/AY.)

- Should proactive changes in previous premium amounts be allowed? (If no, and there is a desire to have both entities record the ceded/assumed in the affected older AYs, then the reinsurance premium would need to be treated as a paid loss – positive paid for the ceding entity and negative paid for the assuming entity.)

- Should the reporting prevent “cliffs” in the historic development reported in Schedule P. (If the cede transaction is reported as a premium and spreading to prior CYs, effectively changing prior values retroactively, then the prior incurred loss amounts in
Schedule P, Part 2 would need to be adjusted to avoid a “cliff.”) Note that cliffs in Schedule P, Part 2 can have a material RBC impact with regard to the company experience adjustment.

Two Alternative Approaches

Interested parties identified two alternative approaches to recording intercompany, retroactive reinsurance:

- Record the reinsurance premium as a paid loss (positive paid for the cedant, negative for the assuming company), spreading the “premium” to the same AYs as the ceded losses. This avoids cliffs and avoids restating past CY Earned Premium, although it produces unusual results for the assuming company’s Schedule P.

- Record the reinsurance premium as premium, restating prior CY Earned Premium. Spread losses to the impacted AYs. This would create cliffs in Schedule P unless prior AYs are restated for the impact by AY of the reinsurance contract at inception.

*   *   *

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
Exhibit A: DRAFT – Markup of Disclosure and Table

Disclosures

18. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:
   a. Date issued;
   b. Description and fair value of the assets received;
   c. Holder of the note or if public, the names of the underwriter and trustee, with identification on whether the holder of the surplus note is a related party per SSAP No. 25;
   d. Original issue amount of note;
   e. Carrying value of note;
   f. The rate at which interest accrues;
   g. Maturity dates or repayment schedules, if stated;
   h. Unapproved interest and/or principal;
   ii. Life-to-date and current year approved interest and/or principal recognized;
   i. Disclosure of whether the surplus note was issued as “paid” part of a transaction with identification of the amount of approved following attributes:
      i. Do surplus note / associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus notes and amounts receivable under other agreements contractually linked (For example, the asset provides interest and/or principal remitted payments only when the surplus note provides interest payments)?
      ii. Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement. (This may be referred to as administrative offsetting)?
      iii. Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note (actual transfer of cash / assets) and the amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets) - ? If so, was the asset issuer a related party per SSAP 25?
   i. Information regarding a 3rd party liquidity source including name, identification if a related party, cost of the liquidity guarantee, and maximum amount available should a triggering event occur.

1 Interest and principal reported pursuant to 18.i include amounts offset by amounts receivable under other agreements, unless the reporting entity has a legal right of offset. Such offsetting arrangements shall be disclosed pursuant to paragraph 18.j.i through 18.j.iii
Exhibit A: DRAFT – Markup of Disclosure and Table

k. Principal amount and fair value of assets received upon Surplus Note issuance, if applicable;

j.l. Subordination terms;

k.m. Liquidation preference to the reporting entity’s common and preferred shareholders;

l.n. The repayment conditions and restrictions;

o. Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

19. If a reporting entity has ceded business to a surplus note issuer that is not remitting actual cash or assets to a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria in 18. j above, the ceding entity shall provide a description of the transaction, including whether the criteria in 18. j above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force. The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

19.20. If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note for approved interest or principal (as reported under paragraph 18. h), because the reporting entity is offsetting the amount owed under the surplus note with an amount receivable from a reported asset, the following information shall be disclosed regarding the offsetting asset received:

a. Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation;

b. Book/ adjusted carrying value of asset and interest income recognized in as of the current year.

b. Amount of principle return and interest income from the asset not received by the reporting entity as the amounts were offset with approved amounts owed by the reporting entity’s issued surplus note date.

c. A description of terms under which liquidity would be provided should a triggering event occur.

20.21. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.
Exhibit A: DRAFT – Markup of Disclosure and Table

Proposed Blanks Disclosures:

<table>
<thead>
<tr>
<th>Date Issued</th>
<th>Interest Rate</th>
<th>Original Issue Amount of Note</th>
<th>Is Surplus Note Holder a Related Party (Y/N)</th>
<th>Is Surplus Note Proceeds used to purchase an asset directly from the holder of the surplus note? (Y/N)</th>
<th>Carrying Value of Note Prior Year</th>
<th>Carrying Value of Note Current Year</th>
<th>Unapproved Interest And / Or Principal Remitted During Current Year</th>
<th>Approved Interest Recognized during Current Year</th>
<th>Life-To-Date Total Interest Remitted (Actual Transfer of Cash/Assets) Paid</th>
<th>Principal Paid Current Year</th>
<th>Life-To-Date Total Principal (Actual Transfer of Cash/Assets) Remitted Paid</th>
<th>Date of Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1311999</td>
<td></td>
<td>Total</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

Current Year Approved Interest Remitted (Actual Transfer of Cash/Assets) Are Surplus Note payments contractually linked? (Y/N)

Current Year Approved Principal Remitted (Actual Transfer of Cash/Assets) Are Surplus Note payments subject to administrative offsetting provisions? (Y/N)

Current Year Approved Interest Not Remitted Since Issuance (No Transfer of Cash/Assets) Were Surplus Note Proceeds used to purchase an asset directly from the holder of the surplus note? (Y/N)

Current Year Approved Principal Not Remitted Since Issuance (No Transfer of Cash/Assets) Is Asset Issuer a Related Party (Y/N)

Type of Assets Received Upon Issuance Is Non-Remitted Interest or Principal Offset with Amounts Owed from Surplus Note Holder? (Y/N)

Does Remitted Interest or Principal Payments Result with Acquisition of a Source of Liquidity Through the Surplus Note Holder? (Y/N)

Book/Adjusted Carrying Value of Note Prior Year Is Surplus Note Issuer a Related Party (Y/N)

* Include amounts offset with amounts owed from the holder of the surplus note.

<table>
<thead>
<tr>
<th>Name of 3rd Party Liquidity Source Acquired</th>
<th>Is Liquidity Source a Related Party to the Surplus Note Issuer?</th>
<th>Current Year Total Cost of Liquidity Source</th>
<th>Current Year Cost of Liquidity Source Reported as Surplus Note Interest</th>
<th>Total Cost of Liquidity Source Since Acquisition</th>
<th>Total Cost of Liquidity Source Reported as Surplus Note Interest Since Acquisition</th>
<th>Maximum Amount Surplus Note Issuer Can Receive from Liquidity Source</th>
</tr>
</thead>
</table>
SSAP No. 51R:

Change In Valuation Basis

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

   a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.

   b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed, or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement or the Valuation Manual in section VM-21 Requirements for Principle Based Reserves for Variable Annuities (VM-21) prescribes a new method and a specific transition that allows for grading. If the grading permitted by this statement or Valuation Manual section VM-21 represents an increase in the reserve liabilities, the unrecognized change in valuation basis reserve increase shall initially be reflected as an allocation from unassigned funds to special surplus until fully recognized in reserving and unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus, but
highlights the ungraded in amount for transparency as it represents an unrecognized adjustment (decrease) to total surplus. The allocation to special surplus is reversed to unassigned funds as the
grading of the increase in reserving is recognized as a decrease to total surplus. Some changes will
meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation
basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero.
This can happen when the change in valuation basis is prospective and only applies to new policies
and reserves meaning that policies inforce for the prior year-end are not affected, or situations in
which the change in reserving methodology did not change the reserves reported in the financial
statements. Some changes will meet the definition of a change in accounting as defined in SSAP
No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the
adjustment to surplus will be zero. This can happen when the change in valuation basis is
prospective and only applies to new policies and reserves meaning that policies inforce for the
prior year-end are not affected, or situations in which the change in reserving methodology did not
change the reserves reported in the financial statements as of 1/1.[JB1] The changes remain subject
to the disclosures prescribed in SSAP No. 3. Effective January 1, 2020, if the phase-in provision
of the Valuation Manual section VM-21 (on variable annuities) is elected or this statement
prescribes or permits a grading in period or provides the option of multiple grading periods,
reporting entities shall also include in the change in accounting disclosures required by SSAP No.
3, disclosure of the following:

a. the grade phase-in period being applied, and the remaining time period of the grade
   phase-in

b. any adjustments to the grade phase-in period.

c. The phase-in amount as defined in VM-21 of change in valuation basis grade in,
   which has been recognized in unassigned funds and

d. the remaining amount to be graded phase-in amount (reflected in special surplus if
   the ungraded in amount represents an increase in reserving).

40. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3
    and a change in valuation basis as described in paragraphs 36-38 of this statement, but the
    adjustment to surplus will be zero. This can happen when the change in valuation basis is
    prospective and only applies to new policies and reserves meaning that policies inforce for the
    prior year-end are not affected, or situations in which the change in reserving methodology did not
    change the reserves reported in the financial statements. While the Valuation Manual is effective
    prospectively for policies written on or after the operative date, subsequent changes may be applied
    retroactively to all business issued since that operative date however, as the CARVM methodology
    was already principles based, some changes to the CARVM methodology in section VM-21 (on
    variable annuities) and to the related AG 43, which may result in retroactive application to the
    reserving for existing contracts. Therefore, upon the initial prospective adoption of principle based
    reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After
    initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to
determine the amount of any surplus adjustments.
**SSAP No. 3—Accounting Changes and Corrections of Errors**

**Disclosures**

Disclosure of material changes in accounting and correction of errors shall include:

a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations); and

c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

d. Changes in accounting that are changes in reserve valuation basis as described in **SSAP No. 51R—Life Contracts** which have elected grade phase-in or other optional application features defined in the Valuation Manual, shall also include in the change in accounting disclosures information regarding the application of any grade phase-in as provided for in SSAP No. 51R. and

e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.
February 18, 2020

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 During the NAIC Winter National Meeting with Comments due January 31 Regarding Goodwill

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts regarding the recognition of goodwill for statutory accounting that was released for comment by the Statutory Accounting Principles (E) Working Group (the “Working Group”), during the NAIC Fall National Meeting in Austin.

Interested parties note that in October 2018, the FASB decided to add to its technical agenda a broad project to revisit the subsequent accounting for goodwill. In 2019, the FASB issued an Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, and held public roundtable meetings to discuss the topics included in the Invitation to Comment. The FASB is still in the initial deliberations phase of this project. Given the broad scope of the FASB project and the potential for changes to the current GAAP goodwill accounting model, interested parties recommend that any changes to statutory accounting that impact the accounting for goodwill be limited in their nature in recognition that the Working Group will need to consider the applicability of the changes to GAAP accounting for goodwill once the FASB completes the project.

We offer the following comments to the exposure drafts released for comment by the Working Group:

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

The Working Group adopted, as final, a clarification edit to *SSAP No. 68—Business Combinations and Goodwill* to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (With
adoption of this edit, paragraph 9 was split into two separate paragraphs.) The remainder of this agenda item was re-exposed to allow additional time for specific examples of pushdown accounting to be provided by interested parties, as well as consider comments received on pushdown accounting.

Interested parties recommend that paragraph 5 of SSAP No. 68 be revised further as marked below to clarify the appropriate valuation that should be used for an acquired entity:

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or, 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity's share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. The GAAP net book value of the acquired entity used in this determination shall reflect the acquisition-date fair values of identifiable assets acquired and liabilities assumed, and goodwill, as recognized in the post pushdown GAAP financial statements of the acquired entity, if applicable. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer's share of the statutory book value of the acquired entity.

**Pushdown Accounting**

Interested parties note that the GAAP guidance in ASU 2014-17, which was adopted by the SEC in Staff Accounting Bulletin (SAB) 115, provides clear guidance that an acquired entity has the option to apply pushdown accounting in its separate financial statements upon the occurrence of an event in which an acquirer obtains control of the acquired entity. Under applicable GAAP guidance, control generally results when one entity obtains, either directly or indirectly, more than 50 percent of the outstanding voting shares of another entity. This differs from the definition of control under statutory guidance which uses a threshold of 10 percent or more of voting control. As such, under GAAP, there would not be a scenario where an entity would be controlled by multiple owners with 10% or more ownership of outstanding shares.

Whether a company chooses to apply pushdown accounting depends on the facts and circumstances of a particular transaction. In certain situations, pushdown is preferable to eliminate the basis difference between an acquirer and the acquired entity. In other situations, a company may prefer pushdown accounting to better reflect the actual values of the acquired assets and assumed liabilities based on the purchase price of the entity.

When the SEC required pushdown for SEC registrants, there was limited guidance for non-registrants under GAAP which resulted in some non-registrants also applying the SEC pushdown guidance. We believe retaining the optionality for statutory reporting allows for consistency and comparability across both SEC registrants and non-registrants and provides operational efficiency.

The option of not allowing subsequent elections for pushdown accounting is not practicable for SEC registrants that previously elected to use pushdown accounting. In order for such companies to
discontinue use of pushdown accounting, a preferability letter would be required for a change in accounting policy to discontinue the use of pushdown accounting. Given that an election to discontinue use of pushdown accounting is not likely preferable, the insurer would be in the position of having to continue using pushdown accounting in order to receive a clean audit opinion on the GAAP financial statements of the SCA. Additionally, while ASC 805, Business Combinations, allows the election to be made for each change in control event, acquirers that report consolidated results may as a practical matter choose pushdown accounting at the subsidiary level to avoid separately tracking assets, and liabilities at two different values in two different ledgers.

As noted in the examples below, and in accordance with the guidance adopted during the December 7, 2019 Working Group meeting, interested parties understand the guidance clarified that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. Interested parties have summarized the interpretation of this clarification for an insurance entity’s acquisition of an 8.b.i (example 1), 8.b.ii (example 2a and 2b), 8.b.iii (example 3a and 3b) or 8.b.vi (example 2a and 2b) entity as follows:

<table>
<thead>
<tr>
<th>Example</th>
<th>Type of acquired SCA</th>
<th>Is Pushdown elected?</th>
<th>Where does Goodwill resides?</th>
<th>Admissibility of goodwill limited to 10% of</th>
<th>Is Goodwill required to be amortized?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8.b.i</td>
<td>Not permitted per SSAP No. 68 para 6</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>2a</td>
<td>8.b.ii or 8.b.iv</td>
<td>No</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>2b</td>
<td>8.b.ii or 8.b.iv</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>SCA's GAAP equity per SSAP No. 97 para 9.d</td>
<td>Yes per SSAP No. 97 para 9.c.iii</td>
</tr>
<tr>
<td>3a</td>
<td>8.b.iii</td>
<td>No</td>
<td>Insurance entity (Statutory goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>Yes per SSAP No. 68 para 8</td>
</tr>
<tr>
<td>3b</td>
<td>8.b.iii</td>
<td>Yes</td>
<td>SCA (GAAP goodwill)</td>
<td>Insurance Entity's Surplus per SSAP No. 68 para 7</td>
<td>No *</td>
</tr>
</tbody>
</table>

* See further discussion below related to amortization

After evaluating the accounting for goodwill from the various entities described in paragraph 8.b, we concluded that the NAIC should continue to allow insurers to elect pushdown accounting for acquisitions of non-insurance entities (Option 2) for the following reasons:

1. Statutory goodwill, created when the insurer is the acquirer, is subject to an existing 10% admittance limitation as clarified in the changes adopted by the Working Group during the Fall National Meeting and demonstrated above; therefore, the resulting goodwill from pushdown accounting is subject to the statutory thresholds.
2. Pushdown accounting is consistent with GAAP, prior to ASU 2014-17, for SEC registrants and non-registrants that used pushdown accounting. As noted above, it is not practical to discontinue use of pushdown accounting as an insurer would need to continue the use of pushdown accounting in order to obtain a clean audit opinion on the GAAP financial statements of the SCA.

3. It is important to maintain consistency with current GAAP. Under ASU 2014-17, pushdown accounting may be elected in a later reporting period, after the initial acquisition date. We understand that there may be concerns with electing pushdown at a later reporting period after goodwill was originally determined and reported at initial acquisition date. However, rather than disallowing a later election to apply pushdown accounting, which creates a variance to GAAP, we suggest this could be addressed through changes to SSAP No. 97 to ensure that goodwill is not subsequently increased for statutory reporting, in the event pushdown accounting is elected after the initial acquisition date.

4. The recommendations above would allow the continued use of audited GAAP equity as the statutory carrying value for all non-insurance entities for insurers that previously elected pushdown accounting (both SEC registrants and non-registrants). Additionally, the ability to elect pushdown accounting for future acquisitions retains GAAP equity as the statutory valuation basis for SCAs and avoids restrictions that can impact insurers’ ability to obtain an unqualified opinion on the stand-alone financial statements of SCAs.

If a restriction were placed on the use of pushdown accounting at a future date, those entities that have previously elected pushdown will be forced to separately track assets, and liabilities at two different values in two different ledgers as well as address the issue of making a change in accounting policy that may not have preferability.

As a separate point, we suggest changing the heading for Option 2 from “Permission to use pushdown for all non-insurance entities” to “Use of pushdown for all non-insurance entities”, as the term “permission” implies that use of pushdown accounting is a permitted practice under the statutory accounting framework.

Amortization

Interested parties reiterate the concern that the revisions from the adopted language (new SSAP No. 68 paragraph 10) would inadvertently require amortization of pushdown goodwill. While staff has noted that amortization may be the proper approach, interested parties believes as it relates to paragraph 8.b.iii entities acquired by an insurance entity where pushdown is applied, there has been diversity in practice.

Interested parties concur with the NAIC’s staff’s position described in the December 2019 Public Hearing Agenda materials:

“(As detailed in the earlier discussion, the minor edit being discussed only focuses on nonadmittance for insurer entity acquired SCAs that have been pushdown. The edit would not mandate amortization for those pushdown situations. The discussion on whether amortization should be required for those situations is proposed to occur after the next exposure.)”
Ref #2019-14: Attribution of Goodwill

The Working Group re-exposed this agenda item to clarify that the “assignment” of goodwill is a disclosure element. The Working Group directed NAIC staff to prepare revisions to the Sub 1 Acquisition Overview template to capture this information for new SCA acquisitions.

Recommended Action:

NAIC staff identifies that the comments received on the proposed disclosure enhancement under this agenda item are limited, but generally request additional time before adoption. NAIC staff believes the disclosure information requested under this agenda item will be necessary regardless of the decision involving pushdown accounting. As a reminder, the proposed disclosure only details the amount of goodwill recognized from the acquisition of a downstream holding company and the assignment of the goodwill to the entities owned by the holding company. This information is necessary in determining the amount of goodwill that would need to be nonadmitted, or derecognized, if an underlying company in the downstream holding company was nonadmitted or sold.

Interested parties note that the December 2019 Public Hearing Agenda materials state:

“It is important to highlight that the clarification edit proposed for adoption consideration is specific to insurance entity acquisitions of SCAs. As such, if an acquisition occurred downstream from the insurance company (by a non-insurance holding company), and the holding company applied pushdown accounting, so that the goodwill was reported at the holding company’s acquired SCA, the proposed edit would not require that push down goodwill to be brought up to the insurance entity’s level and included in the 10% limit.”

Requiring attribution would be onerous and misleading to the users of the financial statements, particularly if the disclosure included detailing GAAP goodwill that is not subject to the 10% limit. Interested parties do not believe it is necessary to “attribute” goodwill to downstream SCAs of downstream holding companies. We believe that any concerns about the carrying value of the downstream holding company being overstated because it did not push down GAAP goodwill to a downstream SCA that was subsequently sold is mitigated by the fact that GAAP already requires the attribution and derecognition of goodwill associated with the business or SCA that is sold. To layer in a statutory attribution of goodwill is not necessary, overly complex, and may distort the accounting impact of a sale of a downstream SCA.

Therefore, we recommend that the disclosure of GAAP goodwill attributed to downstream SCAs of downstream holding companies focus on actual GAAP goodwill that was pushed down to the

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3 ASC 350-20-40, Intangibles – Goodwill and Other - Goodwill – Derecognition, paragraphs 1 and 2:

40-1: When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

40-2: When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.
downstream SCAs and any statutory goodwill that occurred when the insurer is the acquirer, subject to the existing 10% admittance limitation as illustrated and discussed in the examples above.

* * *

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
January 31, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Ref #2019-20, Rolling Short-Term Investments

Dear Mr. Bruggeman:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group’s exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities relating to rolling short-term investments. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA writes to highlight our support for the recommendations on this proposal provided in the comment letter of the “Interested Parties” coalition. APCIA and our members regularly participate in the Interested Parties’ discussions and drafting process.

SSAP No. 2R generally requires debt obligations with a maturity date of less than one year to be reported on Schedule DA. However, the proposed revisions to SSAP No. 2R would specify that any investment reported as a short-term obligation which was renewed or extended past its original maturity date would need to be reported as a long-term obligation, and a reporting entity would not be permitted to acquire the same or a substantially similar security within a 1-year time frame unless such security is reported as a long-term obligation. APCIA believes appropriate safeguards already exist, or could be put in place, to address the concerns underlying this proposal. We support the recommendations of the Interested Parties in the context of both unaffiliated and affiliated short-term loans.

Unaffiliated short-term loans provide important flexibility and efficiencies for insurers. So long as the lender has a reasonable expectation that the investment can terminate and be repaid on the maturity date, and both the borrower and lender have the ability to reevaluate and renew the loan at maturity, we believe unaffiliated short-term loans are properly reported on Schedule DA as a short-term risk asset. As such, APCIA supports the objective criteria proposed by the Interested Parties for determining when an unaffiliated loan qualifies as short term:

1) The loan includes a maturity date less than one year from closing at which the borrower has an unconditional repayment obligation and on which the lender has a reasonable expectation that the investment can be terminated and repaid if so desired by the insurer; and
2) Any subsequent renewal is only completed in the sole discretion of both the borrower and the lender.

In the context of short-term loans between affiliates, the Model Holding Company Act already requires regulatory filing and approval of loans exceeding a materiality threshold. Further, as the Interested Parties’ letter also points out, loans between affiliates are an important mechanism for meeting short-term liquidity needs for an entity within a broader group. Given the importance of insurers being able to utilize loans from affiliates to meet short-term needs and the regulatory oversight of these transactions that already exists, APCIA agrees with Interested Parties that short-term loans between affiliates should continue to be classified as short term.
Thank you for considering our comments. If you have any questions or would like to discuss this further, please contact Steve Broadie at steve.broadie@apci.org or 847.553.3606.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel
We have reviewed the proposed changes to SSAP No. 71 – Policy Acquisition Costs and Commissions as outlined in Ref. #2019-24 as revised on December 7, 2019.

The most effective way to appreciate the unintended consequences of the proposal is to start with a basic understanding of a typical distribution structure. Reporting entities execute distribution agreements, including compensation structure, with distribution partners (IMO, BGA, TPM, MGA, BD, for example). These distribution partners recruit, contract, train, supervise, and compensate smaller organizations (agencies, selling groups, brokerages, etc.) and individual producers (agents, brokers, etc.).

SSAP No. 71 proscribes statutory accounting treatment for reporting entity compensation agreements entered for the sale, distribution, and servicing of policies. The revisions proposed in Exposure Draft 2019-24 (as revised December 7, 2019) focus on two areas: (1) levelized commissions or “trail” payments paid directly to distribution partners or individual producers by a reporting entity and (2) levelized commissions or other installment payments paid to “third parties” by the reporting entity solely in exchange for the third party making non-levelized payments to the distribution partners or individual producers in place of the reporting entity (sometimes called “funding agreements”).

The proposed Exposure Draft relating to the first are in Paragraph 2 and call for “…commission shall be accrued based on experience to date for the policy period that the commission relates.” This specifically relates to the required timing or obligating event of a reporting entity’s liability for the cost of a commission payment specifically linked to persistency or policy renewal upon the anniversary of a policy issue date or some other future date or event.

The proposed Exposure Draft revisions relating to the second are (a) in paragraph 4, “…regardless of how the payment to the third party is characterized.”, (b) in paragraph 5, “…paid by a third party to the agents...by the reporting entity.”, and (c) in a footnote to paragraph 5, “The guidance in this paragraph notes that levelized commissions which use a third party to pay agents that are linked to traditional elements require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date.”

The proposed revisions have different implications for different constituencies. We have endeavored to capture the essence of the concern from each party below. The proposed revisions have substantive implications for each of the noted constituencies, contrary to the non-substantive assertion in the revised exposure draft 2019-24. As a direct result of the inequity of the proposed changes upon various constituencies and the potential for substantial
financial and economic harm incurred by the adoption of these changes to a variety of constituencies, we strongly recommend and request that the proposal not go forward.

**Reporting Entity/ Carrier perspective:**
1. Levelized commission programs are economic equivalents to “normal (non-level) commissions.” Levelized commission programs are preferable as they create a virtuous cycle linking the interests of consumers, agents, distribution partners and carriers to maintain ongoing servicing relationships, improving consumer support and policy persistency. Distribution relationships are multi-faceted, including agent recruitment and oversight, sales, sales support, underwriting support, premium collection, policy delivery and agent payment. Characterizing distribution partners as a ‘third party’ under the proposed footnote to paragraph 5 of SSAP No. 71 discounts the complexity of these relationships and the value of these vital roles dramatically altering carrier dynamics with distribution partners.

2. Reporting entities or carriers will be unduly penalized for economic transactions negotiated under existing accounting principles as a direct result of this proposal. The value of those transactions is retroactively altered by the introduction of a modified accounting principle which neither party initially anticipated, negotiated or priced.

3. Higher required capital and lower returns resulting from an arbitrary modification to an existing accounting practice will drive product design reviews and likely product redesigns modifying or eliminating levelized commission options or reducing value to the consumer through higher premiums and/or lower benefits.

4. The proposal to require reserves for future persistency based levelized commissions creates a disconnect with GAAP accounting where there is no reserve requirement. Moreover, the proposal creates new uncertainty around which other, long standing accounting treatment will be changed next

**Distributor/ Agent perspective**
1. The trail compensation approach incentivizes all parties to maintain a long-term relationship based upon ongoing agent support of consumer needs. Reducing or removing recurring compensation in the form of persistency based levelized commissions, shifts distributor economic motivation to new product sales, further degrading product level returns for the carrier. Reducing benefit levels or increasing premiums for the same benefit levels will lower the value proposition for effected products very likely reducing sales and consumer protection delivered by the products.

**Consumer perspective:**
1. The fallout from the changes will diminish value of insurance products through higher premiums and/or lower benefits enacted by carriers seeking to make up lost economic value and from lower service levels provided by brokers or agents as their incentives shift from ongoing consumer service relating to in-force policies to selling new policies (whether to the individual policyholder or other prospective clients).
January 30, 2020

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

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

Dear Mr. Bruggeman:

Thank you for the opportunity to provide comments on Proposal 2019-24 from the Statutory Accounting Principles Working Group regarding Policy Acquisition Costs and Commissions. The Working Group voted to re-expose revisions to SSAP 71 – Policy Acquisition Costs and Commissions - for comment at the NAIC Fall Meeting on December 7, 2019, continued to categorize the revisions as non-substantive, and further clarified levelized commission guidance and direction regarding certain commission obligations. I offer comments on behalf of our client, DRB Insurance Solutions, LLC, a licensed insurance producer (“DRB”).

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

While revisions were made to several paragraphs and footnote 1 in the initial proposal at the Working Group’s meeting in December, the current exposure language remains overly broad to address the issue identified and intended to be clarified by the Working Group. Regulators have identified levelized commissions as funding arrangements to bypass recognition of acquisition costs by insurers and believe recognizing the full acquisition expense at the time of policy issuance is appropriate accounting treatment pursuant to SSAP No. 5R and the Statement of Concepts...
focusing on Recognition. Notably, the Working Group intended to restrict intercompany and affiliated transfers of trailing commission structures as pure accounting transactions solely for the purpose of deferring expense recognition of commission obligations, which is a laudable goal.

However, the language exposed to classify trailing commission transactions as funding arrangements is so broad, it encompasses practically every broker contract with an insurer that allows for any alternative payment arrangement between the broker and the issuing agent. DRB Insurance Solutions is an independent third-party master producer which uses various contracts between DRBIS and its sub-agents for commission payment, including trailing, heaped, partially heaped and trailing commissions, etc. The agreements between DRBIS and reporting entities are arms-length transactions, include the transfer of lapse risk, mortality risk and the commission expense obligation. The proposal requiring all insurers to accrue the full commission expense under these circumstances is illogical when the insurer no longer has the legal obligation to pay the expense and therefore, no longer has legally incurred the expense.

While regulators have opined that affiliated transactions shrouded as commission arrangements appear to circumvent accrual of commission expense at policy issuance, the goal to affect those transactions may continue to be addressed while narrowing the language to clarify that non-affiliated third-party contracts are not included. Accordingly, DRBIS offers the following amendment to the exposure draft to narrow the applicability to those affiliated transactions. Suggested language for Paragraph 4 and the footnote to Paragraph 5 is shown as shaded text as follows:

4. Levelized commissions occur in situations where agents receive normal (non-level) commissions with payments made by a third party under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent. 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. (Note: levelized repayments made by the reporting entity extend the repayment period but might not be a straight-line repayment.) 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 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 under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent to the 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 under the control of the reporting entity, its parent, and/or any subsidiary or affiliate of the reporting entity or its parent related to levelized commissionsFN.

New Footnote – The guidance in this paragraph notes that that levelized commissions which use a third party to pay agents does not imply that levelized commissions that are linked to traditional
elements do not require establishment of a liability for the amounts that have been paid to the agents and any interest accumulated to date. Rather, such levelized commission obligations should be accrued for as set forth in paragraph 3.

The proposed language requires recognition of commission expense in situations where affiliated companies trade lapse and mortality risk amongst and between affiliated reporting entities using a commonly owned master producer while excepting unaffiliated third-party transactions from similar treatment. In these unaffiliated contractual arrangements, where risk and liability is transferred, the reporting entity may not even be aware of the payment schedule between the master producer and its sub-agents and certainly should not be required to accrue the full amount of the commission expense at policy issuance when the insurer is no longer legally required to pay that expense.

Non-Substantive Change
Finally, DRBIS would like to restate its opposition to consideration of the exposure draft as a non-substantive change. As previously stated, levelized commission programs began over thirty years ago, before the 1998 publication of Statutory Issue Paper No. 71 and the January 1, 2001 codification of Statutory Accounting Principles. The primary objectives of a levelized commission structure include aligning the interests of the customer, the agent, and the company and improved persistency from providing ongoing customer service. There is a duty to act in the best interests of the policyholder, as well as a compensation incentive, to make sure policies are well serviced so they stay in-force.

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

In conclusion, the current exposure draft of SSAP 71 is clearly not “non-substantive” and would have substantial unintended consequences without the amendments proposed above. Additionally, the expansive effect of this policy decision should be subject to open deliberation and public comment as the Working Group considers adoption. Thank you for the opportunity to comment.

Very truly yours

GREENBERG TRAURIG, P.A.

Julie Mix McPeak

Julie Mix McPeak
January 14, 2020

Mr. Dale Bruggeman, Chair
NAIC Statutory Accounting Principles (E) Working Group
1100 Walnut Street, Suite #1500
Kansas City, MO 64106-2197

Re: Reporting of Installment Fees and Expenses – Requests for Comments

Dear Mr. Dale Bruggeman,

At the December 2019 meeting, the NAIC exposed and requested comments on the “Reporting of Installment Fees and Expenses” in the financial statements. This guidance allows for installment fees that meet specified criteria to be excluded from premium income, if it is an avoidance amount by the policyholder and the policy would not be cancelled for nonpayment of the installment fees. The guidance is consistent with the footnote in SSAP No.53 (“Property Casualty Contracts – Premiums”) and in line with our current industrywide reporting of this item in the financial statements.

With respect to the reporting of the corresponding “Installment fees related Expenses”, we believe that these associated Expenses should be reported as part of the Other Underwriting Expenses Incurred (“OUE”) on Line 4 of the Statement of Income and as an ancillary to the normal underwriting activities primarily due to immateriality. Such a presentation will allow insurers to report and reconcile the gross Installment fees amount to the corresponding balance reflected in Schedule T, Column 8 as well as in the Write-ins amount on the Statutory Page 14, along with premium tax payments. Currently, there is inconsistency in reporting in the industry, with some companies reflecting these associated Expenses as part of the Other Underwriting Expenses Incurred on Line 4 of the Statement of Income while others reflect such Expenses as part of the Aggregate write-ins for miscellaneous income on Line 14 of the Statement of Income.

However, as we believe others have also pointed out, this guidance specifically addresses fees charged on Installment premiums, but there are other equally nonrefundable “Other fees” charged by many companies, as part of the billing and collection process, but that are not specifically mentioned in this guidance. That is to say, there are “Other Fees” charged by insurers as part of the collection process, all of which, like Installment fees, are not only non-refundable, but are also avoidance amount by the policyholder and would not be cancelled for non-payment of the installment fees, similar to Installment fees.

These nonrefundable “Other fees”, include, but are not limited to:

1. Late fees - fees and expenses charged on flexible/installment plans that are received after a specified cut-off period e.g. 30 days
2. Non-sufficient funds ("NSF") fees - fees and expenses collected on returned payments due to non-sufficient funds

3. Reinstatement fees - fees and expenses received on policies that expired and are subsequently reinstated, among others etc.

Currently, there is divergence in reporting in this area of this relatively immaterial amounts for nonstandard and standard writers and therefore need for clarification for consistency in reporting going in.

The reporting issue here then is, where and how to report all of these “Other fees”, excluding Installment fees. Should all these “Other fees” be reported as part of:

a) Other underwriting expense incurred on Line 4 of the Statement of Income
b) Finance and service charges on Line 13 of the Statement of Income, akin to installment fees
c) Aggregate write-ins for miscellaneous income on Line 14 of the Statement of Income

Typically, most companies report these nonrefundable “Other fees” as “Other income” on Line 14 of the Statement of Income

Consistent with current practice, we also believe all these “Other fees”, net of applicable expenses, if any, should be reported as part of the Aggregate-write-ins for miscellaneous income on Line 14 of the Statement of Income. However, if for some reason this first preference is determined to be untenable, then we believe the next viable alternative could be the “Other underwriting expenses incurred” on Line 4 of the Statement of Income, under the assumption that all these other fees are ancillary to the normal underwriting activities, but defer ultimately decision to the NAIC staff for review and consideration.

We appreciate the opportunity to comment on this and related issues. Thank you.

Sincerely,

Joseph Hammond, CPA, FLMI
Director of P&C Accounting
Farmers Insurance Group
(818) 876-7924

"Internal Use Only"

cc: Robin Marcotte File
Dear Mr. Bruggeman:

I am writing on behalf of the American Academy of Actuaries\(^1\) Committee on Property and Liability Financial Reporting (COPLFR). We are following up on previous correspondence regarding Schedule P Instructions for Retroactive Reinsurance between Affiliates and Non-Affiliates.

COPLFR appreciates that the Statutory Accounting Principles Working Group (SAPWG) is looking into certain inconsistencies that were identified in our May 21, 2019, letter to you. In July, Julie Lederer, acting in her capacity as a member of the Casualty Actuarial and Statistical (C) Task Force, posed several questions about specific details in our initial comment letter. Her comments and COPLFR’s replies are presented here.

Julie Lederer’s Comment

1. I’m not sure what Allianz/Allianz Re agreement the letter is referring to. The letter suggests that this agreement was enacted in 2015 and that the accounting changed between year-ends 2015 and 2016, but Allianz Re’s 2018 MD&A (which is said to be included as an attachment to COPLFR’s letter but is not) suggests that the agreements between Allianz and Allianz Re weren’t enacted until 2016. Allianz Re did assume retroactive business from a different entity, Fireman’s Fund, in 2015:

\(^1\) The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
a. There’s hardly any workers comp data in Allianz’s 2015 Schedule P. There’s a lot of WC data at year-end 2016, which appears to be due to the addition of Firemen’s Fund to the pooling agreement.

b. When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. There is significant assumed premium reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior. I think this is related to Allianz Re’s transaction with FFIC (as mentioned in the MD&A above), not with Allianz.

COPLFR’s Response

The May 21, 2019, COPLFR letter is referring to the July 1, 2015, reinsurance agreement between FFIC and Allianz Reinsurance America (“Allianz Re”), where Allianz Re agreed to reinsure certain workers’ compensation (WC) and construction defect liabilities. The 2015 Schedule P, Part 1 of Allianz Re (page 4 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year direct and assumed WC earned premium, presumably this Loss Portfolio Transfer. The 2016 Schedule P of Allianz Global Risk US Ins Co. (“Allianz or FFIC”) (page 7 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year WC ceded earned premium, about equal to the assumptions of the Allianz Re premium discussed in the prior sentence. Allianz Global Risk US is synonymous with FFIC, as we understand it.

In our May 21, 2019, letter, we did state that “Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year (‘AY’) 2015.” We did only include the 2016 Allianz Schedule P; it would have been clearer to include the 2015 Allianz Schedule P as well, which we have attached as page 15 of the May 21 letter PDF (Attachment A). We agree with the comment in a. above that the additional data is due to the addition of Fireman’s Fund in the pooling agreement. Similarly, for b., we only show Allianz Re’s 2015 Schedule P.; we should additionally obtain Allianz Re’s 2016 Schedule P. We would not expect much change from the 2015 to 2016 Schedule P. Finally, our comments were not intended to suggest that the agreement between Allianz and Allianz Re was not enacted until 2016. We did, however, want to point out that as of Dec. 31, 2015, Allianz included all of the ceded losses in AY 2015, and in the following year, as of Dec. 31, 2016, Allianz recorded the ceded losses across the subject AYs 2012 and prior, as shown in Schedule P, Part 2 of Allianz (see page 8 of the PDF).

Julie Lederer’s Comment

2. I believe some of the attachments noted in the letter are missing:
   a. The letter includes Allianz Re’s 2015 Schedule P and Allianz’s 2016 Schedule P, but the text of the letter suggests that Allianz’s 2015 and 2016 Schedule Ps are included.
i. Regardless, it’s pretty hard to compare Allianz’s 2015 and 2016 Schedule Ps anyway, since Fireman’s Fund was added to the intercompany pool in 2016 and the historical AYs in Allianz’s 2016 Schedule P were adjusted accordingly.

ii. When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. The assumed premium is reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior.

b. Attachment A1SAO (Allianz Re’s 2018 SAO) is missing. I looked up the SAO myself and found this passage, which is rather vague, doesn’t name the counterparties, and doesn’t discuss the accounting for the agreements:

   The Company entered into several significant reinsurance arrangements during calendar years 2015–2018, some of which serve to mitigate the risk factors discussed above.

   1. Effective January 1, 2015, the Company entered into a reinsurance agreement whereby the Company assumed and agreed to reinsure certain A&E reserves. Effective July 1, 2015, the Company further assumed and agreed to reinsure certain WC and CD reserves.

   2. Effective January 1, 2016, the Company entered into a reinsurance agreement by which the Company ceded 50% of the Company’s carried A&E, WC, and CD liabilities acquired in 2015.

   Additionally, effective January 1, 2016, the Company entered into reinsurance agreements whereby the Company assumed and agreed to reinsure certain Professional Healthcare liabilities and certain A&E, GL/Excess and WC liabilities. Effective July 1, 2016, the Company entered into another reinsurance agreement by which the Company assumed and agreed to reinsure certain GL/Excess exposure.

c. Attachment A2MDA (Allianz Re’s 2018 MD&A) is missing. I looked this up myself and included a relevant passage above in item #1.

COPLFR’s Response
The attachments were in the Academy’s submission to the CASTF and were in the CASTF materials for a call in June, but apparently were omitted by NAIC staff in materials provided for subsequent calls and referrals.

We too consider the excerpt you provided to be vague. To help clarify the issue, we are attaching MD&As from 2015 and 2016 that include Fireman’s Fund Insurance Company in their scope (attachments B and C). One of the difficulties in tracking this issue is the series of actions taken by Allianz since 2015.

Julie Lederer’s Comment

3. GEICO’s Note 21, included as an attachment, is useful, but it’s not clear what we should take away from GEICO’s 2014 Schedule P alone. It might have been useful to attach the 2013 Schedule P as well. By comparing the 2013 and 2014 Schedule Ps, it’s clear that GEICO made significant cessions in 2014 and that these were spread among older AYs.

COPLFR’s Response

Our takeaway from GEICO’s 2014 Schedule P alone is that Schedule P, Part 2 (page 13 of the PDF) shows $3.3 billion of decreased development. This is a distortion as we understand it and is supported
by the 2013 and 2014 comparison noted above. That distortion would carry over to the RBC filings of the respective entities (based on our understanding of the RBC formula and related instructions). Industry Schedule P data can also be distorted based on what is and is not included in industry totals based on the data scrubbing performed.

We believe that this additional information clarifies our original comments and will help SAPWG to move forward with its own analysis. If you have additional questions, contact Marc Rosenberg, the Academy’s senior casualty policy analyst, at 202-785-7865 or rosenberg@actuary.org.

Sincerely,

Kathy Odomirok, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries

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

**Issue:** Financing Derivatives

**Check (applicable entity):**

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
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<th>Health</th>
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<td>New Issue or SSAP</td>
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**Description of Issue:**

This agenda item has been prepared to reconsider the accounting and reporting of financing derivative transactions pursuant to a review of information from the 2018 year-end statutory financial statements.

Note: Although the proposed revisions in this agenda item would impact common SSAPs, from the year-end 2018 detail, there are no P/C or health entities acquiring or writing derivatives with financing arrangements. As such, the changes proposed may not impact P/C and health entities and should only impact a limited number of life insurers (16 as of year-end 2018) that engage in derivative financing arrangements.

A financing derivative transaction is one in which the premium to acquire the derivative is paid throughout the derivative term or at maturity of the derivative. With the accounting and reporting that has been utilized by some companies, the “cash flows” (the derivative obtained and the premium liability owed) are netted, generally resulting with zero-value reporting at inception. Over the course of the derivative term, an unrealized loss is recognized for changes in the present value of the premium liability (increase), which may be offset by any value change in the underlying derivative (increase or decrease). (With derivative financing, a gain would only ever be recognized if the fair value change of the derivative exceeded the cost of the derivative.) When the derivative matures, the calculation of realized gains and losses reflects the deferred cost (amount owned), adjusted for any actual fair value change.

For example, if paying $5,000 at the end of a 5-year derivative, a 1,000 unrealized loss would be recognized each year for the present value of premium due, and at maturity, the reporting entity would recognize the 5,000 as a realized loss. If the derivative had a $500 fair value gain, this would decrease the extent of the premium owed recognized as a realized loss. The financial statement presentation of a derivative with financing premiums is significantly different from traditional recognition in which the reporting entity would recognize the $5,000 derivative at acquisition and ultimately recognize a realized gain for the $500 change in fair value.

Several key concerns are noted in the agenda item; however, a few are highlighted as follows:

- Reporting is inconsistent, as not all insurers utilizing financing derivatives report using the net approach. Additionally, insurers acquiring (or writing) similar derivatives would represent the financial statement impact in substantially different ways based solely on when the cost to acquire the derivative is due.

- The amounts reported when derivative assets and liabilities are netted with financing components do not reflect actual derivative assets or liabilities, and the corresponding unrealized gains / losses do not solely reflect changes in derivative value. The amounts reported are impacted by both changes in fair value and the present value change in the premium cost for the derivative. (This approach, particularly with the
The impact of financing derivatives can have a significant impact on the reported derivative amounts, which impacts the assessment of derivatives and the activity reported in regulator tools (e.g., profile reports / financial analysis assessments). For example, in one instance where financing derivatives were reflected, if the derivative had been reported without the financing components, the reported derivatives assets would have increased 50%, and the derivative liabilities would have decreased 60%. These two changes would have doubled the amount of overall net derivatives used in the company’s profile report. With a net presentation, the use of financing derivatives may artificially mask derivative activity, causing difficulty in regulator review to ensure derivative limitations have not been exceeded.

After reviewing the information reported in the 2018 year-end financial statements, it was noted that some entities both acquire and write derivatives using financing derivative components. For entities that are writing these derivatives, the entity has a receivable for the amount due, but the receivable is not subject to nonadmittance requirements as it is being commingled with the derivative. Under standard reporting (with premium provided at origination), the premium received would have been reported as a derivative liability (showcasing the obligation to perform under the derivative), but with financing derivatives, the written derivative is reported as a net asset as the receivable owed to the reporting entity is combined with the issued derivative. In the prior discussion of this topic, it was unknown that reporting entities were writing derivatives without collecting premium upon issuance or requiring collateral. This information was only identified with review of the new Schedule DB electronic columns.

From discussions with other NAIC staff, “financing” premiums are non-standard derivative components. Derivatives with these components are generally not marketable (without the entity providing payment of any remaining deferred or financing premium), as any new party would essentially be acquiring the initial company’s debt (liability) to pay the cost of the derivative.

Proposed Accounting and Reporting Concepts:
This agenda item intends to incorporate specific direction for the accounting and reporting of derivatives with financing components that are acquired and/or written. The proposed revisions reflect the following:

- **The BACV and fair value columns of derivatives acquired and/or written in Schedule DB-A or Schedule DB-B shall reflect the value without inclusion of any impact from financing provisions.** With this change, the Schedule DB column that currently captures “fair value of derivative, excluding impact of financing premiums” will be revised to reflect the “fair value of the derivative, including impact of financing premiums.”

Note: This proposal will result in a change from U.S. GAAP, however, derivatives reported under SAP already vary from U.S. GAAP as statutory accounting does not currently allow offsetting in accordance with master netting agreements. Under U.S. GAAP, the cash inflows / outflows (derivative and financing components) are netted to arrive at the fair value of the derivative.

This practice is not appropriate for statutory accounting because: The netting of derivatives with financing components 1) hinders the ability to assess whether derivative activity is within state investment limitations; 2) hinders the ability to utilize financial analysis tools in assessing activity or fair value changes; 3) impacts RBC and IMR calculations and 4) does not adequately present component items for admissibility.
• **Recognition of interest-related unrealized gains/losses (and then realized gains/losses at termination),** shall reflect the fair value fluctuation changes in the derivative and shall not be impacted by the present value change of premium owed or premium receivable from the derivative. This will impact past practice in which present value change of the premium owed / receivable has impacted gains / losses, resulting with impacts to AVR (unrealized) and IMR (realized).

• **The resulting balance sheet derivative assets and liabilities shall reflect the fair value of the derivatives without inclusion of the impact from financing derivatives unless the amount owed or the amount due from a derivative with financing elements meets the requirements for a valid right to setoff under SSAP No. 64.** If this valid right of setoff exists, the amount shall be captured in Schedule DB-D with disclosures captured pursuant to SSAP No. 64.

• **Amounts owed to / from the reporting entity for derivatives written or acquired shall be separately captured in the balance sheet, unless the amounts qualify under the legal right to offset.** To the extent amounts owed by the reporting entity for derivatives acquired do not meet the legal right to offset, the amount shall be recognized separately from the acquired derivative as a payable for security. To the extent amounts owed to the reporting entity for derivatives written do not meet the legal right to offset, the amount shall be recognized separately from the written derivative as a receivable for security and subject to admissibility requirements in SSAP No. 5R and SSAP No. 21R.

    Note: Under SSAP No. 21R, receivables for securities are not admitted if not received within 15 days from the settlement date. If the valid right to offset provisions are not met, consideration could be given to incorporate specific guidance for these derivative premium receivables.

**Proposed RBC and AVR Concepts:**
In addition to the changes in the Schedule DB reporting for BACV and FV and the separate reporting of the amounts due to / from, the proposed concepts in this agenda item will result with key changes to AVR and RBC:

1. **Acquired Derivatives with Amount Owed to Derivative Counterparty**
With separate reporting of the derivative asset and amount owed from the acquisition of the derivative, the BACV for the derivative asset and “net exposure” (Schedule DB-D) by counterparty will increase. (As the AVR reserve does not factor in the impact if there is legal right to offset, this AVR impact will occur regardless of offsetting provisions.) From the 2018 year-end detail reviewed, in most instances, reporting entities with financing derivatives will no longer report these derivatives as liabilities and will report the derivatives as assets.

    • The AVR reserve and the RBC impact for derivatives is based on derivative counterparty “net exposure.” As such, unless other adjustments are made, the reporting entity will either need to obtain additional collateral or engage in another offsetting derivative with the counterparty to eliminate the reported increased exposure (increased RBC charge). **To address concerns with RBC, since exposure is not actually increasing, this agenda item proposes adjustments to Schedule DB-D to incorporate the amount owed by the reporting entity to the counterparty in determining net exposure.** This adjustment would eliminate the need to obtain additional collateral or engage in another offsetting derivative to reduce counterparty exposure.

    (There is an RBC charge for off-balance sheet collateral (.0039) and collateral on-balance sheet is assessed the corresponding asset charge. As such, by using financing derivatives instead of acquiring collateral, the reporting entity mitigates these collateral charges.)
• With the proposed changes, the present value change of the premium owed will not be recognized as an unrealized loss in AVR (and impact the determination of realized interest-related capital losses/gains at termination in the IMR). These changes will result in a greater AVR reserve as the liability owed for the derivative recognized over time (present value over term of derivative) will no longer reduce the AVR as an unrealized loss. **The present value change of the premium owed for acquiring a derivative should not be considered an unrealized loss or impact AVR, therefore this change is appropriate.**

2. **Written Derivatives with Amount Owed to Reporting Entity**

With separate reporting of a derivative written by the reporting entity and the premium amount owed to the reporting entity, the BACV for the derivative asset and “net exposure” (Schedule DB-D) by counterparty will decrease. (This will likely result in a currently-reported derivative asset reversing to reflect a derivative liability.) Furthermore, the present value change of the premium due to the reporting entity will not be recognized as an unrealized gain and will no longer impact AVR (or IMR). The amount due for the written derivative will likely be considered a “receivable for security” within scope of **SSAP No. 21R —Other Admitted Asset**. Current guidance requires nonadmittance for these items not received within 15 days from the settlement date.

• In this situation, the derivative is currently being reported as an asset, because the amount due to the reporting entity (receivable) is increasing the derivative value. Without the amount due to the reporting entity, the derivative would be in a liability position. This approach does not seem to provide derivative RBC relief (as the RBC charge is focused on derivative assets) but the current netting approach could prevent potential nonadmittance for receivables owed to the reporting entity. In reviewing examples from the year-end 2018 reporting, premium owed to the reporting entity may not be received for a few years (until derivative maturity), which is beyond the time allotted for admittance under SSAP No. 21R. There is an RBC charge for “receivable for securities” (.014 life and 0.25 p/c & health), but this would only apply if the receivable was admitted. (This charge would be less than the charge for the derivative asset.)

• If the right to offset provisions in SSAP No. 64 are met, there would be no net impact to the financial statements by reporting the written derivative asset without the financing provisions. In these situations, the BACV and fair value on Schedule DB-A would detail the derivative without the financing components, and on Schedule DB-D, the reported amount that ties to the balance sheet would be adjusted for the offsetting receivable. With the offset, the receivable for security would be eliminated from the balance sheet. With the offset / balance sheet elimination, the receivable is essentially given “admitted asset” status (as it reduces a liability) and is not assessed for RBC. (Under SSAP No. 64, this offset would be disclosed in the financial statements.) If the right to offset provisions are not met, then the “receivable for security” would be nonadmitted after 15 days under SSAP No. 21R. This would cause a financial statement impact for any nonadmitted asset. If the asset was admitted, there would be an RBC charge for the admitted receivable.

**NAIC staff is interested in whether the premium due to the reporting entity from a written derivative would generally meet the “valid right to setoff” provisions from SSAP No. 64. If the conditions would not generally be met, consideration could occur to allow offsetting presentation in Schedule DB-D for these specific situations. This would allow the amount owed to the reporting entity to decrease the derivative obligation regardless of when the amount due would be received. If this was supported, provisions may be warranted that allow the derivative liability to be reduced to zero, but not permit the derivative to reverse into an asset position without being nonadmitted.**
**Illustration of RBC Charges to Derivative Assets / Liabilities:**

**RBC Impact – P/C and Health Entities**

As detailed below for property/casualty and health entities, the RBC charge is solely driven by the amount of derivative assets reported on the balance sheet. (This is a distinctly different from life reporting entities.) For these entities, the charge does not vary if the derivative is in a liability position or if the entity has received collateral from the counterparty. (The amount reported on balance sheet is impacted by offsetting provisions, but only if there is a valid right to offset.)

If these entities were to engage in financing derivatives, and the impact was to reverse the presentation of the derivative from an asset to a liability, this would have a direct change to the RBC calculation.

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<tr>
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<td>Liabilities</td>
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<td>Collateral</td>
<td>Investment Schedules</td>
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<tr>
<td>Net Exposure</td>
<td>Schedule DB</td>
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**RBC Impact – Life Insurance Entities**

As detailed below for life entities, the RBC charge is not driven by the amount of derivative assets reported on the balance sheet. Instead, the RBC charge is driven by the “net exposure” after considering collateral. In both situations (asset exposure and off-balance sheet exposure), if the derivative is in a liability position, there is no RBC charge. Since the removal of financing components will generally result with previously reported derivative liabilities flipping to represent derivative assets, this could have an RBC impact unless the premium owed to the reporting entity is considered as part of the RBC calculation. The proposal in this agenda item would consider amounts owed from the counterparty for the derivative in determining net exposure.

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<td>Liability &gt; Asset = No Charge</td>
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<td>Collateral &gt; Net Asset = No Charge</td>
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Derivative Liability > Derivative Asset = No Charge
Derivative Collateral > Net Derivative Asset = Charge Based on Collateral Not on Derivative
Derivative Collateral < Net Derivative Asset = Derivative Charge Based on NAIC designation of Counterparty

Existing Authoritative Literature:

- SSAP No. 64—Offsetting and Netting of Assets and Liabilities
- SSAP No. 86—Derivatives
- SSAP No. 100—Fair Value

Key aspects from the standards cited above:

**SSAP No. 64—Offsetting and Netting of Assets and Liabilities**

2. Assets and liabilities shall be offset and reported net only when a valid right of setoff exists except as provided for in paragraphs 3 and 4. A right of setoff is a reporting entity's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying an amount that the other party owes to the reporting entity against the debt. A valid right of setoff exists only when all the following conditions are met:
   a. Each of the two parties owes the other determinable amounts. An amount shall be considered determinable for purposes of this provision when it is reliably estimable by both parties to the agreement;
   b. The reporting party has the right to set off the amount owed with the amount owed by the other party;
   c. The reporting party intends to set off; and
   d. The right of setoff is enforceable at law.

3. Assets and liabilities that meet the criteria for offset shall not be netted when prohibited by specific statements of statutory accounting principles. An example of such is in the case of reinsurance recoverables on paid losses and ceded premiums payable as provided for in SSAP No. 62R—Property and Casualty Reinsurance.

4. Netting of assets and liabilities for reporting purposes when no valid right of setoff exists shall be allowed only when provided for by specific statements of statutory accounting principles. An example of such is in the case of real estate investments required to be shown net of encumbrances as provided for in SSAP No. 40R—Real Estate Investments.

5. Amounts due to or from affiliates shall be offset and reported net only when the provisions of paragraph 2 are met.

**Disclosures**

6. The following quantitative information shall be disclosed (separately for assets and liabilities) at the end of each reporting period (interim and annual) when derivative, repurchase and reverse repurchase, and securities borrowing and securities lending assets and liabilities are offset and reported net in accordance with paragraph 2 (valid right to offset):
   a. The gross amounts of recognized assets and recognized liabilities
   b. The amounts offset in accordance with paragraph 2 (valid right to offset)
c. The net amounts presented in the statement of financial positions.

7. Assets and liabilities that have a valid right to offset under paragraph 2, but are not netted as they are prohibited under paragraph 3, are not required to be captured in the disclosures in paragraph 6.

Relevant Literature

8. This statement adopts paragraphs 1, 7 and 13 of APB Opinion No. 10, Omnibus Opinion—1966 and FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts with modifications (1) to prohibit offsetting as provided in specific statements and require netting when provided in specific statements, and (2) to reject guidance in paragraphs 10, 10A, and 10B of FIN 39, as amended by FSP FIN 39-1, that permits a reporting entity election to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from the derivative instruments with the same counterparty under a master netting agreement. Offsetting for statutory accounting purposes is limited to situations meeting the conditions in paragraph 2 and 4 of this SSAP. This statement adopts FASB Emerging Issues Task Force No. 86-25, Offsetting Foreign Currency Swaps.

9. This statement rejects FSP FIN 39-1, Amendment of FASB Interpretation 39. This statement rejects FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements. FIN 41 has an offsetting exception for repurchase and reverse repurchase agreements and permits offsetting when the reporting parties do not intend to set off. This guidance is rejected for statutory accounting, and payables under repurchase agreements may only be offset against amounts recognized as receivables under reverse repurchase agreements if there is a valid right to offset meeting all the conditions, including the intent to offset, detailed in paragraph 2. This statement rejects ASU 2011-11, Disclosures about Offsetting Assets and Liabilities and ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. Statutory disclosure requirements for assets and liabilities reported net under a valid right to offset are detailed in paragraph 6.

SSAP No. 86—Derivatives

11. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).

Disclosure Requirements

12. Reporting entities shall disclose the following for all derivative contracts used:

a. For derivative contracts with financing premiums:

i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Include the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.
For each derivative contract with financing premiums:

(a) Whether premium cost is paid throughout the contract, or at derivative maturity;

(b) Next premium cost payment date;

(c) Total premium cost;

(d) Premium cost paid in prior years;

(e) Current year premium cost paid;

(f) Future unpaid premium cost;

(g) Fair value of derivative, excluding impact of financing premiums; and

(h) Unrealized gain/loss, excluding impact of financing premiums.

b. All derivatives are required to be shown gross on Schedule DB. However, derivatives may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities when a valid right to offset exists. Derivatives offset in accordance with SSAP No. 64 and reported net in the financial statement shall follow the disclosure requirements in SSAP No. 64, paragraph 6. (Derivative Assets and Derivative Liabilities reported on the balance sheet shall agree to columns 5 and 6, respectively, after netting, on Schedule DB – Part D – Section 1.)

c. The disclosure requirements of paragraphs 59.a., 59.b., and 59.g. shall be included in the annual statement. Refer to the Preamble for further discussion regarding interim disclosure requirements. The disclosure requirements of paragraphs 59.a. through 59.g. shall be included in the annual audited statutory financial reports. The disclosure requirements in paragraph 59.h. shall be included in statutory financial statements (annual and quarterly). Paragraph 62 of the Preamble states that disclosures made within specific schedules or exhibits to the annual statement need not be duplicated in a separate note.

**SSAP No. 100—Fair Value**

**Definition of Fair Value**

4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

5. Asset/Liability – A fair value measurement is for a particular asset or liability. Therefore, the measurement should consider attributes specific to the asset or liability, for example, the condition and/or location of the asset or liability and restrictions, if any, on the sale or use of the asset at the measurement date. The asset or liability might be a standalone asset or liability (for example, a financial instrument or an operating asset) or a group of assets and/or liabilities (for example, an asset group, a reporting unit, or a business).

6. Price – A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

11. Application to Assets – A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. In broad terms, highest and best use refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

14. Application to Liabilities – Consideration of non-performance risk (own credit-risk) should not be reflected in the fair value calculation for liabilities (including derivative liabilities) at subsequent measurement. At initial recognition, it is perceived that the consideration of own-credit risk may be inherent in the contractual negotiations resulting in the liability. The consideration of non-performance risk for subsequent measurement is inconsistent with the conservatism and recognition concepts as well as the assessment of financial solvency for insurers, as a decrease in credit standing would effectively decrease reported liabilities and thus seemingly increase the appearance of solvency. Furthermore, liabilities reported or disclosed at “fair value” shall not reflect any third-party credit guarantee of debt.

**Fair Value at Initial Recognition**

15. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price represents the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price). Conceptually, entry prices and exit prices are different. Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

16. In many cases, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the reporting entity shall consider factors specific to the transaction and the asset or liability. For example, a transaction price might not represent the fair value of an asset or liability at initial recognition if:

   a. The transaction is between related parties.

   b. The transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

   c. The market in which the transaction occurs is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the principal or most advantageous market. For example, those markets might be different if the reporting entity is a securities dealer that transacts in different markets, depending on whether the counterparty is a retail customer (retail market) or another securities dealer (inter-dealer market).

   d. For liabilities, differences may exist as non-performance risk (own credit risk) is not reflected in the fair value (i.e., exit price) determination of all liabilities (including derivatives).

**Disclosures about Fair Value of Financial Instruments**

54. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the
aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 55. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as “not practicable” with additional disclosure as required in paragraph 48.

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

Agenda item 2016-48 considered accounting and reporting revisions for derivatives with financing premiums. Although discussion occurred proposing a gross accounting and reporting approach, the revisions adopted within that agenda item incorporated aggregate disclosures and new electronic columns in Schedule DB to capture the impact of financing premiums in derivative reporting. With the disclosure adoptions, the Working Group directed NAIC staff to reassess this issue once the impact identified from the data-captured disclosures would be available for review, noting that the earliest for this re-assessment would be Summer 2019.

Agenda item 2013-07, which considered ASU 2013-01: Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities, was finalized on August 24, 2013. This ASU was issued to clarify that the scope of ASU 2011-11 applies to derivatives (including embedded derivatives), repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either netted as they meet the right of setoff under ASC 210-20-45 or ASC 815-10-45, or are subject to a master netting agreement or similar agreement. The SAP adopted revisions allowed reporting entities to continue offsetting derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions with a valid right of offset, but incorporated disclosures to illustrate the netting impact. This adoption action included a referral to the Blanks (E) Working Group for annual statement instruction revisions and to recommend development of additional schedules to reconcile the amount reported gross on DB to the amount reported net on the balance sheet.

Agenda item 2012-17, which considered ASU 2011-22, Disclosures about Offsetting Assets and Liabilities, was finalized by the Working Group on November 29, 2012. This agenda item adopted revisions to SSAPs No. 64, 86 and 103. The adopted revisions, effective January 1, 2013, 1) revise and clarify that offsetting is only allowed in accordance with SSAP No. 64, paragraphs 2-4; 2) modify the adoption of FIN 39 rejecting the ability to offset in accordance with master netting agreements and rejecting FSP FIN 39-1 and FIN 41; and 3) rejecting ASU 2011-11 for statutory accounting. The Working Group deferred adoption of the disclosures proposed to paragraphs 6-8 of SSAP No. 64 in the exposure as the FASB has recently exposed guidance to narrow the scope GAAP disclosures.

Overview of ASU 2011-11:

ASU 2011-11 was issued in December 2011 to require entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. This ASU was issued as the differences in the offsetting requirements between U.S. GAAP and IFRS accounted for a significant difference in the amounts presented under those standards. These differences reduce the comparability of between U.S. GAAP and IFRS, and the users of financial statements requested that these differences be addressed expeditiously. The objective of the ASU 2011-11
amendments is to facilitate comparison between entities that prepare financial statements under U.S. GAAP and those prepared under IFRS. Reporting entities are required to apply the ASU 2011-11 amendments for annual reporting periods beginning on or after Jan. 1, 2013, and interim periods within those annual periods. Entities are required to provide the disclosures required by those amendments retrospectively for all comparative periods presented.

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

Staff Recommendation:
NAIC staff recommends that statutory accounting revisions be considered to ensure consistency in the gross reporting of derivatives - without inclusion of financing components - and consistency in reporting amounts owed to / from the reporting entity from the acquisition or writing of derivatives. NAIC staff highlights that the concepts are consistent with existing statutory accounting guidelines but require clarification changes to ensure uniform application across the industry. **NAIC staff recommends that the Working Group move this item to the active listing, classified as nonsubstantive, and expose revisions to SSAP No. 86 to clarify the reporting of derivatives with financing premiums.** With the proposed revisions, NAIC staff is suggesting reporting revisions that would allow the present value of the derivative premium receivable (and payable) for financed derivatives to be factored into the counterparty risk assessment for life RBC.

In addition to the proposed revisions, comments are requested as to whether derivatives and related financing provisions would generally not meet the SSAP No. 64 right to offset criteria and if explicit guidance allowing offset should be considered. (Allowing offset only impacts the amount reported on balance sheet and does not impact the gross amount reported on Schedule DB-A or DB-B. The offset provision would impact RBC for p/c and health companies but would not impact the RBC for life reporting entities.)

(Regulator Inquiry) - Derivative profile reports are only provided for life reporting entities. These reports provide assessments on the overall net derivative position (assets less liabilities). **Would it be beneficial to regulators if derivative profile reports were available for p/c and health entities and if the reports completed assessments based on derivative assets and derivative liabilities separately?** (For example, a life company with $2.1 billion in derivative assets and $2.0 billion in derivative liabilities would currently have a derivative profile report for the $100 million net derivative asset. This report would detail changes in the net asset, but if derivative assets increased to $3.1 assets and derivative liabilities increased to $3.0, the profile report would not detail the change as the net asset would still reflect $100 million) It is staff’s interpretation that the limits on derivative activity per NAIC Model 280 are anticipated to be “absolute value” of derivative assets and derivative liabilities (and not the net between assets and liabilities). The language in the Model is consistent with the Supplemental Investment Risk Interrogatory that requests “aggregate” amounts with a percentage of admitted assets, with identification that the amount should agree to Schedule DB. **NAIC staff requests regulator comment on the interpretation of the word “aggregate” (and whether it is intended to be “absolute value” and whether the information in the statutory financials or ISITE tools (profile reports) provide the information needed for regulator assessments of derivative activity.**

Excerpt from Model 280, Investments of Insurers Model Act (Defined Limits Version):

B. Limitations on Hedging Transactions

An insurer may enter into hedging transactions under this section if, as a result of and after giving effect to the transaction:
(1) The aggregate statement value of options, caps, floors and warrants not attached to another financial instrument purchased and used in hedging transactions does not exceed seven and one half percent (7.5%) of its admitted assets;

(2) The aggregate statement value of options, caps and floors written in hedging transactions does not exceed three percent (3%) of its admitted assets; and

(3) The aggregate potential exposure of collars, swaps, forwards and futures used in hedging transactions does not exceed six and one-half percent (6.5%) of its admitted assets.

As noted in the recommendation, the revisions are in line with existing SAP concepts. These concepts and excerpts are specifically detailed below:

1. **Gross Reporting** – SSAP No. 86, and the reporting instructions for Schedule DB, is explicit that derivatives are required to be shown gross on Schedule DB. Net reporting is permitted on the balance sheet when a valid right to offset exists, but derivatives offset under SSAP No. 64 are required to follow the disclosure requirements in SSAP No. 64:

   54.h. All derivatives are required to be shown gross on Schedule DB. However, derivatives may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—**Offsetting and Netting of Assets and Liabilities** (SSAP No. 64) when a valid right to offset exists. Derivatives offset in accordance with SSAP No. 64 and reported net in the financial statement shall follow the disclosure requirements in SSAP No. 64, paragraph 6. (Derivative Assets and Derivative Liabilities reported on the balance sheet shall agree to columns 5 and 6, respectively, after netting, on Schedule DB – Part D – Section 1.)

2. **Accounting at Date of Acquisition** – SSAP No. 86, and the reporting instructions for Schedule DB, is explicit that the premium paid or received for writing a derivative shall either be recorded as an asset (purchase) or liability (written) on the derivative line on the assets or liability page:

   Exhibit C:

   1. Call and Put Options, Warrants, Caps, and Floors:

      a. Accounting at Date of Acquisition (purchase) or Issuance (written): The premium paid or received for purchasing or writing a call option, put option, warrant, cap or floor shall either be (i) recorded as an asset (purchase) or liability (written) on the Derivative line on the Assets (or) Liabilities pages or (ii) combined with the hedged item(s) individually or in the aggregate;

3. **Liability Recognition** - The deferred premium (or financing premium) is a cost to acquire / enter into the derivative contract and is not impacted by an underlying interest of the derivative agreement (the cost to acquire is not impacted by derivative instrument performance). Upon entering the derivative contract the financing premium owed by the reporting entity meets the definition of a liability under SSAP No. 5R:

   10. A liability is defined as certain or probable 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).

   11. 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\(^1\) 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.

NOTE: The deferred premium is a contractual element of the derivative contract and does not
fluctuate or change as a result of the underlying derivative.

Recognizing the liability is also consistent with the Statutory Accounting Statement of Concept of
Recognition detailed in the Preamble (paragraph 37):

Recognition

35. The principal focus of solvency measurement is determination of financial condition
through analysis of the balance sheet. However, protection of the policyholders can only
be maintained through continued monitoring of the financial condition of the insurance
enterprise. Operating performance is another indicator of an enterprise’s ability to
maintain itself as a going concern. Accordingly, the income statement is a secondary
focus of statutory accounting and should not be diminished in importance to the extent
contemplated by a liquidation basis of accounting.

36. The ability to meet policyholder obligations is predicated on the existence of readily
marketable assets available when both current and future obligations are due. Assets
having economic value other than those which can be used to fulfill policyholder
obligations, or those assets which are unavailable due to encumbrances or other third
party interests should not be recognized on the balance sheet but rather should be
charged against surplus when acquired or when availability otherwise becomes
questionable.

37. Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities
may also be required to arrive at conservative estimates of liabilities and probable loss
contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

4. Derivative Instrument - The deferred premium (or financing premium) is the cost to acquire a derivative
and is not a “derivative instrument” per the definition in SSAP No. 86:

4. “Derivative instrument” means an agreement, option, instrument or a series or
combination thereof:

a. To make or take delivery of, or assume or relinquish, a specified amount of one
or more underlying interests, or to make a cash settlement in lieu thereof; or

b. That has a price, performance, value or cash flow based primarily upon the
actual or expected price, level, performance, value or cash flow of one or more
underlying interests.

13. An “underlying” is a specified interest rate, security price, commodity price, foreign
exchange rate, index of prices or rates, or other variable (including the occurrence or
nonoccurrence of a specified event such as a scheduled payment under contract). An
underlying may be a price or rate of an asset or liability but is not the asset or liability itself.
5. **Offsetting Disclosures:** Guidance exists in SSAP No. 64 for the offsetting when there is a valid right to offset, and this guidance specifically references derivative transactions. This disclosure was added to ensure effective comparability across reporting entities, and ensure that the gross information reported on Schedule DB could be agreed to the information reported on the balance sheet:

6. The following quantitative information shall be disclosed (separately for assets and liabilities) at the end of each reporting period (interim and annual) when derivative, repurchase and reverse repurchase, and securities borrowing and securities lending assets and liabilities are offset and reported net in accordance with paragraph 2 (valid right to offset):

   d. The gross amounts of recognized assets and recognized liabilities

   e. The amounts offset in accordance with paragraph 2 (valid right to offset)

   f. The net amounts presented in the statement of financial positions.

**Staff Review Completed by:**
Julie Gann – NAIC Staff – October 2019

**October 2019 - Proposed Revisions to SSAP No. 86:**

4. "Derivative instrument" means an agreement, option, instrument or a series or combination thereof:

   a. To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or

   b. That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

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

   a. "Caps" are option contracts in which the cap writer (seller), in return for a premium, agrees to limit, or cap, the cap holder's (purchaser) risk associated with an increase in a reference rate or index. For example, in an interest rate cap, if rates go above a specified interest rate level (the strike price or the cap rate), the cap holder is entitled to receive cash payments equal to the excess of the market rate over the strike price multiplied by the notional principal amount. Because a cap is an option-based contract, the cap holder has the right but not the obligation to exercise the option. If rates move down, the cap holder has lost only the premium paid. A cap writer has virtually unlimited risk resulting from increases in interest rates above the cap rate.

   b. "Collar" means an agreement to receive payments as the buyer of an option, cap or floor and to make payments as the seller of a different option, cap or floor.

   c. "Floors" are option contracts in which the floor writer (seller), in return for a premium, agrees to limit the risk associated with a decline in a reference rate or index. For example, in an interest rate floor, if rates fall below an agreed rate, the floor holder (purchaser) will receive cash payments from the floor writer equal to the difference between the market rate and an agreed rate multiplied by the notional principal amount.
d. “Forwards” are agreements (other than futures) between two parties that commit one party to purchase and the other to sell the instrument or commodity underlying the contract at a specified future date. Forward contracts fix the price, quantity, quality, and date of the purchase and sale. Some forward contracts involve the initial payment of cash and may be settled in cash instead of by physical delivery of the underlying instrument.

e. “Futures” are standardized forward contracts traded on organized exchanges. Each exchange specifies the standard terms of futures contracts it sponsors. Futures contracts are available for a wide variety of underlying instruments, including insurance, agricultural commodities, minerals, debt instruments (such as U.S. Treasury bonds and bills), composite stock indices, and foreign currencies.

f. “Options” are contracts that give the option holder (purchaser of the option rights) the right, but not the obligation, to enter into a transaction with the option writer (seller of the option rights) on terms specified in the contract. A call option allows the holder to buy the underlying instrument, while a put option allows the holder to sell the underlying instrument. Options are traded on exchanges and over the counter.

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

h. “Swaps” are contracts to exchange, for a period of time, the investment performance of one underlying instrument for the investment performance of another underlying instrument, typically, but not always, without exchanging the instruments themselves. Swaps can be viewed as a series of forward contracts that settle in cash and, in some instances, physical delivery. Swaps generally are negotiated over-the-counter directly between the dealer and the end user. Interest rate swaps are the most common form of swap contract. However, foreign currency, commodity, and credit default swaps also are common.

i. “Swaptions” are contracts granting the owner the right, but not the obligation, to enter into an underlying swap. Although options can be traded on a variety of swaps, the term “swaption” typically refers to options on interest rate swaps. A swaption hedges the buyer against downside risk, as well as lets the buyer take advantage of any upside benefits. That is, it gives the buyer the benefit of the agreed-upon rate if it is more favorable than the current market rate, with the flexibility of being able to enter into the current market swap rate if it is preferable. Conversely, the seller of swaptions assumes the downside risk, but benefits from the amount paid for the swaption, regardless if it is exercised by the buyer and the swap is entered into.

j. “Warrants” are instruments that give the holder the right to purchase an underlying financial instrument at a given price and time or at a series of prices and times outlined in the warrant agreement. Warrants may be issued alone or in connection with the sale of other securities, for example, as part of a merger or recapitalization agreement, or to facilitate divestiture of the

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1 The “structured notes” captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled “principal-protected notes” are captured within scope of this statement if the “principal protection” involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment /principal loss (outside of default risk) are not captured as structured notes in scope of this statement.
securities of another business entity. Publicly traded stock warrants are captured in scope of SSAP No. 30R—Unaffiliated Common Stock. All other warrants, including non-publicly traded stock warrants, shall be captured in scope of SSAP No. 86.

6. "Derivative Premium" is the cost to acquire or write a derivative contract. Derivative premium is not an "underlying" in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium, so that the cost is paid or received throughout the derivative term or at derivative maturity, does not result with an "embedded derivative" addressed in paragraph 16.

6.7. "Firm commitment" is an agreement with an unrelated party, binding on both parties and expected to be legally enforceable, with the following characteristics:

a. The agreement specifies all significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction. The fixed price may be expressed as a specified amount of an entity’s functional currency or of a foreign currency. It may also be expressed as a specified interest rate or specified effective yield;

b. The agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable; and

c. For investments in subsidiary, controlled, and affiliated entities (as defined by SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities (SSAP No. 97)) and investments in limited liability companies (as defined by SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies) it must be probable that acquisition will occur within a reasonable period of time.

7.8. A hedging transaction is defined as a derivative(s) transaction which is entered into and maintained to reduce:

a. The risk of a change in the fair value or cash flow of assets and liabilities which the reporting entity has acquired or incurred or has a firm commitment to acquire or incur or for which the entity has forecasted acquisition or incurrence; or

b. The currency exchange rate risk or the degree of foreign currency exposure in assets and liabilities which a reporting entity has acquired or incurred or has a firm commitment to acquire or incur or for which the entity has forecasted acquisition or incurrence.

8.9. "Income generation transaction" is defined as derivatives written or sold to generate additional income or return to the reporting entity. They include covered options, caps, and floors (e.g., a reporting entity writes an equity call option on stock that it already owns).

9.10. "Replication (Synthetic Asset) transaction" is a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a replication (synthetic asset) transaction.

10.11. "Forecasted transaction" is a transaction that is expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event when it occurs will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices.

11.12. An "underlying" is a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a
specified event such as a scheduled payment under contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself.

12.13. “Benchmark Interest Rate” is a widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions. In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate. In the United States, the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate, the Fed Funds Effective Rate Overnight Index Swap Rate, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate, and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate are considered to be benchmark interest rates.

13.14. “Weather derivatives” are defined as a forward-based or option-based contract for which settlement is based on a climatic or geological variable. One example of such a variable is the occurrence or nonoccurrence of a specified amount of snow at a specified location within a specified period of time.

14.15. “Notional amount” is defined as the face value of a financial instrument in a derivatives transaction as of a reporting date which is used to calculate future payments in the reporting currency. Notional amount may also be referred to as notional value or notional principal amount. The notional amount reported should remain static over the life of a trade unless the instrument is partially unwound or has a contractually amortizing notional. The notional amount shall apply to derivative transactions as follows:

a. For derivative instruments other than futures contracts (e.g., options, swaps, forwards), the notional amount is either the amount to which interest rates are applied in order to calculate periodic payment obligations or the amount of the contract value used to determine the cash obligations. Non-U.S. dollar contracts must be multiplied or divided by the appropriate inception foreign currency rate.

b. For futures contracts, with a U.S. dollar-denominated contract size (e.g., Treasury note and bond contracts, Eurodollar futures) or underlying, the notional amount is the number of contracts at the reporting date multiplied by the contract size (value of one point multiplied by par value).

c. For equity index and similar futures, the number of contracts at the reporting date is multiplied by the value of one point multiplied by the transaction price. Non-U.S. dollar contract prices must be multiplied or divided by the appropriate inception foreign currency rate.

15.16. “Variation Margin” reflects the daily change in market value of derivative contracts (e.g., daily gain/loss on a derivative contract due to market movements). Amounts received/paid to adjust variation margin on derivative contracts that are both cleared and settled on an exchange shall be recognized as an adjustment to the carrying value of the derivative contract (e.g., futures). Amounts received/paid to adjust variation margin on all other derivative contracts shall be recognized on the balance sheet as an asset or liability separate from the carrying value of the

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2 The definition in paragraph 14 is intended to be a principle for determining notional for all derivative instruments. To the extent a derivative type is not explicitly addressed in paragraph 14.a. through paragraph 14.c., notional should be reported in a manner consistent with this principle.
derivative instrument. This treatment shall occur under statutory accounting regardless if the counterparty/exchange considers amounts exchanged for variation margin to be legal settlement or collateral. Changes in variation margin shall not be treated as realized gains or adjustments to the basis of the hedged item until the derivative contract has been sold, matured or expired.

Embedded Derivative Instruments

16.17. Contracts that do not in their entirety meet the definition of a derivative instrument, such as bonds, insurance policies, and leases, may contain “embedded” derivative instruments—implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of embedding a derivative instrument in another type of contract (“the host contract”) is that some or all of the cash flows or other exchanges that otherwise would be required by the contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more underlyings. An embedded derivative instrument shall not be separated from the host contract and accounted for separately as a derivative instrument.

Impairment

17.18. This statement adopts the impairment guidelines established by SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) for the underlying financial assets or liabilities.

Derivative Premium (New Section – All Other Sections Renumbered Accordingly)

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative. Derivative premium that is not paid or received at inception represents a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.

b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

c. If premium payable or receivable meet the requirement for a valid right of setoff with the derivative in accordance with SSAP No. 64, the derivative asset can be reduced by a premium payable, and a derivative liability can be reduced by a premium receivable for overall reporting on the balance sheet. This offset provision does not permit a derivative asset to be reported as a derivative liability (or vice versa) due to premium payable or receivable. Rather, once a derivative asset (or liability) is fully reduced by a premium liability (or receivable), any remaining premium liability (or receivable) shall be reported as a “payable for security” or “receivable for security” pursuant to paragraph 19.b. This net balance sheet reporting does not impact the gross presentation of open derivatives on Schedule DB-A or Schedule DB-B. If reported net on the balance sheet due to a valid right to offset, the offsetting adjustment shall be shown on schedule DB-D and the SSAP No. 64 disclosures are required.

3 This paragraph does not include derivative premium financing arrangements. Derivatives and financed premiums are subject to separate reporting as detailed in paragraph 19.
Recognition and Measurement of Derivatives Used in Hedging Transactions

48-20. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures (SSAP No. 27). Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 44-47 of SSAP No. 100—Fair Value (SSAP No. 100). Derivative instruments are admitted assets to the extent they conform to the requirements of this statement.

49-21. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).

Staff Note: Paragraphs 22-38 not duplicated.

Documentation Guidance

39. At inception of the hedge, documentation must include:

a. A formal documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or variability in cash flows attributable to the hedged risk will be assessed. There must be a reasonable basis for how the entity plans to assess the hedging instrument’s effectiveness;

b. An entity’s defined risk management strategy for a particular hedging relationship may exclude certain components of a specific hedging derivative’s change in fair value, such as time value, from the assessment of hedge effectiveness, as discussed in paragraph 38 and Exhibit B;

c. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions; and

d. A description of the reporting entity's methodology used to verify that opening transactions do not exceed limitations promulgated by the state of domicile.

Staff Note: Paragraphs 40-58 not duplicated.

4 Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.
Disclosure Requirements

59. Reporting entities shall disclose the following for all derivative contracts used:

h. For derivative contracts with financing premiums:

i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.

ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid throughout the contract, or at derivative maturity;

(b) Next premium cost payment date;

(c) Total premium cost;

(d) Premium cost paid in prior years;

(e) Current year premium cost paid;

(f) Future unpaid premium cost;

(g) Fair value of derivative, excluding impact of financing premiums; and

(h) Unrealized gain/loss, excluding impact of financing premiums.

Staff Note: With the proposed revisions to clarify gross reporting without financing premiums, these disclosures will not be considered necessary. Comments are requested whether it would be beneficial to retain these columns and capture the fair value of the derivative with the impact of financing premiums.

i. All derivatives are required to be shown gross on Schedule DB. However, derivatives may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities when a valid right to offset exists. Derivatives offset in accordance with SSAP No. 64 and reported net in the financial statement shall follow the disclosure requirements in SSAP No. 64, paragraph 6. (Derivative Assets and Derivative Liabilities reported on the balance sheet shall agree to columns 5 and 6, respectively, after netting, on Schedule DB – Part D – Section 1.)
**Proposed Revisions to Schedule DB-D – Counterparty Exposure**

As detailed in this agenda item, NAIC staff suggests consideration on whether premiums due to / from a counterparty should be used in determining the net derivative exposure. This approach would allow the clarifications for gross reporting (excluding financing derivatives) to not impact a life insurer’s RBC calculation for derivative activity as the financing premiums owed by the reporting entity would be considered similar to collateral received.

Below is a simplified version of Schedule DB-D with the potential column.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>4</th>
<th>New Column</th>
<th>5</th>
<th>6</th>
<th>7</th>
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<tbody>
<tr>
<td>Description of Exchange, Counterparty or Central Clearinghouse</td>
<td>Master Agreement (Y / N)</td>
<td>Fair Value of Acceptable Collateral</td>
<td>Present Value of Financing Premiums</td>
<td>Contracts with BACV &gt; 0</td>
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<td>Exposure Net of Collateral</td>
</tr>
<tr>
<td>Gross Totals</td>
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Gross Totals

<table>
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<tr>
<th>Offset Per SSAP No. 64</th>
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<tr>
<td>Net After Right to Offset</td>
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</table>

If this column was added, and the derivatives reported in column 5 and 6 were gross of financing premiums, the amount reported in column 7 would be determined as follows:

**Column 7**

- Exposure Net of Collateral (Book/Adjusted Carrying Value)

For the aggregate reporting of Exchange-Traded Derivatives (Line 0199999999), show the amount in Column 5.

For OTC counterparties, if no master agreement is in place, show the sum of the Book/Adjusted Carrying Values of all derivative instruments with the counterparty that has a positive Book/Adjusted Carrying Value, less any Acceptable Collateral and the Present Value of Financing Premiums (Column 5 – Column 4 – New Column).

For OTC counterparties with a master agreement in place and central clearinghouses, show the net sum of the Book/Adjusted Carrying Values of all derivative instruments, less any acceptable collateral and the present value of financing premiums (Column 5 + Column 6 – Column 4 – New Column).

This amount should not be less than zero.

For life insurance entities, the positive amount reported in column 7 is then accessed RBC based on the NAIC designation of the counterparty. When reporting the gross fair value of derivatives with capturing the financing premiums, the premiums due from or owed to the counterparty is factored into the calculation to reflect net counterparty exposure. This reporting will not impact P/C or Health entities (regardless if they engage in financing derivatives), as their RBC is based on derivative assets as reported on the balance sheet.
**Status:**
On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 86—Derivatives, as illustrated above, to clarify the reporting of derivatives with financing premiums. The reporting revisions propose allowing the present value of the derivative premium receivable (and payable) for financed derivatives to be factored into the counterparty risk assessment for life RBC. (If supported, RBC changes would be subsequently referred to the Capital Adequacy (E) Task Force for consideration.) Comments are also requested as to whether derivatives and related financing provisions that would generally not meet the SSAP No. 64—Offsetting and Netting of Assets and Liabilities right to offset criteria and if explicit guidance allowing offset should be considered.

On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed this agenda item with slight revisions from the prior exposure (shaded) to delete the proposed new paragraph 19.c., as recommended by interested parties. The exposed revisions, as illustrated below, ensure consistency in the gross reporting of derivatives, without inclusion of financing components, and in reporting amounts owned to/from the reporting entity from the acquisition or writing of derivatives. With this exposure, a blanks proposal will be sponsored and notice of the proposed edits will be provided to the Capital Adequacy (E) Task Force. This item has a comment period deadline ending May 29, 2020.

**Proposed Revisions to SSAP No. 86:**

6. “Derivative Premium” is the cost to acquire or write a derivative contract. Derivative premium is not an “underlying” in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium, so that the cost is paid or received throughout the derivative term or at derivative maturity, does not result with an “embedded derivative” addressed in paragraph 16.

**Impairment**

18. This statement adopts the impairment guidelines established by SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) for the underlying financial assets or liabilities.

**Derivative Premium (New Section – All Other Sections Renumbered Accordingly)**

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative. Derivative premium that is not paid or received at inception represents a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.

b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

c. If premium payable or receivable meet the requirement for a valid right of setoff with the derivative in accordance with SSAP No. 64, the derivative asset can be reduced by a premium payable, and a derivative liability can be reduced by a premium receivable for overall reporting on the balance sheet. This offset provision does not permit a derivative asset to be reported as a derivative liability (or vice versa) due to premium payable or receivable. Rather, once a derivative asset (or liability) is fully reduced by a premium...
liability (or receivable), any remaining premium liability (or receivable) shall be reported as a “payable for security” or “receivable for security” pursuant to paragraph 19.b. This net balance sheet reporting does not impact the gross presentation of open derivatives on Schedule DB-A or Schedule DB-B. If reported net on the balance sheet due to a valid right to offset, the offsetting adjustment shall be shown on schedule DB-D and the SSAP No. 64 disclosures are required.

Recognition and Measurement of Derivatives Used in Hedging Transactions

49.20. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures (SSAP No. 27). Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 44-47 of SSAP No. 100—Fair Value (SSAP No. 100). Derivative instruments are admitted assets to the extent they conform to the requirements of this statement.

20.21. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).§

Staff Note: Paragraphs 22-38 not duplicated.

Documentation Guidance

39. At inception of the hedge, documentation must include:

a. A formal documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or variability in cash flows attributable to the hedged risk will be assessed. There must be a reasonable basis for how the entity plans to assess the hedging instrument’s effectiveness;

b. An entity’s defined risk management strategy for a particular hedging relationship may exclude certain components of a specific hedging derivative’s change in fair value, such as time value, from the assessment of hedge effectiveness, as discussed in paragraph 38 and Exhibit B;

§ Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.
c. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions; and

d. A description of the reporting entity's methodology used to verify that opening transactions do not exceed limitations promulgated by the state of domicile.

Staff Note: Paragraphs 40-58 not duplicated.

Disclosure Requirements

59. Reporting entities shall disclose the following for all derivative contracts used:

h. For derivative contracts with financing premiums:

i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.

ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid throughout the contract, or at derivative maturity;

(b) Next premium cost payment date;

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i. All derivatives are required to be shown gross on Schedule DB. However, derivatives may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities when a valid right to offset exists. Derivatives offset in accordance with SSAP No. 64 and reported net in the financial statement shall follow the disclosure requirements in SSAP No. 64, paragraph 6. (Derivative Assets and Derivative Liabilities reported on the balance sheet shall agree to columns 5 and 6, respectively, after netting, on Schedule DB – Part D – Section 1.)

Proposed Revisions to Schedule DB-D – Counterparty Exposure

As detailed in this agenda item, NAIC staff suggests consideration on whether premiums due to / from a counterparty should be used in determining the net derivative exposure. This approach would allow the clarifications for gross reporting (excluding financing derivatives) to not impact a life insurer’s RBC calculation.
for derivative activity as the financing premiums owed by the reporting entity would be considered similar to collateral received.

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If this column was added, and the derivatives reported in column 5 and 6 were gross of financing premiums, the amount reported in column 7 would be determined as follows:

Column 7 — Exposure Net of Collateral (Book/Adjusted Carrying Value)
For the aggregate reporting of Exchange-Traded Derivatives (Line 0199999999), show the amount in Column 5.

For OTC counterparties, if no master agreement is in place, show the sum of the Book/Adjusted Carrying Values of all derivative instruments with the counterparty that has a positive Book/Adjusted Carrying Value, less any Acceptable Collateral and the Present Value of Financing Premiums (Column 5 – Column 4 – New Column).

For OTC counterparties with a master agreement in place and central clearinghouses, show the net sum of the Book/Adjusted Carrying Values of all derivative instruments, less any acceptable collateral and the present value of financing premiums (Column 5 + Column 6 – Column 4 – New Column).

This amount should not be less than zero.

For life insurance entities, the positive amount reported in column 7 is then accessed RBC based on the NAIC designation of the counterparty. When reporting the gross fair value of derivatives with capturing the financing premiums, the premiums due from or owed to the counterparty is factored into the calculation to reflect net counterparty exposure. This reporting will not impact P/C or Health entities (regardless if they engage in financing derivatives), as their RBC is based on derivative assets as reported on the balance sheet.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 86—Derivatives, as illustrated below, to ensure consistency in the gross reporting of derivatives without inclusion of financing components and in reporting amounts owed to/from the reporting entity from the acquisition or writing of derivatives. The adopted nonsubstantive revisions are effective Jan. 1, 2021 to allow for corresponding blanks changes. (Note – Changes in paragraphs from the prior exposure just showcase the adopted revisions in accordance with the current SSAP No. 86 paragraphs to reflect changes from other agenda items that revised SSAP No. 86.)

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Adopted Revisions to SSAP No. 86:

6. “Derivative Premium” is the cost to acquire or write a derivative contract. Derivative premium is not an “underlying” in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium, so that the cost is paid or received throughout the derivative term or at derivative maturity, does not result with an “embedded derivative” addressed in paragraph 16.

Impairment

17. This statement adopts the impairment guidelines established by SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) for the underlying financial assets or liabilities.

Derivative Premium (New Section – All Other Sections Renumbered Accordingly)

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a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.

b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

Recognition of Derivatives

48-19. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5R) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures. Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 44-48 of SSAP No. 100R—Fair Value. Derivative instruments used in hedging, income generation or replication (synthetic asset) transactions shall be recognized and measured in accordance with the specific provisions within this statement and are admitted assets to the extent they conform to the requirements of this statement.

49-20. Derivative instruments that are not used in hedging, income generation or replication (synthetic asset) transactions shall be considered “Other” derivatives. These derivatives shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized gains or losses. These derivatives do not qualify as admitted assets.

Derivatives Used in Hedging Transactions

20-21. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge
accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).

Staff Note: Paragraphs 22-38 not duplicated.

Documentation Guidance

39. At inception of the hedge, documentation must include:

a. A formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or variability in cash flows attributable to the hedged risk will be assessed. There must be a reasonable basis for how the entity plans to assess the hedging instrument's effectiveness;

b. An entity's defined risk management strategy for a particular hedging relationship may exclude certain components of a specific hedging derivative's change in fair value, such as time value, from the assessment of hedge effectiveness, as discussed in paragraph 38 and Exhibit B;

c. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions; and

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Staff Note: Paragraphs 40-58 not duplicated.

Disclosure Requirements

60. Reporting entities shall disclose the following for all derivative contracts used:

h. For derivative contracts with financing premiums:

i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.

ii. For each derivative contract with financing premiums:

(a) Whether premium cost is paid throughout the contract, or at derivative maturity;

(b) Next premium cost payment date;

(c) Total premium cost;

6 Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.
(d) Premium cost paid in prior years;
(e) Current year premium cost paid;
(f) Future unpaid premium cost;
(g) Fair value of derivative, excluding impact of financing premiums; and
(h) Unrealized gain/loss, excluding impact of financing premiums.

i. All derivatives are required to be shown gross on Schedule DB. However, derivatives may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities when a valid right to offset exists. Derivatives offset in accordance with SSAP No. 64 and reported net in the financial statement shall follow the disclosure requirements in SSAP No. 64, paragraph 6. (Derivative Assets and Derivative Liabilities reported on the balance sheet shall agree to columns 5 and 6, respectively, after netting, on Schedule DB – Part D – Section 1.)

Effective Date and Transition
71. This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used. Revisions adopted to paragraph 62 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.) Revisions adopted in paragraph 15 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.) Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 63) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define “derivative premium,” require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2020.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

**Issue:** Update / Remove References to SVO Listings

**Check (applicable entity):**

<table>
<thead>
<tr>
<th>Modification of Existing SSAP</th>
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<tr>
<td>New Issue or SSAP</td>
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<td>Interpretation</td>
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**Description of Issue:** The Statutory Accounting Principles (E) Working Group received a referral from the Valuation of Securities (E) Task Force regarding two proposed amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).

1. The first proposal was to rename the “U.S. Direct Obligations/Full Faith and Credit Exempt List” to the “NAIC U.S. Government Money Market Fund List.” No revisions to the *NAIC Accounting Practices and Procedures* (AP&P) Manual would be required, as this list is not specifically identified. (Revisions would likely be needed in the Blanks and RBC filings / instructions.)

2. The second proposal was to discontinue the “NAIC Bond Fund List.” Items which were on this list would be eligible for consideration for the “NAIC Fixed Income-Like SEC Registered Funds List.” The discontinuance of usage of the NAIC Bond Fund List will require an update in the AP&P Manual. (Although the “bond list,” this listing requires 100% government securities in the fund.)

*Edited excerpt from the VOSTF referral:*

The NAIC Bond Fund List (Bond List), published monthly by the SVO, is a list limited to funds that maintain the highest credit quality rating, maintain the highest market risk rating, and invests 100% of its total assets in U.S. Government securities along with several other restrictive criteria. Only four funds qualify for this list and only four insurers invest in any of the funds. According to the SVO, a combined exposure of $11.8 million BACV was noted in any of the four qualifying funds as of December 31, 2018. Given the limited number of insurers investing in these specific funds, the SVO proposed eliminating this list when the four funds come up for renewal in 2020. Upon renewal, the funds on the NAIC Bond Fund List would be eligible for the “NAIC Fixed Income-Like SEC Registered Funds List.” Elimination of the “bond fund list” would result in migrating these funds over to the NAIC Fixed Income-Like SEC Registered Funds List, which will be reported on Schedule D, Part 2 under *SSAP No. 30R – Unaffiliated Common Stock.*

**Existing Authoritative Literature:**

The Bond List is specifically noted in two SSAP’s as detailed below:

**SSAP No. 26R—Bonds**

3. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:

   a. U.S. Treasury securities;
   
   b. U.S. government agency securities;
c. Municipal securities;

d. Corporate bonds, including Yankee bonds and zero-coupon bonds;

e. Convertible bonds, including mandatory convertible bonds as defined in paragraph 11.b;

f. Fixed-income instruments specifically identified:
   i. Certifications of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition;
   ii. Bank loans issued directly by a reporting entity or acquired through a participation, syndication or assignment;
   iii. Hybrid securities, excluding: surplus notes, subordinated debt issues which have no coupon deferral features, and traditional preferred stocks.
   iv. Debt instruments in a certified capital company (CAPCO)

4. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.

   a. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org. (SVO-identified ETFs are reported on Schedule D – Part 1.)

   b. Bond mutual funds which qualify for the Bond List, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org. (SVO-identified bond mutual funds are reported on Schedule D – Part 1.)

**SSAP No. 30R—Unaffiliated Common Stock**

3. Common stocks (excluding investments in affiliates) are securities which represent a residual/subordinate ownership in a corporation. This definition includes:

   a. Publicly traded common stocks;
   
   b. Common stocks that are not publicly traded; and
   
   c. Common stocks restricted as to transfer of ownership

4. In addition, the following equity investments are captured within scope of this statement:

   a. Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York or NASDAQ exchange;

   b. Publicly traded common stock warrants;

   c. Shares of SEC registered Investment Companies captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit
investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds or stocks), except for Bond Mutual Funds which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO’s web page of www.NAIC.org;

d. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO’s web page of www.NAIC.org; and

e. Foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction. Other foreign funds are excluded from the scope of this statement.

f. Equity interests in certified capital companies in accordance with INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO).

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, categorized as nonsubstantive and expose revisions to 1) *SSAP No. 26R—Bonds* and *SSAP No. 30R—Unaffiliated Common Stock* to eliminate references to the NAIC Bond Fund List (Bond List) and 2) add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in *SSAP No. 30R*.

Although the Working Group is recommended to proceed with exposure on this agenda item and solicit comments for consideration, final action and determination of an effective date will not occur until revisions have first been adopted by the Valuation of Securities (E) Task Force. NAIC SAPWG staff will coordinate with the VOSTF staff to stay current on their discussion and action on this item. NAIC staff also notes that referrals to the Blanks (E) Working Group and the Capital Adequacy (E) Task Force will be needed to reflect the title change in Blanks and RBC.

NAIC staff also highlights that the reference to the SVO “bond fund list” often causes confusion as this listing only includes funds with 100% of their investments in U.S. Government Securities. If the action to delete the listing does not occur at the Task Force, NAIC staff would recommend that the listing name be revised to reflect the “U.S. Government Fund” to eliminate confusion through reference as a “bond fund” listing.

Proposed Revisions to *SSAP No. 26R—Bonds*

4. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.
Ref #2020-01

Proposed Revisions to SSAP No. 30R—Unaffiliated Common Stock

4. In addition, the following equity investments are captured within scope of this statement:
   
a. Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York or NASDAQ exchange;

b. Publicly traded common stock warrants;

c. Shares of SEC registered Investment Companies captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds or stocks), including shares of funds referenced in the "NAIC Fixed Income-Like SEC Registered Funds List" as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office, except for bond or preferred stock treatment, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org; and

d. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Three of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and published on the SVO’s web page of www.NAIC.org; and

e. Foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction. Other foreign funds are excluded from the scope of this statement.

f. Equity interests in certified capital companies in accordance with INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO).

Staff Review Completed by: Jim Pinegar, NAIC Staff – January 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock, as detailed above, to eliminate references to the NAIC Bond Fund List. The revisions also add reference to the “NAIC Fixed-Income Like SEC Registered Funds List” in SSAP No. 30R. This item has a shortened comment period deadline ending May 1, 2020.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, nonsubstantive revisions to SSAP No. 26R—Bonds and SSAP No. 30R—Unaffiliated Common Stock, as illustrated above under proposed revisions, to eliminate references to the NAIC Bond Fund List (Bond List) in SSAP No. 26R—Bonds and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R—Unaffiliated Common Stock.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Commissioner Discretion in the Valuation Manual

Check (applicable entity):

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<thead>
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<tbody>
<tr>
<td>New Issue or SSAP Interpretation</td>
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Description of Issue:
The Valuation Manual became operative on January 1, 2017 and is required to be used for all applicable products effective January 1, 2020. This agenda item has been drafted to maintain comparability by providing disclosures regarding the use of commissioner discretion pursuant to the Valuation Manual.

The Authoritative Literature section in the agenda item has examples of items that require commissioner approval in the Valuation Manual. The items involve making a voluntary choice between various acceptable methods, which is subject to commissioner approval. The identified instances in the Valuation Manual are consistent with a change in valuation basis. Examples identified may include characteristics similar to the following:

1. Voluntarily moving between different commonly accepted methods of determining an amount;
2. The change of method is generally infrequent;
3. Changing methods is a voluntary choice, not an automatic change required by the methodology;
4. Change in valuation which must be typically justified to the commissioner prior to approval.

Because these changes are voluntary and not required to change by the methodology, this agenda item recommends disclosing the use of commissioner discretion required for choosing between acceptable methods, consistent with a change in valuation basis.

Existing Authoritative Literature:

SSAP No. 3—Accounting Changes and Corrections of Errors

Change in Accounting Principle

3. A change in accounting principle results from the adoption of an accepted accounting principle, or method of applying the principle, which differs from the principles or methods previously used for reporting purposes. A change in the method of applying an accounting principle shall be considered a change in accounting principle.

4. A characteristic of a change in accounting principle is that it concerns a choice from among two or more statutory accounting principles. However, a change in accounting principle is neither (a) the initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or previously immaterial in their effect, nor (b) the adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring.
5. The cumulative effect of changes in accounting principles shall be reported as adjustments to unassigned funds (surplus) in the period of the change in accounting principle. 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 if the new accounting principle had been applied retroactively for all prior periods.

If additional changes are identified in subsequent quarters of a fiscal year related to a change in accounting principles recognized initially during the first quarter, such changes shall be considered part of the cumulative effect of the change in accounting principle. 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 if the new accounting principle had been applied retroactively for all prior periods. For example, adjustments to an amount recorded as of January 1, 2001, would be recorded as changes in accounting principle rather than corrections of an error through the period of 2001.

SSAP No. 51R—Life Contracts

22. For life and annuity policies issued on or after the operative date of the Valuation Manual, reserves shall use the requirements of the Valuation Manual. As required by Appendix A-820, reserves are required to be determined using the methodologies and processes described in the Valuation Manual. For policies unable to meet the Valuation Manual criteria for exemption from deterministic or stochastic reserves, the Valuation Manual supplements formulaic life insurance policy reserve methodologies with more advanced deterministic and stochastic reserve methodologies to produce reserves that better reflect company experience, possible economic conditions and inherent policy risks.

Change In Valuation Basis

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.

b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus.
(under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. The Valuation Manual is effective prospectively for policies written on or after the operative date. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

**SSAP No. 52—Deposit-Type Contracts**

**Change In Valuation Basis**

14. A change in valuation basis shall be defined as a change in the interest rate assumption or other factor affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless an actuarial guideline adopted by the NAIC prescribes a specific transition that allows for grading.

**SSAP No. 54R—Individual and Group Accident and Health Contracts**

12. The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820, A-822 (as applicable), the Valuation Manual and the actuarial guidelines found in Appendix C of this Manual (as applicable). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

**Change In Valuation Basis**

22. A change in valuation basis shall be defined as a change in the interest rate, mortality and morbidity assumptions, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3). Changing morbidity assumptions regarding the length of claim continuance based on regularly updated credible experience as required for products subject to Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47) and Actuarial Guideline L—2013 Individual Disability Income Valuation Table (AG 50) are not considered a change in valuation basis. Other uses of regularly updated credible experience required to be used for morbidity assumptions by Appendix A-010 regarding continuing claim payments are generally not considered a change in valuation basis. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.
line for life, accident and health, and health reporting entities) rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in this paragraph, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. This difference shall not be graded in over time unless this statement prescribes a new method and a specific transition that allows for grading.

The Valuation Manual is referenced in the following places in the Accounting Practices and Procedures Manual:

- SSAP No. 51R—Life Contracts
- SSAP No. 54R—Individual and Group Accident and Health Contracts
- SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees
- Appendix A-010: Minimum Reserve Standards for Individual and Group Health Insurance Contracts
- Appendix A-820: Minimum Life and Annuity Reserve Standards
- Appendix C- Actuarial Guidelines-- Multiple Places

The Valuation Manual provides the following instances of commissioner discretion (shading added for emphasis):

**VM-20**

Section 9C3d(iii)

iii. In taking into account factors that are not recognized in the Relative Risk Tool, a company may, to the extent it can justify, adjust the industry basic tables up or down two Relative Risk Tables from that determined by application of the Relative Risk Tool. Further adjustments to reflect risk characteristics not captured within the Relative Risk Tool may be allowed upon approval by the insurance commissioner.

Section 9C5a

For valuations in which the industry basic mortality table is the 2015 VBT, determine an aggregate level of credibility following either the Limited Fluctuation Method by amount, such that the minimum probability is at least 95% with an error margin of no more than 5% or Buhlmann Empirical Bayesian Method by amount. Once chosen, the credibility method must be applied to all business subject to VM20 and requiring credibility percentages. A company seeking to change credibility methods must request and subsequently receive the approval of the insurance commissioner. The request must include the justification for the change and a demonstration of the rationale supporting the change.

**VM-21 (Note that agenda item 2019-47 addresses this exercise of discretion).**

Section 2B

These requirements apply for valuation dates on or after Jan. 1, 2020. A company may elect to phase in these requirements over a 36-month period beginning Jan. 1, 2020. A company may elect a longer phase-in period, up to seven years, with approval of the domiciliary commissioner. The election of whether to phase in and the period of phase-in must be made prior to the Dec. 31, 2020, valuation. At the company’s option, a phase-in may be terminated prior to the originally elected end of the phase-in period; the reserve would then be equal to the unadjusted reserve calculated according to the requirements of VM-21 applicable for valuation dates on or after Jan. 1, 2020. If there is a material decrease in the book of business by sale or reinsurance ceded, the company shall adjust the amount of the phase-in provision.
in amount \( (C = R_1 - R_2, \text{ as described below}) \) must be scaled down in proportion to the reduction in the excess reserve, measured on the effective transaction date as the reserve amount in excess of cash surrender value before and after the impact of the transaction. The company must obtain approval for any other modification of the remaining phase-in amount. The method to be used for the phase-in calculation is as follows.

**Section 2C - The Additional Standard Projection Amount**

The additional standard projection amount is determined by applying one of the two standard projection methods defined in Section 6. The same method must be used for all contracts within a group of contracts that are aggregated together to determine the reserve, and the additional standard projection amount excluding any contracts whose reserve is determined using the Alternative Methodology. The company shall elect which method they will use to determine the additional standard projection amount. The company may not change that election for a future valuation without the approval of the domiciliary commissioner.

**Section 3E - Alternative Methodology**

For a group of variable deferred annuity contracts that contain either no guaranteed benefits or only GMDBs—i.e., no VAGLBs—the reserve may be determined using the Alternative Methodology described in Section 7 rather than using the approach described in Section 3.C and Section 3.D. However, in the event that the approach described in Section 3.C and Section 3.D has been used in prior valuations for that group of contracts, the Alternative Methodology may not be used without approval from the domiciliary commissioner.

**Section 4A4a(ii)b - Modeling of Hedges**

a. For a company that does not have a CDHS:

i. The company shall not consider the cash flows from any future hedge purchases or any rebalancing of existing hedge assets in its modeling.

ii. Existing hedging instruments that are currently held by the company in support of the contracts falling under the scope of these requirements shall be included in the starting assets. The hedge assets may then be considered in one of two ways:

a) Include the asset cash flows from any contractual payments and maturity values in the projection model; or

b) No hedge positions – in which case the hedge positions held on the valuation date are replaced with cash and/or other general account assets in an amount equal to the aggregate market value of these hedge positions.

Guidance Note: If the hedge positions held on the valuation date are replaced with cash, then as with any other cash, such amounts may then be invested following the company’s investment strategy. A company may switch from method a) to method b) at any time, but it may only change from b) to a) with the approval of the domiciliary commissioner.

**Section 6B2**

The company shall determine the Prescribed Projections Amount by following either the CSMP Method or the CTEPA Method below. A company may not change the method used from one valuation to the next without the approval of the domiciliary commissioner.
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): Several updates to the Accounting Practices and Procedures Manual were adopted to address the operative date of the Valuation Manual.

- 2015-47: PBR SSAP
- 2016-10: Changes to A-820 Standard Valuation Law for Principle-based Reserving
- 2016-15: Change in Valuation Basis for Life Contracts
- 2016-34: Health Valuation Manual Updates
- 2016-17: A-010 Minimum Reserve Standards for Individual and Group Health Insurance Contracts

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

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 54R—Individual and Group Accident and Health Contracts as illustrated below. The proposed disclosure notes that voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual shall be reported as a change in valuation basis. As part of the coordination process with the Valuation Manual, the Life Actuarial (A) Task Force should also be notified of the exposure.

Proposed revisions for Spring 2020 Discussion:

SSAP No. 51R—Life Contracts:

Change In Valuation Basis

36. A change in valuation basis for reserves determined under paragraphs 18-21, except for reserves defined under Actuarial Guideline XLIII—CARVM: For Variable Annuities (AG 43), as detailed in Appendix C of this Manual, shall be defined as a change in the interest rate, mortality assumption, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3).

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.
b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology. Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual shall be reported as a change in valuation basis.

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless this statement prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. The Valuation Manual is effective prospectively for policies written on or after the operative date. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus will be zero. After initial adoption of the Valuation Manual, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

**SSAP No. 52—Deposit-Type Contracts:**

**Change In Valuation Basis**

14. A change in valuation basis shall be defined as a change in the interest rate assumption or other factor affecting the reserve computation of policies inforce and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless an actuarial guideline adopted by the NAIC prescribes a specific transition that allows for grading. Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual shall be reported as a change in valuation basis.

**SSAP No. 54R—Individual and Group Accident and Health Contracts:**

**Change In Valuation Basis**

22. A change in valuation basis shall be defined as a change in the interest rate, mortality and morbidity assumptions, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3). Changing morbidity assumptions regarding the length of claim continuance based on regularly updated credible experience as required for products subject to Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47) and
Actuarial Guideline L—2013 Individual Disability Income Valuation Table (AG 50) are not considered a change in valuation basis. Other uses of regularly updated credible experience required to be used for morbidity assumptions by Appendix A-010 regarding continuing claim payments are generally not considered a change in valuation basis. Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual shall be reported as a change in valuation basis. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line for life, accident and health, and health reporting entities) rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in this paragraph, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies in force for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. This difference shall not be graded in over time unless this statement prescribes a new method and a specific transition that allows for grading.

Staff Review Completed by:
Robin Marcotte - NAIC Staff
February 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 54R—Individual and Group Accident and Health Contracts, as illustrated above, to note that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the Valuation Manual, shall be reported as a change in valuation basis. A notification of this exposure will be sent to the Life Actuarial (A) Task Force. This item has a comment period deadline ending May 29, 2020.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, nonsubstantive revisions to SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 54R—Individual and Group Accident and Health Contracts, as illustrated above, to specify that voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual, shall be reported and disclosed as a change in valuation basis. This revision is effective immediately.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Repeal of Affordable Care Act Section 9010 Assessment

Check (applicable entity):

- Modification of Existing SSAP: P/C [x]  Life [x]  Health [x]
- New Issue or SSAP: P/C [ ]  Life [ ]  Health [ ]
- Interpretation: P/C [ ]  Life [ ]  Health [ ]

Description of Issue:
SSAP No. 106—Affordable Care Act Section 9010 Assessment addresses the Affordable Care Act (ACA) Section 9010 assessment for entities that issue health insurance. This assessment was effective for calendar years beginning on January 1, 2014. This assessment is also known as the health insurer’s tax (HIT).

The Section 9010 assessment has had more than one moratorium, as addressed in INT 18-02: ACA Section 9010 Assessment Moratoriums. The following is a history of years in which the assessment was in effect and payable.

- 2014 – Paid
- 2015 – Paid
- 2016 – Paid
- 2017 – NOT Paid - Moratorium
- 2018 – Paid
- 2019 – NOT Paid - Moratorium
- 2020 – To Be Paid
- 2021 – Repealed

The assessment is required to be paid for calendar year 2020. In December 2019, the House of Representatives and Senate passed year-end spending bills which repealed the Section 9010 assessment for calendar years beginning January 1, 2021. This bill was subsequently signed into law. This agenda item addresses the impacts of the repeal for calendar years beginning on January 1, 2021 by recommending the following actions:

- Superseding SSAP No. 106—Affordable Care Act Section 9010 Assessment
- Nullifying INT 18-02: ACA Section 9010 Assessment Moratoriums

Existing Authoritative Literature:

- SSAP No. 106—Affordable Care Act Section 9010 Assessment
- INT 18-02: ACA Section 9010 Assessment Moratoriums

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): Although prior one-year moratoriums have been discussed by the Working Group, this is the first discussion of a repeal.

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

Staff Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as substantive and expose the intent to supersede SSAP No. 106—Affordable Care Act Section 9010 Assessment and nullify INT 18-02: ACA Section 9010 Assessment Moratoriums. Both actions are proposed to be effective January 1, 2021. With these actions, both SSAP No. 106 and INT 18-02 would be moved to Appendix H — Superseded Statements of Statutory Accounting Principles and Nullified Interpretations for the 2021 publication of the NAIC Accounting Practices and Procedures Manual.

With these actions, NAIC staff should also be directed to coordinate the related impacts with the following NAIC Groups:

1. Blanks (E) Working Group – Ensure the annual statement disclosures related to SSAP No. 106 currently reported in Note 22 are removed from the annual statement instructions and annual statement blank beginning in reporting years 2021.


Staff Review Completed by:
Robin Marcotte - NAIC Staff
February 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the intent to supersede SSAP No. 106—Affordable Care Act Section 9010 Assessment and nullify INT 18-02: ACA Section 9010 Assessment Moratoriums which would move both SSAP No. 106 and INT 18-02 to Appendix H—Superseded Statements of Statutory Accounting Principles and Nullified Interpretations, effective Jan. 1, 2021. This item has a comment period deadline ending May 29, 2020.

Referrals will be sent to the Blanks (E) Working Group, to ensure the annual statement disclosures related to SSAP No. 106 in Note 22 are removed from the annual statement instructions and annual statement blank beginning in reporting year 2021, and to the Health Risk Based Capital (E) Working Group for RBC implications related to the 2021 removal of the federal ACA adjustment sensitivity test which uses data from the SSAP No. 106 disclosures.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, substantive revisions to supersede SSAP No. 106—Affordable Care Act Section 9010 Assessment and to nullify INT 18-02: ACA Section 9010 Assessment Moratoriums. This action will move this guidance to Appendix H—Superseded SSAPs and Nullified INTs of the Accounting Practices and Procedures Manual. A proposal will be sent to the Blanks (E) Working Group to incorporate reporting changes for 2021 reporting. NAIC staff will also draft additional instructions on how to complete the disclosure for year-end 2020 as there will not be an ACA fee assessment in 2021. This instruction will be posted as additional narrative guidance on the Blanks (E) Working Group webpage.
**Statutory Accounting Principles (E) Working Group**  
**Maintenance Agenda Submission Form**  
**Form A**

**Issue: Health Industry Request on 2020 Health Insurance Assessment**

Check (applicable entity):  
- Modification of Existing SSAP  
- New Issue or SSAP  
- Interpretation

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**Description of Issue:**
This agenda item addresses an April 2020 request from America’s Health Insurance Plans (AHIP) to the Statutory Accounting Principles (E) Working Group regarding SSAP No. 106—Affordable Care Act Section 9010 Assessment. The ACA Section 9010 fee is also known as the health insurance tax (HIT). The payable amount is based on the volume of premium from 2019, and becomes due once the reporting entity provides health insurance in January 2020. Under SSAP No. 106, the amount payable which is based on prior year premium is disclosed in special surplus during the “data year” and reported as a liability during the “fee year.” The year 2020 is a fee year and the assessment based on 2019 premium is due to the U.S. Treasury in September 2020.

A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This has led to a significant increase in unemployment and, in certain states, mandatory closure of many businesses. NAIC staff agrees that the COVID-19 crisis is placing stress on the insurance industry and is supportive of some temporary relaxation of conservatism in statutory accounting such as the proposed relaxation of the 90-day rule as currently exposed interpretation related to COVID-19, such as: INT 20-02T: Extension of Ninety-Day Rule for the Impact of COVID-19.

The SSAP No. 106 request is noted as temporary surplus relief, which was requested in conjunction with many concessions that health plans are being asked to make due to the anticipated impacts on operations and surplus. The AHIP request notes that, “For some members, the HIT liability to be reported as a liability and expense in the first quarterly interim reports is estimated to be 10% of group-wide surplus.”

The key accounting changes requested in the AHIP letter are as follows:

- Amend SSAP No. 106 to permit insurers to accrue the tax liability on a monthly or quarterly basis. However, to the extent that health plans have recognized in 2019 earned premium amounts attributable to inclusion of the HIT in determining premium rates, that amount will be accrued as a liability and a corresponding expense at the beginning of 2020; the difference between that amount and the total estimated HIT to be paid in 2020 would then be accrued on a monthly or quarterly basis through September 2020.

- For first and second quarterly interim reporting in 2020, the portion of the estimated tax that has not yet been accrued will remain in special surplus to clearly document its designated purpose.

- Because the full amount of the HIT will be accrued when paid in September 2020, there will be no impact on year-end 2020 reporting or RBC filings.
NAIC staff notes that the Section 9010 fee due in September 2020 meets the definition of a liability under SSAP No.5R—Liabilities, Contingencies and Impairments of Assets for the full amount on January 1, 2020. It is a present duty payable in September 2020; there is no discretion to avoid payment, and the obligating events (providing health insurance in 2020 and writing premium in 2019) have already occurred.

Existing Authoritative Literature:

- **SSAP No. 5 – Revised—Liabilities, Contingencies and Impairments of Assets**

  2. 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 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.

  1. 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.

- **SSAP No. 106—Affordable Care Act Section 9010 Assessment**

Determing timing of the recognition of the Section 9010 liability was a matter of extensive debate at the Statutory Accounting Principles (E) Working Group. This issue was initially discussed in November 2011 through June 2014 when SSAP No. 106 was adopted. As noted in Issue Paper No. 148—Affordable Care Act Section 9010 Assessment, this topic was discussed at the Statutory Accounting Principles (E) Working Group with input from the Financial Condition (E) Committee. In addition, the Health Insurance and Managed Care (B) Committee and the Accounting Practices and Procedures (E) Task Force were invited to participate in a number of the discussions via conference call.

The issue debated was whether to recognize the amount payable in the data year, which is the year the premium volume used to calculate the assessment payable is written, or in the fee year when the assessment is paid. Because this amount seemed to function similar to premium tax which is accrued when the premium is written, one side was supportive of accruing the liability in the data year. However, because of how the law was written, in that it applied to health insurers’ data year premium but was due from issuers that provided subject health business in the fee year, the other side believed the liability should be recognized in the fee year.

SSAP No. 106 ultimately delayed full recognition of the expense and liability until the Jan. 1 of the fee year, with the additional transparency of having the amount reflected in special surplus during the data year. In addition, the impact on risk-based capital as of January 1 of the fee year was disclosed in the data year financial statements. This following excerpt from SSAP No. 106 was part of an extensive compromise process.

**Affordable Care Act Section 9010 Assessment**

  3. The Affordable Care Act (ACA) imposes an assessment on entities that issue health insurance for each calendar year beginning on or after January 1, 2014. Pursuant to Section 9010 of the ACA, a reporting entity’s portion of the assessment is paid no later than September 30 of the applicable calendar year (the fee year) beginning in 2014 and is not tax deductible. The amount of the assessment for the reporting entity is based on the ratio of the amount of an entity’s subject net health premiums written for any U.S. health
risk during the preceding calendar year (data year) to the aggregate amount of subject net health premiums written by all subject U.S. health insurance providers during the preceding calendar year. The ACA includes some significant exclusions regarding which entities are required to pay the assessment. The guidance in this statement applies to all reporting entities that are subject to the fee. The guidance in this statement applies to the unique facts and circumstances in the ACA; accordingly, an entity should apply judgment when evaluating the facts and circumstances of other assessments arrangements before analogizing the guidance for Section 9010 of the ACA.

4. Throughout this discussion of the Section 9010 assessment of the ACA, the following terms apply:
   a. The term “data year” means the calendar year immediately before the fee year. For example, 2014 is the data year for fee year 2015.
   b. The term “fee year” means the calendar year in which the assessment must be paid to the U.S. Treasury.

5. A reporting entity’s portion of the annual assessment becomes payable to the U.S. Treasury once the reporting entity provides health insurance (in the fee year) for any subject U.S. health risk for each calendar year beginning on or after January 1, 2014.

6. The liability related to the Section 9010 ACA assessment shall be estimated and recorded in full once the entity provides qualifying health insurance (typically January 1) in the applicable calendar year in which the assessment is paid (fee year) with a corresponding entry to expense. The Section 9010 ACA assessment shall be recognized in full on January 1 of the fee year, in the operating expense category of Taxes, Licenses and Fees (INT 18-02).

7. Liability recognition of the Section 9010 fee is not required in the data year. In the data year, the reporting entity is required to reclassify from unassigned surplus to special surplus an amount equal to its estimated subsequent fee year assessment. This segregation in special surplus is accrued monthly throughout the data year. The reclassification from unassigned surplus to special surplus does not reduce total surplus. On January 1 of the fee year, the prior year segregation in special surplus is reversed and the full current fee year assessment liability shall be accrued.

8. The Section 9010 ACA annual assessment does not represent a cost related to the acquisition of policies that is consistent with the definition of acquisition costs in SSAP No. 71—Policy Acquisition Costs and Commissions.

Disclosures

9. For the Section 9010 ACA assessment:
   a. For the annual reporting period ending December 31, 2013, and thereafter, a reporting entity subject to the assessment under section 9010 of the Affordable Care Act, shall provide a disclosure of the assessment payable in the upcoming year consistent with the guidance provided under SSAP No. 9—Subsequent Events (SSAP No. 9) for a Type II subsequent event. The disclosure shall provide information regarding the nature of the assessment and an estimate of its financial impact, including the impact on its risk-based capital position as if it had occurred on the balance sheet date. In accordance with SSAP No. 9, paragraph 9, the reporting entity shall also consider whether there is a need to present pro forma financial statements regarding the impact of the assessment, based on its judgment of the materiality of the assessment.
   b. Additionally, for annual reporting periods ending on or after December 31, 2014, the disclosure in paragraph 9.a. is expanded to include information on the amounts reflected in special surplus in the data year.
i. The reporting entity shall disclose the amount of premium written for the current year that is the basis for the determination of the section 9010 fee assessment to be paid in the subsequent year (net assessable premium). Prior year amounts shall also be included for comparative purposes;

ii. Reporting entities shall provide information regarding the nature of the assessment, the estimated amount of the assessment payable in the upcoming year (current and prior year) and the amount of assessment paid (current and prior year), and;

iii. The disclosure shall also provide the Total Adjusted Capital (before and after adjustment as reported in its estimate of special surplus applicable to the 9010 fee) and Authorized Control Level (in dollars) to reflect the fee as of the annual reporting date as if it had been reported on the balance sheet date. The disclosure shall also provide a statement as to whether an RBC action level would have been triggered had the fee been reported as of the balance sheet date.

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 Section 9010 fee was repealed effective January 1, 2021. The Working Group currently has agenda item 2020-05: Repeal of Affordable Care Act Section 9010 Assessment exposed for comment, which would nullify SSAP No. 106 effective January 1, 2021.


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


Staff Review Completed by:
Robin Marcotte - NAIC Staff
April 7, 2020

Staff Recommendation:
AHIP requests an amendment to SSAP No. 106—Affordable Care Act Section 9010 Assessment to delay liability recognition of the Section 9010 fee payable in September 2020. The request would remove the requirement to recognize the full amount of liability on January 1, 2020 and instead recognize amounts not previously collected as a liability monthly or quarterly over 2020. NAIC staff has been proactive in drafting responses to requests to allow temporary relaxation of the statutory accounting conservative rules in response to COVID-19 including INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19. However, NAIC staff is concerned with the material distortions to the financial statements that could occur by delaying liability recognition.

NAIC staff recommends that the Working Group reject the AHIP request to modify SSAP No. 106 for all reporting entities and move this item to the rejected listing for the following reasons:

1. The 2020 Section 9010 fee / HIT meets the definition of a liability requiring full recognition under SSAP No. 5R on January 1, 2020. It is a present duty payable in September 2020, there is no discretion to avoid
payment, and the obligating events (writing premium in 2019 and providing health insurance in 2020) have already occurred. In addition, the amount can be reasonably estimated.

2. It would, therefore, be distorting to the financial statements to not recognize a liability. In the comment letter provided, it was noted that for one group the Section 9010 fee payable represents over 10% of surplus. In this instance, it would be materially distorting to the financial statements to not recognize the liability.

3. The 2020 Section 9010 fee payable amount was also disclosed in the notes at year end 2019 along with the impact on surplus and risk-based capital (RBC). So, it is a known and previously disclosed amount.

4. Recording a monthly amount is inconsistent with the cash flows. Almost all of this assessment should have been collected in 2019 as it was included in the 2019 health rates. The vast majority of the obligation would have been collected as part of 2019 premium and even if there was a delay, amounts related to 2019 should have been collected prior to the declaration of emergency.

As noted above, this request has the potential to materially distort the financial statements, as a known liability would not be fully recognized. In times of financial stress, it is important to be able to accurately assess the financial solvency of reporting entities. With the potential impact of the financial statements, any consideration for such a request warrants domiciliary state regulator review. Any state specific considerations would be either permitted practices (individual requests) or prescribed practices (state bulletins, etc.). If granted by the domestic state, such practices would be disclosed in the financial statements.

Status:

On April 17, 2020, the Statutory Accounting Principles (E) Working Group conducted an e-vote to expose this agenda item for a one-week comment period ending on April 24, 2020. The exposed recommendation is to reject the request to defer liability recognition of the federal ACA fee due in September 2020 and move the agenda item to the rejected listing. The exposure would not result in any statutory accounting revisions.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group rejected this agenda item without statutory revisions.
Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

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<th>SSAP/Appendix</th>
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<tr>
<td>SSAP No. 2R</td>
<td>1) Paragraph 9: Update reporting line instructions for qualified cash pools.</td>
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<td>2) Paragraph 14: Correct verbiage and sentence structure for ease of readability.</td>
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**Recommendation:**
NAIC staff recommends that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose editorial revisions, as illustrated below.

**SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**

Staff Note: A separate agenda item is being proposed to clarify that “disclosure” of cash equivalents that remain on schedule E2 for more than one consecutive reporting period. This item will also clarify that this disclosure is satisfied by a code on the investment schedule. (These revisions are in line with comments received during the May 20 conference call but go beyond editorial revisions.)

9. Cash pooling is a technique utilized by some companies under common control by which several entities’ cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures; however, only those that have obtained domiciliary regulator approval and meet the following requirements are in scope of this statement.

   a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25—*Affiliates and Other Related Parties*.

   b. Investments held by the pool are limited to non-affiliated entities investments (non-affiliated to the insurance reporting entity).

   c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates’ interests in the pool shall be of the same class, with equal rights, preferences, and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant’s debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool’s investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).

   d. A reporting entity shall receive monthly reports from the pool manager, which identifies the participant’s investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on Schedule E – Part 2, utilizing the line number as specified in the Annual Statement.
Instructions for “Other Cash Equivalents.” The reporting entity shall independently if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, the pool does not qualify within scope of this statement.

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition, (excluding derivatives and those investments classified as cash equivalents as defined in this statement), shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans, which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

Status:
On June 15, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the editorial maintenance revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments as detailed above. This item has a shortened comment period deadline ending July 15, 2020.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, editorial revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, as illustrated above.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: SSAP No. 32 – Investment Classification Project

Check (applicable entity):

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<th>Modification of existing SSAP</th>
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Description of Issue: This agenda item has been drafted to consider SSAP No. 32—Preferred Stock, in accordance with the initiatives of the Investment Classification Project. This agenda item focuses on the following aspects:

1. Review existing definitions with market terms and assess whether terms should be retained or revised.
2. Consider clarifications to existing accounting and valuation guidance based on the type of preferred stock.
3. Assess guidance for dividends and the impact of dividends on impairment assessments.
4. Clarify application of SSAP No. 32 in conjunction with SSAP No. 48 and SSAP No. 97.

I – Definitions
SSAP No. 32 establishes statutory accounting principles for preferred stocks and includes preferred stocks that may or may not be publicly traded.

Preferred Stock:

SSAP No. 32, paragraph 3: Any class or shares of the holders of which have any preference, either as to the payment of dividends or distribution of assets on liquidation, over the holder of common stock issued by an entity.

FASB Definition: A security that has preferential rights compared to common stock.

NASDAQ Definition: A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value. This stock does not usually carry voting rights. Preferred stock has characteristics of both common stock and debt.

The scope of SSAP No. 32, paragraph 3, identifies that the definition of preferred stock includes:

a. Redeemable preferred stock, including mandatory sinking fund preferred stock and preferred stock redeemable by the holder;

b. Perpetual preferred stock, including nonredeemable preferred stock and preferred stock redeemable at the option of the issuer; and

c. Exchange traded funds, which qualify for preferred stock treatment, as identified in Part Six, Section 2, of the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

SSAP No. 32 then includes definitions for redeemable preferred stock, perpetual preferred stock, mandatory sinking fund preferred stock, payment-in-kind preferred stock, step-up preferred stock and restricted stock.
Redeemable Preferred Stock:

SSAP No. 32, paragraph 4: Preferred Stock that must be redeemed by the issuing enterprise or is redeemable at the option of the reporting entity. It includes mandatory sinking fund preferred stock and payment-in-kind (PIK) preferred stock.

FASB ASC 480-10-S99 - (This guidance comes from SEC CFRR 211: Redeemable Preferred Stock): Preferred Stock Subject to Mandatory Redemption Requirements or Whose Redemption is Outside the Control of the Issuer ("Redeemable Preferred Stock"). The term means any stock which (i) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; (ii) is redeemable at the option of the holders, or (iii) has conditions for redemption which are not solely within the control of the issuer, such as stocks which must be redeemed out of future earnings. Under this definition, preferred stock which meet one or more of the above criteria would be classified as redeemable preferred stock regardless of their other attributes such as voting rights, dividend rights or conversion features.

Perpetual Preferred Stock:

SSAP No. 32, paragraph 7: Perpetual preferred stock is defined as preferred stock with no redemption or sinking fund features or preferred stock redeemable at the option of the issuer.

FASB ASC 480-10-S99 - (This guidance comes from SEC CFRR 211: Redeemable Preferred Stock): Preferred Stocks Which Are Not Redeemable or Are Redeemable Solely at the Option of the Issuer ("Non-Redeemable Preferred Stock"). The term means any preferred stock which does not meet the criteria for classification as a "redeemable preferred stock."

NAIC Staff Notes:
From a review of preferred stock issuances, preferred stock may be labeled “redeemable perpetual preferred stock.” Generally, in these instances, it seems that the preferred stock is redeemable at the option of the issuer, perhaps after a certain timeframe, or when other conditions as stated in the prospectus are met. If the redemption is at the option of the issuer, these preferred stock issuances would be considered perpetual preferred stock. However, it does appear that in some instances, these issuances may be redeemable at the option of the holder after a certain timeframe. If the redemption is at the option of the holder, then it would be considered redeemable preferred stock. (Note – NAIC staff would like confirmation that preferred stock labeled as “redeemable perpetual” may meet the criteria as redeemable under FASB ASC 480-10-S99.)

Excerpts detailing a few identified instances are noted below:

Prospectus excerpt: We may offer and sell under this prospectus shares of our 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock, $0.001 par value per share (the “Series A Preferred Stock”) having an aggregate offering price of up to $26,000,000 from time to time through the Agents. Our Series A Preferred Stock is traded on The Nasdaq Capital Market, or the Exchange, under the symbol “FBIOP.” The last reported sale price of our Series A Preferred Stock on April 4, 2018 was $22.89 per share. Dividends on our Series A Preferred Stock accrue daily and will be cumulative from, and including, the date of original issue and shall be payable quarterly every March 31, June 30, September 30, and December 31, at the rate of 9.375% per annum of its liquidation preference, which is equivalent to $2.34375 per annum per share. Generally, we may not redeem the Series A Preferred Stock until December 15, 2022. On and after December 15, 2022, we may, at our option, redeem the Series A Preferred Stock in whole, at any time, or in part, from time to time, for cash at a redemption price of $25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption.

(As redemption is at the option of the issuer, the above example reflects perpetual preferred stock.)
**Prospectus excerpt:** We are offering 204,000 shares of our 11% Series A Cumulative Redeemable Perpetual Preferred Stock, which we refer to as the Series A Preferred Stock. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and will be payable on the fifteenth day of each calendar month commencing December, 2015 when, as and if declared by our board of directors. Dividends will be payable out of amounts legally available there for at a rate equal to 11% per annum per $25.00 of stated liquidation preference per share, or $2.75 per share of Series A Preferred Stock per year. We will place proceeds equal to two years of dividends into a separate bank account to be used to pay Series A Preferred Stock dividends, however, after the first quarter in which our Adjusted EBIT DA is greater than the quarterly dividend, the proceeds then remaining in this account may be used for any corporate purpose. Commencing on November 4, 2020, we may redeem, at our option, the Series A Preferred Stock, in whole or in part, at a cash redemption price of $25.00 per share, plus all accrued and unpaid dividends to, but not including, the redemption date. The Series A Preferred Stock has no stated maturity, will not be subject to any sinking fund or other mandatory redemption, and will not be convertible into or exchangeable for any of our other securities. Holders of the Series A Preferred Stock generally will have no voting rights except for limited voting rights if dividends payable on the outstanding Series A Preferred Stock are in arrears for eighteen or more consecutive or non-consecutive monthly dividend periods.

(As redemption is at the option of the issuer, the above example reflects perpetual preferred stock.)

**Prospectus excerpt:** We are selling shares of our % Series B Cumulative Redeemable Perpetual Preferred Shares, par value $0.01 per share, liquidation preference $25.00 per share (the “Series B Preferred Shares”). Dividends on the Series B Preferred Shares will accrue and be cumulative from the date of original issue and will be payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, commencing July 30, 2013, when, as and if declared by our board of directors. Dividends will be payable out of amounts legally available therefor at an initial rate equal to % per annum of the stated liquidation preference, subject to adjustment as described in this prospectus supplement. At any time on or after July 30, 2016, the Series B Preferred Shares may be redeemed, in whole or in part, out of amounts legally available therefor, at a redemption price of $25.00 per share plus an amount equal to all accumulated and unpaid dividends thereon to the date of redemption, whether or not declared. If (i) we fail to comply with certain covenants (a “Covenant Default”), (ii) we experience certain defaults under any of our credit facilities (a “Cross Default”), (iii) four quarterly dividends payable on the Series B Preferred Shares are in arrears (a “Dividend Payment Default”) or (iv) the Series B Preferred Shares are not redeemed in whole by July 30, 2018 (a “Failure to Redeem”), the dividend rate payable on the Series B Preferred Shares shall increase, subject to an aggregate maximum rate per annum of 25% prior to July 30, 2016 and 30% thereafter, to a rate that is 1.25 times the dividend rate payable on the Series B Preferred Shares as of the close of business on the day immediately preceding the Covenant Default, Cross Default, Divided Payment Default or Failure to Redeem, as applicable, and on each subsequent Dividend Payment Date, the dividend rate payable shall increase to a rate that is 1.25 times the dividend rate payable on the Series B Preferred Shares as in effect as of the close of business on the day immediately preceding such Dividend Payment Date, until the Covenant Default, Cross Default or Dividend Payment Default is cured or the Series B Preferred Shares are no longer outstanding.

(As redemption is at the option of the holder, the above example reflects redeemable preferred stock.)

**Mandatory Sinking Fund:**

SSAP No. 32, paragraph 5: Mandatory sinking fund preferred stock is defined as redeemable preferred stock subject to a 100% mandatory sinking fund, annual installments of which will (a) commence not more than 10 years from the date of issue or December 31, 1978, if outstanding on that date; (b) be not less than 2% of the number of shares issued (or outstanding on December 31, 1978, if issued prior to that date); (c) provide for the redemption of the entire issue over a period not longer than 40 years from the date of issue, or December 31, 1978, if outstanding on that date. Redeemable preferred stock which is subject to a 100% mandatory sinking fund, but which does not, at date of issue or December 31, 1978, if outstanding at that...
time, meet one or more of the other requirements above, shall be considered as mandatory sinking fund preferred stock at the time the deficiency is cured through the passage of time or otherwise.

(NAIC staff highlights that the reference to 1978 in this paragraph is no longer applicable as all preferred stock outstanding as of that date would have had a maximum (40-year) redemption date in 2018. In reviewing the origin of this guidance, it was identified that it has been in place since original issuance of SSAP No. 32 and it came from the Purposes and Procedures Manual of the NAIC SVO. This guidance is no longer included in the P&P Manual.)

**NASDAQ Definition “Sinking Fund”:** A fund to which money is added on a regular basis that is used to ensure investor confidence that promised payments will be made and that is used to redeem debt securities or preferred stock issues.

**U.S. GAAP Glossary – Mandatorily Redeemable Financial Instrument:** Any of various financial instruments issued in the form of shares that embody an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur.

**NAIC Staff Notes:**
NAIC staff is under the impression that the term “mandatory sinking fund preferred stock” is no longer prevalent. Rather, redeemable preferred stock with a mandatory redemption date is often referred to as “term preferred stock.” Although preferred stock may stipulate use of a sinking fund to provide assurance that preferred stock may be redeemed when due, failing to make deposits into a sinking fund as agreed by the company in the preferred stock’s provisions is not similar to an act of default on debt. Rather, such action would be subject to remedies specified in the preferred stock prospectus.

Even if preferred stock is considered to be “mandatory redeemable,” Section 160 of the Delaware General Corporation Law prohibits a corporation from redeeming its shares of capital stock when the capital of the corporation is impaired or when such redemption would cause any impairment of the capital. Under findings under this Law, it has been noted that the existence of a mandatory redemption right, even one that is ripened, does not convert the holder of preferred stock into a creditor. Specifically, a redemption right does not give the holder the absolute, unfettered ability to force the corporation to redeem its shares under any circumstances and recent case law establishes limitations on the ability of preferred stockholders to force redemption. It should be noted that preferred stock provides no guaranteed right of payment, and its redemption obligation is treated neither as debt nor as a current liability.

Under U.S. GAAP, issuers of “mandatorily redeemable financial instruments” may report the issuance as liability or as equity, depending on type of issuer. Public entities and SEC registrants are required to report mandatorily redeemable financial instruments as liabilities unless the redemption is required to occur only upon the liquidation or termination of the reporting entity (ASC 480-10-25-4). However, the guidance in ASC 480-10: Distinguishing Liabilities from Equities does not apply to instruments that are a) issued by nonpublic entities that are not SEC registrants and b) mandatorily redeemable, but not on fixed dates or not for amounts that either are fixed or are determined by reference to an interest rate index, currency index or another index (ASC 480-10-15-7A).

**Payment-In-Kind (PIK) Preferred Stock:**

**SSAP No. 32, paragraph 6:** PIK preferred stock is defined as redeemable preferred stock on which, at the option of the issuer, dividends can be paid in additional securities rather than cash.
General "in-kind" Definition: Payment-in-kind (PIK) is the use of a good or service as payment instead of cash. Payment in kind also refers to a financial instrument that pays interest or dividends to investors of bonds, notes or preferred stock with additional securities or equity instead of cash.

**NAIC Staff Notes:**
PIK stock dividends are not limited to redeemable preferred stock. Additionally, PIK provisions may not require PIK dividends to be provided in additional shares of the same preferred stock. Rather, the provisions of the preferred stock could specify that the PIK dividends are issued in other forms of preferred stock or in shares of common stock. Additionally, the preferred stock provisions can be designed to specify PIK dividends for a specific number of years, with subsequent conversion of cash dividends.

*(The existing SSAP No. 32 guidance for PIK preferred stock has been in place since original issuance of SSAP No. 32. Pursuant to Issue Paper No. 32, this information came from the “NAIC Technical Resource group Proposed Draft Life Codification.”)*

**Example Prospectus Excerpt 1:** Dividends on our perpetual convertible preferred stock will be payable on a cumulative basis when, as and if declared by our board of directors or an authorized committee of our board of directors, at an annual rate of 6.75% on the liquidation preference of $1,000 per share. We may pay declared dividends in cash or, subject to certain limitations, in shares of our common stock, par value $0.01 per share, or in any combination of cash and common stock on March 1, June 1, September 1 and December 1 of each year, commencing on December 1, 2015. Our perpetual convertible preferred stock has no maturity date, and we are not required to redeem our perpetual convertible preferred stock at any time. Accordingly, our perpetual convertible preferred stock will remain outstanding indefinitely unless a holder of shares of our perpetual convertible preferred stock converts it or we decide to convert or repurchase it as described herein.

**Example Prospectus Excerpt 2:** Each dividend shall be paid either in shares of Common Stock (“Payment-in-Kind”) or in cash, at the option of the Corporation on the respective Dividend Date; provided, however, that dividends may only be paid in cash following the fiscal year in which the Corporation has net income (as shown in its audited financial statements contained in its Annual Report on Form 10-K for such year) of at least $500,000, to the extent permitted under applicable law out of funds legally available therefor. For Payment-in-Kind dividends, each Holder on the record date for such divided will receive that number of shares of Common Stock equal to (i) the amount of the dividend payment due such stockholder divided by (ii) 90% of the average of the Per Share Market Values during the twenty (20) Trading Days immediately preceding a Dividend Date. No fractional shares shall be issued upon payment of such dividends pursuant to this Section 3.2 and the number of shares to be issued upon payment of such dividends will be rounded up to the nearest whole share; provided, that, in lieu of rounding up to the nearest whole share, the Corporation may, at its option, pay a cash adjustment in respect of such fractional interest equal to such fractional interest multiplied by the Per Share Market Value on the respective dividend date. Each dividend paid in cash shall be mailed to the Holders of record of the Corporation as their names appear on the share register of the Corporation or at the office of the Corporation’s transfer agent on the corresponding dividend payment date. Holders will receive written notification from the Corporation or the transfer agent if a dividend is paid in Common Stock, which notification will specify the number of shares of Common Stock paid as a dividend. Certificates representing the shares of Common Stock issuable upon payment of each Payment-In-Kind shall be delivered to each Holder entitled to receive such Payment-in-Kind (in appropriate denominations) as soon as reasonably practicable.

**Step-Up Preferred Stock:**

_SSAP No. 32, paragraph 17:_ Step-up preferred stock (a security with the structure of a preferred stock, that has the cash flow characteristics of a debt instrument) is considered a security with characteristics of both debt and equity, and the accounting and valuation of such securities shall be consistent with SVO guidelines as stipulated in the _Purposes and Procedures Manual of the NAIC Investment Analysis Office._

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General – A “step-up” feature is a component that increases over time or with stated provisions. For example, a “step-up divided” if a feature that increases the dividend rate. A “step-up call” is a feature that increases the call price for a security. A “step-up conversion” increases the conversion price in a convertible security. In review, no references were identified that limit “step-up” features to redeemable preferred stock.

The term Step-Up used with an income security means that the dividend or interest distributions will start at a lower level of income and then increase or Step-Up on a specified schedule. For example, a step-up security could start out paying a 5% dividend initially and then Step-Up to a 7% dividend after 5 years (assuming it is not called). The Step-Up or increase in the payout can occur on whatever schedule is specified in the IPO prospectus such as after 3 years, 5 years, 10 years, 15 years, etc. Currently there are only a handful of Step-Up securities on the markets.

Restricted Preferred Stock:

SSAP No. 32, paragraph 8: Restricted preferred stock is defined as a security for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral) except where that requirement terminates within one year or if the holder has the power by contract or otherwise to cause that requirement to be met within one year. Any portion of the security that can be reasonably expected to qualify for sale within one year is not considered restricted.

NASDAQ Definition – Restricted Stock: Stock that must be traded in compliance with special SEC regulations concerning its purchase and resale. These restrictions generally result from affiliate ownership, M&A activity, and underwriting activity. Many firms are now using restricted stock as a reward for employees. The advantages to restricted stock are: employees get dividends, employees usually get voting rights, and employee gets something even if the stock price drops over the vesting period (whereas an option would be worthless).

SEC Definition – Restricted Securities: “Restricted” securities are securities acquired in an unregistered, private sale from the issuing company or from an affiliate of the issuer. They typically bear a “restrictive” legend clearly stating that you may not resell them in the public marketplace unless the sale is exempt from the SEC’s registration requirements. Rule 144 under the Securities Act of 1933 provides the most commonly used exemption for holders to sell restricted securities. To take advantage of this rule, you must meet several conditions, including a six-month or one-year holding period.

NAIC Staff Notes:
The definition of restricted preferred stock in SSAP No. 32 is identical to the definition of common stock in SSAP No. 30. NAIC staff is researching the origin of the SSAP No. 30 and SSAP No. 32 restricted stock definition and request information regarding the source of this definition. (There is limited information in the issue paper and the definition has been in place since adoption.)

Convertible Preferred Stock:

SSAP No. 32: Convertible preferred stock is not currently defined in SSAP No. 32.

NASDAQ: Preferred stock that can be converted into common stock at the option of the holder.

SEC – Convertible Security: A "convertible security" is a security—usually a bond or a preferred stock—that can be converted into a different security—typically shares of the company's common stock. In most cases, the holder of the convertible determines whether and when to convert. In other cases, the company has the right to determine when the conversion occurs.
FASB Glossary – Convertible Security: A security that is convertible into another security based on a conversion rate. For example, convertible preferred stock that is convertible into common stock on a two-for-one basis (two shares of common for each share of preferred).

NAIC Staff Notes:
The terms for converting preferred stock may be optional or mandatory depending on the terms of the issuance. Also, both redeemable and perpetual preferred stock can be issued with convertible features. Although there is no current guidance in SSAP No. 32, the guidance in SSAP No. 26R—Bonds requires specific accounting guidance for mandatory convertible bonds to prevent overstating the value of the investment prior to the mandatory conversion. NAIC staff often receives questions regarding the appropriate valuation for mandatory convertible preferred stock.

Example - Convertible Redeemable Preferred Stock: WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to the Purchaser and the Purchaser desires to acquire from the Company [ ] shares of the Company’s Series A Convertible Redeemable Preferred Stock, (the “Series A Preferred Stock”), with a Stated Value of one dollar ($1) per share, which is part of a sale of Series A Preferred Stock with an aggregate Stated Value of $750,000.

Example - Convertible Perpetual Preferred Stock: RESOLVED, that the Corporation is authorized to issue 14,375,000 shares of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock, $1.00 par value per share, which shall have the following powers, designations, preferences and other special rights:

Statutory Accounting Definition Overview and Assessment
After reviewing the existing SSAP No. 32 definitions to market terms, NAIC staff recommends that the Working Group consider revisions to update SSAP No. 32 accordingly. Consideration should be given as to the extent detailed definitions of various components of preferred stock should be included, particularly if an element would not alter the accounting or reporting of a preferred stock investment. (NAIC staff highlights that other key terms of preferred stock are not currently defined in SSAP No. 32 and only the terms currently defined and/or identified as potential impacting valuation are included in the discussion.)

2 – Clarifications to Existing Accounting and Valuation Guidance
The valuation methods utilized for preferred stock in SSAP No. 32 depends on the type of preferred stock (redeemable or perpetual), type of insurance entity and the NAIC designation. (Although perpetual stock is more akin to equity, the NAIC designation provides a credit assessment on the dividends. For example, guidance in the P&P Manual prohibits assigning an NAIC designation of 1, 2 or 3 to any preferred stock in which dividends have not been paid or sinking fund requirements have not been met.) Pursuant to SSAP No. 32, paragraphs 19-22:

Reporting Entities that Do Not Maintain an AVR

- Redeemable with NAIC Designation 1-2: Cost or Amortized Cost
- Redeemable with NAIC Designations 3-6: Lower of Cost, Amortized Cost or Fair Value
- Perpetual with NAIC designations 1-2: Fair Value
- Perpetual with NAIC designations 3-6: Lower of Cost or Fair Value

Reporting Entities that Do Maintain and AVR

- Redeemable with NAIC Designation 1-3: Cost or Amortized Cost
- Redeemable with NAIC Designations 4-6: Lower of Cost, Amortized Cost or Fair Value
- Perpetual with NAIC designations 1-3: Cost
Perpetual with NAIC designations 4-6: Lower of Cost or Fair Value

NAIC staff identifies that the existing guidance in SSAP No. 32 does not differentiate when a reporting entity should utilize “cost” or “amortized cost” in determining the measurement method.

The accounting under U.S. GAAP depends on whether the preferred stock is considered a debt or equity security:

**FASB Glossary - Equity Security** (First Definition)
Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, and call options) or dispose of (for example, put options) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:

a. Written equity options (because they represent obligations of the writer, not investments)

b. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)

c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

**FASB Glossary - Equity Security** (Second Definition)
Any security representing an ownership interest in an entity (for example common, preferred or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. However, the term does not include convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

**ASC 321-10-55-2** - If convertible preferred stock is not redeemable, it is considered an equity security and, therefore, this Topic would apply.

**FASB Glossary - Debt Security**
Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

(a) Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

**Overview of U.S. GAAP Accounting:**
Under U.S. GAAP (ASC 320-10-35-1), investments in “debt securities” are reported at either fair value or amortized cost. (Debt instruments identified as “held-to-maturity” are reported at amortized cost, and debt instruments classified as “trading” or “available-for-sale” are reported at fair value.) Under U.S. GAAP, use of historical cost for investments is not generally considered an acceptable measurement method.

Under U.S. GAAP (321-10-35-1) investments in “equity securities” are reported at fair value. If an investment does not have a readily determinable fair value, the security may qualify to use net asset value as a practical expedient to fair value (820-10-35-59). If an investment does not have a “readily determinable” fair value, and does not qualify for the net asset value practical expedient, U.S. GAAP (ASC 321-10-35-2) provides guidance for determining the measurement value as follows:

- An entity may elect to measure an equity security at cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar instrument of
An election to measure an equity security in accordance with these provisions shall be made for each investment separately. Once an entity elects to measure an equity security in accordance with this guidance, the entity shall continue to apply the measurement guidance until the investment does not qualify to be measured in accordance with this guidance (for example, if the investment has a readily determinable fair value or becomes eligible for the practical expedient to estimate fair value with 820-10-35-59). The entity shall reassess at each reporting period whether the equity investment without a readily determinable fair value qualifies to be measure with this guidance.

The U.S. GAAP fair value definition, as well as the definition for readily determinable fair value and the ability to use net asset value has been adopted for statutory accounting:

**U.S. GAAP Definition - Fair Value** *(Adopted in SSAP No. 100R, paragraph 4.)*: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**U.S. GAAP Definition - Readily Determinable Fair Value** *(Adopted in SSAP No. 100R, paragraph 41)*: An equity security has a readily determinable fair value if it meets any of the following conditions:

a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

**U.S. GAAP Guidance permitting NAV** *(Adopted with modification in SSAP No. 101, paragraphs 39-46)*: Limited Excerpt: A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity’s measurement date.

**Statutory Accounting Measurement Overview and Assessment**

After reviewing the measurement methods for preferred stock, and comparing those methods to U.S. GAAP, NAIC staff recommends revisions to the permitted measurement methods for preferred stock. NAIC staff recommends eliminating references to “cost” as a measurement option, and clarify use of amortized cost (or the lower of amortized cost and fair value) for redeemable preferred stock and the use of fair value for perpetual preferred stock.

If there are concerns that perpetual preferred stock could not be measured at fair value (either as not readily determinable or with a NAV exception), consideration could be given to incorporate the FASB process that allows “adjusted cost”. However, NAIC staff believes that in most instances, fair value of perpetual preferred stock can be determined pursuant to SSAP No. 100R, even if that determination reflects a level 3 fair value measurement. (Under level 3, the reporting entity determines fair value without observable inputs using their assumptions about the assumptions market participants would use in pricing the asset or liability.)
3 – Assess Dividend Guidance and the Impact of Dividends on Impairment Guidance

Existing guidance in SSAP No. 32, paragraph 27, identifies that dividends, other than mandatorily redeemable preferred stock, shall be recorded as investment income on the ex-dividend date. The guidance in paragraph 28 identifies that mandatorily preferred stock shall be accrued to the redemption price, even if not declared, under the interest method over the period ending on the redemption date. The guidance also identifies that cash dividends paid on payment-in-kind (PIK) dividends shall be accounted for as a reduction in the investment.

Impairment guidance in SSAP No. 32 differentiates between redeemable and perpetual preferred stock. The guidance for redeemable preferred stock is similar to guidance for bonds, in which other-than-temporary impairment (OTTI) is considered to have occurred if a reporting entity will be unable to collect all amounts due according to the contractual terms of the security at the date of acquisition. This determination includes situations when a decision has been made to sell a security below its carrying value. The guidance for perpetual preferred stock is similar to guidance for common stock, with determination of OTTI based on INT 06-07: Definition of Phrase “Other Than Temporary” and if the entity has made a decision to sell a security below its carrying value.

Although NAIC staff believes the guidance for perpetual preferred stock dividends is appropriate, recognizing that dividends for redeemable preferred stock may not trigger an element a default, or a liability from an issuing entity, NAIC staff recommends clarification on the amortization of redeemable preferred dividends, potentially to highlight that failure to receive dividends should result with an OTTI assessment and may impact continued accrual (or admittance) for future dividends.

With regards to guidance on PIK dividends, NAIC staff recommends revisions to address recognition and reporting of differing types of PIK dividends. As noted, stock issuances may provide for either cash or PIK dividends, and it is likely not appropriate to require all cash dividends for these issuances to be recorded as a reduction in the investment. (With these revisions, NAIC staff also recommends similar guidance for PIK interest received.)

4 – Clarify application of SSAP No. 32 conjunction with SSAP No. 48 and SSAP No. 97

The existing guidance in SSAP No. 32 is specific that investments in preferred stock of subsidiaries, controlled or affiliated entities (SCA) are included within scope. However, recent questions received have questioned whether preferred stock held from a SSAP No. 48 entity shall be captured within scope of SSAP No. 32. (A SSAP No. 48 entity may or may not qualify as an SCA.) To eliminate future questions, NAIC staff suggests further clarification that preferred stock held from a SSAP No. 48 entity (joint venture, partnership or limited liability company) is in scope of SSAP No. 32.

Additionally, as the reported value of preferred stock held from an SCA may be impacted by guidance in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities and INT 00-24: EITF 98-12: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses, NAIC staff suggests guidance in SSAP No. 32 that explicitly refers to those statutory provisions.

- Under SSAP No. 97, preferred stock in an SCA is measured and reported under SSAP No. 32. However, the reporting entity must reduce the total equity of the SCA by the SCA’s (issuer’s) value of the preferred stock to prevent double counting. For example, if an SCA issued preferred stock for $50,000, and the SCA value is $250,000 pursuant to SSAP No 97:
  - Reporting entity would report the SCA at $200,000. ($250,000 less $50,000)
  - Reporting entity would report the preferred stock under SSAP No. 32. (So, if perpetual preferred stock, issued at $50,000, has a current fair value was $75,000, the preferred stock would be reported at $75,000 on Schedule D-2-1.)
• Under INT 00-24, once an equity (common stock) investment in an SCA has been reduced to zero due to losses in the investee, the investor shall report its share of equity method losses as an adjustment to the other investments in the investee. Pursuant to this guidance, the reported investment in preferred stock (and other investments in an SCA) would be adjusted to reflect the statutory net loss. (NAIC staff notes – This guidance is reflected in the FASB Codification in ASC 323-10-35 regarding equity method losses.)

Existing Authoritative Literature:

SSAP No. 32—Preferred Stock provides the statutory accounting principles for preferred stock.

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): A review of the investment SSAPs, including SSAP No. 32, was supported under the investment classification project detailed in agenda item 2013-36. Currently, the Working Group has reviewed and adopted revisions to SSAP No. 26R—Bonds and SSAP No. 30R—Common Stock.

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

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as substantive, with a request to expose the agenda item for comments on suggested actions / proposals. With this exposure, NAIC staff recommends a referral to the Valuation of Securities (E) Task Force with a request for information on preferred stock and the suggested actions. After information is received and assessed, NAIC staff will proceed with drafting revisions to SSAP No. 32, along with a corresponding issue paper, for subsequent exposure.

NAIC staff recommended actions:

1) Definitions:

A. Retain, with revisions to mirror FASB terminology, the definitions for redeemable and perpetual preferred stock. These definitions will be used to classify preferred stock for valuation and reporting purposes. With this action, the definition for restricted preferred stock is also proposed to be retained in the SSAP, with revisions to properly capture the intent of this definition with current market terms.

B. Delete existing definitions for mandatory sinking fund preferred stock, payment-in-kind (PIK) preferred stock and step-up preferred stock. If preferred, revised terms to identify various elements of preferred stock may be considered for inclusion in a SSAP No. 32 glossary, but as these terms do not impact valuation or reporting, NAIC staff proposes to eliminate these terms from the SSAP. If terms are retained in a glossary, it is proposed that they be revised to reflect current market terminology. If terms will be retained, NAIC staff requests comments on additional terms that should be captured.

C. Incorporate new guidance to define, and provide accounting guidance for mandatory convertible preferred stock. This guidance is proposed to mirror the mandatory convertible guidance in SSAP No. 26R—Bonds. With that approach, the reported value shall be equal to, or less than, the valuation that will be required upon mandatory conversion. (For example, if redeemable preferred stock is mandatorily convertible to common stock, the value shall be the lower of amortized cost or fair value.)
2) **Accounting and Valuation Guidance:**

   A. Delete all references to “cost” as a measurement method. Redeemable preferred stock shall be reported at amortized cost, or the lower of amortized cost or fair value depending on NAIC designation. (It is proposed that the existing NAIC designations allocations will be retained.) Perpetual preferred stock shall be reported at fair value.

   B. Incorporate new guidance to account for mandatory convertible redeemable preferred stock. Similar to the guidance for mandatory convertible bonds, this is proposed to reflect the lower of amortized cost or fair value without impact by an NAIC designation.

3) **Dividend Guidance and the Impact on Impairment Guidance**

   A. Incorporate revisions to clarify the reporting of PIK dividends and PIK interest. This guidance is proposed to direct recognition of dividends and interest pursuant to the nature of the item received. (For example, common stock dividends would be captured under SSAP No. 30.) A reduction of investment would only occur if consideration received was intended to reduce the preferred stock investment.

   B. Clarify OTTI assessment when dividends for redeemable preferred stock are not received, or when other redemption protections (e.g., sinking fund deposits) are not met by an issuer.

4) **Clarify application of SSAP No. 32 in conjunction with SSAP No. 48 and SSAP No. 97**

   A. Clarify that preferred stock held issued by a SSAP No. 48 entity is in scope of SSAP No. 32.

   B. Incorporate guidance / references to clarify the measurement and reporting of preferred stock held from an SCA pursuant to guidance in SSAP No. 97 and INT 00-24. As detailed, INT 00-24 requires a reduction in a preferred stock investment of an SCA once the equity basis of a common stock investment reaches zero.

**Staff Review Completed by: Julie Gann – February 2019**

**Status:**

On April 6, 2019, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as substantive, and directed NAIC staff to draft revisions to SSAP No. 32 for subsequent exposure. A referral to the Valuation of Securities (E) Task Force to review the proposed edits will occur when exposed.

On August 3, 2019, the Statutory Accounting Principles (E) Working Group exposed *Issue Paper No. 1XX—Preferred Stock* to revise the definitions, measurement guidance and impairment guidance for preferred stock pursuant to the investment classification project.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed a revised *Issue Paper No. 1XX—Preferred Stock* and a substantively-revised draft *SSAP No. 32—Preferred Stock* as part of the Investment Classification Project.

On March 18, 2020, The Statutory Accounting Principles (E) Working Group exposed the *Issue Paper No. 1XX—Preferred Stock* and substantively-revised draft *SSAP No. 32—Preferred Stock* with edits to reflect comments received from interested parties as well as a January 1, 2021 effective date. This item was exposed with a May 29, 2020 comment period deadline.

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Statutory Issue Paper No. 164

Preferred Stock

STATUS
Finalized July 30, 2020

Original SSAP: SSAP No. 32; Current Authoritative Guidance: SSAP No. 32R

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper introduces substantive revisions to SSAP No. 32—Preferred Stock pursuant to the Statutory Accounting Principles (E) Working Group’s (Working Group) Investment Classification Project. The Investment Classification Project reflects a comprehensive review to address a variety of issues pertaining to definitions, measurement and overall scope of the investment statements of statutory accounting principles (SSAPs).

2. The substantive revisions to SSAP No. 32 (illustrated in Exhibit A) under the Investment Classification Project, detailed within this issue paper, reflect the following key elements:
   a. Improves preferred stock definitions, with inclusion of information from U.S. generally accepted accounting principles (GAAP) for classifying preferred stock as redeemable or perpetual. The revisions also incorporate a new exhibit to capture various terms prevalent in preferred stock.
   b. Revises the measurement guidance to ensure appropriate, consistent measurement based on the type of preferred stock held and the terms of the preferred stock. The revisions also incorporate guidance for mandatory convertible preferred stock.
   c. Incorporates revisions to clarify impairment guidance as well as guidance for dividend recognition and redemption of preferred stock with the issuer.

DISCUSSION

3. This issue paper intends to provide information on discussions that occurred when considering revisions to SSAP No. 32 under the Investment Classification Project, as well as the adopted revisions.

Preferred Stock Definitions

4. The historical definition of preferred stock within SSAP No. 32 is “any class or shares of the holders which have any preference, either as to the payment of dividends or distribution of assets on liquidation, over the holder of common stock issued by an entity.” This definition has been identified as generally consistent with market terms, including the following NASDAQ and Financial Accounting Standards Board (FASB) definitions for common stock:
   a. NASDAQ Definition: A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common shareholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common
stock dividend, stated in a dollar amount or as a percentage of par value. The stock does not usually carry voting rights. Preferred stock has characteristics of both equity and debt.

b. FASB Codification: A security that has preferential rights compared to common stock.

5. Comments received from interested parties in October 2019 indicated that the term “security” is not interchangeable as it pertains to preferred stock and requested all references be changed to “interest” or directly reference the type of stock under consideration. In review of the use of the term “security” in the issue paper, most instances represent existing references carried over from SSAP No. 32. NAIC staff recognizes that preferred stock is a “security,” as demonstrated by the definitions from both the NASDAQ and FASB, but NAIC staff has proposed some revisions to limit the generic use of the term. The use of the term “security” in paragraph 8, paragraphs 10-13 and in Exhibit A (as it pertains to defining specific types of preferred stock) has been revised to “preferred stock.” The use of the term “security” in paragraph 3 has been retained as this usage mirrors the FASB definition for preferred stock.

6. NAIC staff’s original intent was to align various investment definitions with common industry definitions or those specified by U.S. GAAP. As a part of the investment reclassification project, this practice began with unaffiliated common stock (SSAP No. 30R) and now has expanded into preferred stock (SSAP No. 32). The definition proposed by NAIC staff was made with the understanding that preferred stock is either redeemable or perpetual. While the issue paper does mention some stock labeled as “redeemable perpetual preferred stock,” distinctions are made in the prospectus as to its true underlying characteristics (thus being redeemable or perpetual). In general, NAIC staff continue to believe that for a majority of preferred stock issuances, a share which is redeemable at the option of the holder is by definition redeemable outside (or not solely within) the control of the issuer – thus the actions are mutually exclusive. However, interested parties cited guidance for additional circumstances in which, through legal technicalities, could create a third class of preferred shares – those redeemable outside the control of the issuer and holder. Since the definition refers to “outside the control of the issuer” as a determination for classifying a preferred share as redeemable (reported at amortized cost), certain circumstances which are technically “not solely within the issuer’s control” could cause shares to be reclassified to redeemable which were originally categorized as perpetual (reported at fair value). ASC 480-10 provides a few of these examples as: change in state law, the issuer fails to achieve certain project milestones, the issuer fails to pay specified dividends, the issuer experiences a change in credit rating, etc. As such, NAIC staff are supportive of the changes suggested by interested parties as they align with the original objective of preferred stock classification and reflect the expected economics of the investment.

7. Although the historical definition of preferred stock in SSAP No. 32 is comparable to current market terms, this issue paper recommends revisions to incorporate the NASDAQ definition as it is more encompassing of the characteristics of preferred stocks.

Definitions and Classification as Redeemable or Perpetual Preferred Stock

8. The accounting guidance of SSAP No. 32 varies based on whether preferred stock is considered to be “redeemable” or “perpetual.” The historical definitions of redeemable and perpetual within SSAP No. 32R reflected the following:

a. Redeemable preferred stock is defined as preferred stock that must be redeemed by the issuing enterprise or is redeemable at the option of the reporting entity. It includes mandatory sinking fund preferred stock and payment-in-kind (PIK) preferred stock.

b. Perpetual preferred stock is defined as preferred stock with no redemption or sinking fund features or preferred stock redeemable at the option of the issuer.
9. In comparing these terms to current U.S. GAAP, the guidance in the FASB Accounting Standards Codification (ASC), which is also consistent with Securities Exchange Commission (SEC) guidance, is more detailed in identifying the requirements for classification as redeemable preferred stock:

   a. Preferred Stock Subject to Mandatory Redemption Requirements or Whose Redemption is Outside the Control of the Issuer ("Redeemable Preferred Stock"). The term means any stock which (i) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; (ii) is redeemable at the option of the holders, or (iii) has conditions for redemption which are not solely within the control of the issuer, such as stocks which must be redeemed out of future earnings. Under this definition, preferred stock which meet one or more of the above criteria would be classified as redeemable preferred stock regardless of their other attributes such as voting rights, dividend rights or conversion features. (FASB ASC 480-10-S99)

   b. Preferred Stocks Which Are Not Redeemable or Are Redeemable Solely at the Option of the Issuer ("Non-Redeemable Preferred Stock"). The term means any preferred stock which does not meet the criteria for classification as a "redeemable preferred stock." (FASB ASC 480-10-S99)

10. In reviewing these definitions, and preferred stock components that permit payment of dividends in stock instead of cash (known as payment-in-kind (PIK) stock), it was identified that preferred stock that incorporates PIK dividends is not limited to redeemable preferred stock as implied in the prior SSAP No. 32 definition for redeemable preferred stock.

11. To ensure classification of redeemable and perpetual preferred stock consistently with U.S. GAAP, the definitions from the FASB ASC have been incorporated into the revised SSAP No. 32.

Definition of Restricted Stock:

12. The historical accounting guidance in SSAP No. 32 included a definition of restricted stock as “a security for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral) except where that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year.” This definition identified that “any portion of the security that can be reasonably expected to qualify for sale within one year is not considered restricted.”

13. In researching this restricted stock definition, it was identified that this guidance was included in the original codification of SSAP No. 32, however, there was no identification of the source of this definition from the issue paper. In reviewing current market terms for restricted stock or restricted securities, definitions and information was noted from both NASDAQ and the SEC:

   a. Restricted Stock (NASDAQ): Stock that must be traded in compliance with special SEC regulations concerning its purchase and resale. These restrictions generally result from affiliate ownership, merger and acquisition (M&A) activity, and underwriting activity.

   b. Restricted Securities (SEC): Securities acquired in an unregistered, private sale from the issuing company or from an affiliate of the issuer. They typically bear a “restrictive” legend clearly stating that you may not resell them in the public marketplace unless the sale is exempt from the SEC’s registration requirements. Rule 144 under the Securities Act of 1933 provides the most commonly used exemption for holders to sell restricted securities. To take advantage of this rule, you must meet several conditions, including a six-month or one-year holding period.
14. Using the information from both NASDAQ and the SEC, a revised definition of restricted stock has been incorporated into the revised SSAP No. 32. Additionally, the revisions clarify that restricted stock is generally an admitted asset but highlights that nonadmittance could occur in accordance with SSAP No. 4—Assets and Nonadmitted Assets. Under SSAP No. 4, the restrictions limiting use of an asset can be determined to preclude the ability to consider the asset as available for policyholder claims. In such situations, the restricted asset would be considered nonadmitted.

Definitions or Preferred Stock Components / Characteristics

15. The historical guidance in SSAP No. 32 included definitions for a couple of preferred stock terms, including “mandatory sinking fund” and “step-up preferred stock,” but did not include definitions of other common preferred stock components or terms. Furthermore, in reviewing the previously included terms, it was identified that they were no longer current and should be revised or removed from SSAP No. 32. For example, the definition of “mandatory sinking fund” included references to preferred stock outstanding in 1978, and the definition of “step-up preferred stock” referred to the Purposes and Procedures Manual of the NAIC Investment Analysis Office, and there is no current accounting or valuation guidance for step-up preferred stock in that Manual.

16. Rather that include a variety of terms in the body of the SSAP, particularly as components may not impact overall accounting and reporting of the preferred stock, a new exhibit has been included to include a glossary of key preferred stock terms. The definitions intend to capture current market-terms for the noted components.

Accounting and Reporting of Preferred Stock

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 (AVR). Although these classifications are still considered appropriate, it has been noted that additional guidance is needed for mandatory convertible preferred stock, and that a review of the various measurement methods permitted (by classification) should occur to ensure appropriate measurement in the financial statements. Specifically, the prior guidance in SSAP No. 32 explicitly permitted “cost” as an applicable measurement method, even for perpetual preferred stock. Consistent with prior conclusions from U.S. GAAP, as well as the Statutory Accounting Principles (E) Working Group, “historical cost” is generally not an acceptable measurement method. Particularly, this measurement method is not acceptable when liquidation of an asset would generally occur at market prices, such as a non-redeemable (perpetual) preferred stock.

18. The changes reflected in the revised SSAP No. 32 continue to differentiate accounting and reporting guidance by whether a reporting entity maintains an AVR and on the type of preferred stock (redeemable or perpetual). However, revisions have been incorporated to clarify the accounting and reporting of mandatory convertible preferred stock and to update the measurement basis for each type of preferred stock:

   a. For redeemable preferred stock, the revisions continue to use NAIC designations in determining the measurement method. There was no change proposed to the measurement basis per designation. However, the revisions clarify that the measurement basis shall be either amortized cost or fair value based on NAIC designation, eliminating reference to “cost” as a measurement method that could be used by a reporting entity. For the amortization of redeemable preferred stock, revisions have also been incorporated to clarify that amortization (or accretion) of any discount or premium is reported through investment income, instead of impacting dividends collected. Recognizing this amortization through investment income is consistent with U.S. GAAP.

   b. For perpetual preferred stock, the revisions have eliminated use of NAIC designations in determining measurement method and the guidance requires use of fair value, not to exceed any stated call price from the prospectus of the preferred stock. As there are no requirements for an
issuer to redeem these securities, these securities can continue indefinitely until the issuing entity acquires the preferred stock at current market rates or elects to buy-back the preferred stock in accordance with rates established in the preferred stock prospectus. In order to prevent overstatement of the securities in the financial statements, the measurement of these preferred stocks reflects fair value, not to exceed any currently effective buy-back rates (call prices) that the issuer can utilize to redeem the stock. This measurement guidance is not impacted by the type of reporting entity (AVR or non-AVR filer) and is not impacted by NAIC designation. Although not impacted by NAIC designation, this guidance does not change the requirement to report the NAIC designation as the NAIC designation impacts the risk-based capital (RBC) charge attributed to the preferred stock.

c. For mandatory convertible preferred stock, guidance has been incorporated to require measurement at fair value, not to exceed any stated call price, in the periods prior to conversion. This guidance is applicable regardless if the preferred stock would be classified as redeemable or perpetual and is applicable regardless of NAIC designation. This guidance requires the preferred stock to be measured at the same measurement basis that would be required once converted to common stock. This prevents overstatement in the financial statements at the time of conversion.

d. For exchange traded funds which qualify for preferred stock treatment from the NAIC SVO, the revisions clarify that these investments shall always be treated as perpetual preferred stock. This classification is appropriate as the fund would not qualify as a redeemable preferred stock with a stated term that allows for amortization.

Impairment of Preferred Stock

19. The prior guidance in SSAP No. 32 included different guidance for determining other-than-temporary impairment (OTTI) based on whether the preferred stock was redeemable or perpetual. Although this division has been retained, modifications have been reflected as follows:

a. For redeemable preferred stock, guidance has been captured to require assessment of OTTI whenever mandatory redemption rights or sinking fund requirements do not occur. Although preferred stock may indicate “required” elements, failing to provide dividends, or contribute to a sinking fund, may not be considered an act of default or require liability recognition from the issuer. Not receiving preferred stock provisions does not turn the holder of preferred stock into a creditor, and a redemption right cannot force a company to redeem shares. However, if an issuer fails to comply with “required” components, reporting entities should assess whether the preferred stock is other-than-temporarily impaired.

b. For perpetual preferred stock, the other-than-temporary impairment guidance has been revised to mirror guidance for other equity investments (e.g., common stock). As perpetual preferred stock will be reported at fair value, upon recognition of an OTTI, any unrealized losses will be realized, and the then-current fair value will become the new cost basis. Subsequent variations in fair value are treated as unrealized gains or losses.

c. Comments received from interested parties noted that proposed impairment guidance for perpetual preferred stock could be enhanced if written similar to existing impairment guidance in SSAP No.

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1 Interested parties noted that call dates may not be effective for a period of time. As such, language regarding that only “currently effective” buy back rates (call prices) was added.

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30R—Unaffiliated Common Stock. Final proposed language in Exhibit A mimics the language in SSAP No. 30R.

Preferred Stock Income / Redemption

20. The guidance in this issue paper incorporates revisions to clarify the reporting of dividend income from preferred stock. This guidance clarifies that dividends shall be recognized in the form received (cash, preferred stock, common stock), at fair value, with differences between fair value and the dividend receivable recognized as gains or losses. Subsequent to initial recognition, the asset received shall follow the applicable statutory accounting statement. For example, dividends received in the form of common stock shall be captured in SSAP No. 30—Unaffiliated Common Stock.

21. Additionally, this issue paper incorporates new guidance to clarify the reporting when preferred stock is reacquired or redeemed by the issuing entity. Pursuant to this guidance, regardless of how an issuer reacquires the stock (either at market value or pre-set call / redemption price), the reporting entity would recognize any difference between the book/adjusted carrying value and the consideration received as a realized gain or loss.

Disclosures

22. Although this issue paper incorporates various accounting and reporting changes for preferred stock, there have been no revisions incorporated to the existing disclosure requirements.

Effective Date

23. The adoption of this issue paper by the Statutory Accounting Principles (E) Working Group, and the substantively revised statement of statutory accounting principles (SSAP) occurred on July 30, 2020. The substantive revisions to SSAP No. 32R are detailed in Exhibit A of this issue paper and reflected in the substantively-revised SSAP No. 32R—Preferred Stock. The effective date of the guidance will be identified in the SSAP. Users of the Accounting Practices & Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

- SSAP No. 32R—Preferred Stock
EXHIBIT A - REVISIONS TO SSAP No. 32—Preferred Stock

Preferred Stock

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of entities captured in SSAP No. 97—Investments of in subsidiaries, controlled or affiliated entities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies\(^1\), including as well as preferred stock interests of certified capital companies (CAPCO) per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of SSAP No. 25—Affiliates and Other Related Parties and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

SUMMARY CONCLUSION

3. Preferred stock, which may or may not be publicly traded, is a security that represents ownership of a corporation and gives the holder a claim, prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value. Preferred stock does not usually carry voting rights. Preferred stock has characteristics of both common stock and debt, defined as any class or series of shares the holders of which have any preference, either as to the payment of dividends or distribution of assets on liquidation, over the holder of common stock (as defined in SSAP No. 30R—Unaffiliated Common Stock) issued by an entity. Preferred stock shall include but not be limited to:

   a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is at the option of the holders. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; or 2) is redeemable at the option of the holders. Preferred stock which meet one or more of these criteria would be classified as redeemable preferred stock\(^2\) regardless of other attributes such as voting rights or dividend rights, including mandatory sinking fund preferred stock and preferred stock redeemable at the option of the holder;

   b. Perpetual preferred stock, which is preferred stocks which are not redeemable or for which redemption is not at the option of the holder (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred

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\(^1\) Certain legal entities captured in SSAP No. 48, such as LLCs that are corporate-like, do not issue preferred stock in legal form, but instead issue identical instruments labeled preferred units, interests, or shares. These instruments shall be captured in this statement provided they meet the structural characteristics as defined in paragraph 3. Additionally, these instruments shall not be in-substance common stock in which the holder has risk and reward characteristics that are substantially similar to common stock.

\(^2\) Preferred stock shall be classified by its characteristics. For example, a preferred stock that is named “redeemable perpetual preferred stock” shall be reported as either “redeemable” or “perpetual” preferred stock based on whether the characteristics of paragraph 3a are met.
stock pursuant to paragraph 3.a including nonredeemable preferred stock and preferred stock 
redeemable at the option of the issuer; and

4. The definition of preferred stock, as defined in paragraph 3 does not include fund investments. However, 
the following types of SVO-identified investments are captured within scope of this statement.

a. Exchange Traded Funds, which qualify for preferred stock treatment, as identified in Part Six, 
Section 2, of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and 
published on the SVO’s web page at www.naic.org. SVO-Identified Preferred Stock ETFs shall 
follow the accounting provisions for perpetual preferred stock.

5. Redeemable preferred stock is defined as preferred stock that must be redeemed by the issuing enterprise 
or is redeemable at the option of the reporting entity. It includes mandatory sinking fund preferred stock and 
payment-in-kind (PIK) preferred stock.

6. Mandatory sinking fund preferred stock is defined as redeemable preferred stock subject to a 100% 
mandatory sinking fund, annual installments of which will (a) commence not more than 10 years from the date of 
issue or December 31, 1978, if outstanding on that date; (b) be not less than 2% of the number of shares issued (or 
outstanding on December 31, 1978, if issued prior to that date); (c) provide for the redemption of the entire issue 
over a period not longer than 40 years from the date of issue, or December 31, 1978, if outstanding on that date. 
Redeemable preferred stock which is subject to a 100% mandatory sinking fund, but which does not, at date of issue 
or December 31, 1978, if outstanding at that time, meet one or more of the other requirements above, shall be 
considered as mandatory sinking fund preferred stock at the time the deficiency is cured through the passage of 
time or otherwise.

7. PIK preferred stock is defined as redeemable preferred stock on which, at the option of the issuer, dividends 
can be paid in additional securities rather than cash.

8. Perpetual preferred stock is defined as preferred stock with no redemption or sinking fund features or 
preferred stock redeemable at the option of the issuer.

9. Restricted preferred stock is defined
d as a security either redeemable or perpetual preferred stock that must 
be traded in compliance with special Securities Exchange Commission (SEC) regulations concerning its purchase 
and resale. These restrictions generally result from affiliate ownership, merger and acquisition (M&A) activity and 
underwriting activity. Pursuant to the SEC, restricted securities are securities acquired in an unregistered, private 
sale from the issuing company or from an affiliate of the issuer. They typically bear a “restrictive” legend clearly 
stating that the holding may not resell the stock in the public marketplace unless the sale is exempt from the SEC’s 
registration requirements. Restricted preferred stock is generally considered an admitted asset; however, admittance 
may be limited based on the degree of restriction in accordance with SSAP No. 4—Assets and Nonadmitted Assets. 
Restricted preferred stock shall be coded as restricted in the investment schedule and disclosed pursuant to SSAP 
No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures, for which sale is restricted by 
governmental or contractual requirement (other than in connection with being pledged as collateral) except where 
that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the

3 This definition of restricted stock does not preclude a “restricted asset” classification for any preferred stock that is restricted 
(e.g., not under the exclusive control of the entity) by actions of the reporting entity or others. For example, if a reporting entity 
has pledged preferred stock, or used preferred stock in securities lending / repo transactions, the preferred stock shall be coded 
and disclosed as restricted stock pursuant to SSAP No. 1.
requirement to be met within one year. Any portion of the security that can be reasonably expected to qualify for sale within one year is not considered restricted.

10.6. Preferred stocks meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement.

Acquisitions and Sales

11.7. At acquisition, preferred stock shall be reported at cost, including brokerage and other related fees. Preferred PIK stock received as dividends shall be initially recorded at fair value. Acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date.

12.8. A reporting entity can subscribe for the purchase of stock, but not be required to make payment until a later time. Transactions of this nature are common in the formation of corporations. Preferred stock acquired under a subscription represents a conditional transaction in which a security preferred stock is authorized for issuance but not yet actually issued. Such transactions are settled if and when the actual security preferred stock is issued and the exchange or National Association of Securities Dealers (NASD) rules that the transactions are to be settled. Preferred stock acquired under a subscription shall be recorded as an admitted asset when the reporting entity or its designated custodian or transfer agent takes delivery of the security preferred stock and the security preferred stock is recorded in the name of the reporting entity or its nominee, (i.e., the accounting for such preferred stock acquisitions shall be on the settlement date).

Amortization

13. Redeemable preferred stock purchased at a premium shall be amortized to reduce the carrying value to the call or redemption value over the period to the call or earliest redemption date, whichever produces the lowest asset value (yield to worst). Redeemable preferred stock purchased at a discount shall be amortized accreted to increase the carrying value to par value the redemption price over the period to maturity or the latest redemption date.

14. PIK preferred stock shall be amortized to the lower of the call price or par value, measured in either case at the end of the stock dividend period and based on all of the shares expected to be held at the end of that period, including those received as dividends.

15. Amortization (and accretion) of the premium and discount arising at acquisition shall be calculated using the interest method and shall be reported as increases or decreases in dividends collected during the year through investment income.

Balance Sheet Amount

16. The NAIC Securities Valuation Office assigns preferred stocks NAIC designations (NAIC designation 1 through 6) in accordance with the Purposes and Procedures Manual of the NAIC Investment Analysis Office, and that NAIC designation is published in accordance with the SVO compilation instructions in the Purposes and Procedures Manual.

10. Preferred stock shall be valued based on (a) the underlying characteristics of the security (redeemable, or perpetual or mandatory convertible), (b) the quality rating of the security expressed as an NAIC designation pursuant to paragraph 15, and (c) whether an asset valuation reserve (AVR) is maintained by the reporting entity:

a. For reporting entities that do not maintain an AVR:
b. Step-up preferred stock (a security with the structure of a preferred stock, that has the cash flow characteristics of a debt instrument) is considered a security with characteristics of both debt and equity, and the accounting and valuation of such securities shall be consistent with SVO guidelines as stipulated in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

17. For reporting entities required to 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* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

a. 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. Highest-quality or high-quality perpetual preferred stocks (NAIC designations 1 and 2), which have characteristics of equity securities, shall be reported at fair value, not to exceed any currently effective call price. All other perpetual preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost or fair value.

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:

Reporting Entities That Do Maintain An AVR

i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of cost, amortized cost, or fair value.

ii. Highest-quality, high-quality or medium quality perpetual preferred stocks (NAIC designations 1 to 3), which have characteristics of equity securities, shall be valued at fair value, not to exceed any currently effective call price. All other perpetual preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of cost or fair value.

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.
ii.4. 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

48.11. 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 security—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 a security—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.

49.12. 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 security as if the preferred stock security had been purchased on the measurement date of the other-than-temporary impairment, and in accordance with paragraph 19 or paragraph 21, as applicable. 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 security, based on the new cost basis, shall be amortized over the remaining life of the preferred stock security in the prospective manner based on the amount and timing of future estimated cash flows. The preferred stock security 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.

Impairment of Perpetual Preferred Stock

20.13. For any decline in the fair value of perpetual preferred stock which is other-than-temporary, the then-current fair value shall reflect the new cost basis of the preferred stock, with prior unrealized losses recognized as realized losses. Subsequent fluctuations in fair value shall be recorded as unrealized gains or losses. Future declines which are determined to be other-than-temporary shall be recognized as realized losses. An impairment loss shall be recognized as a realized loss equal to the entire difference between the perpetual preferred stock’s carrying value and its fair value 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. Subsequent fluctuations in fair value shall be recorded as unrealized gains or losses. Future declines which are determined to be other-than-temporary shall be recognized as realized losses. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell a preferred stock security at an amount below its carrying value.

21. In periods subsequent to the recognition of an other-than-temporary impairment loss for a perpetual preferred stock, the reporting entity shall account for the other-than-temporarily impaired security as if the security
had been purchased on the measurement date of the other-than-temporary impairment, and in accordance with paragraph 20 or paragraph 22, as applicable. The fair value of the perpetual preferred stock on the measurement date shall become the new cost basis of the perpetual preferred stock and the new cost basis shall not be adjusted for subsequent recoveries in fair value. Future declines in fair value which are determined to be other-than-temporary, shall be recorded as realized losses.

Income

14. Dividends on preferred stock (whether cumulative or noncumulative), other than mandatorily redeemable preferred stock, shall be recorded as investment income for dividend eligible preferred stock on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of cash dividend settlement (i.e., dividend income shall be recorded on preferred stock declared to be ex-dividend on or prior to the statement date). Dividends received shall be recognized in the form received (e.g., cash, preferred stock, common stock) at fair value with differences between fair value and the dividend receivable recognized as gains or losses. Subsequent treatment shall follow the statement that addresses the type of asset received. For example, dividends received in the form of common stock shall be accounted for and reported in accordance with SSAP No. 30R—Unaffiliated Common Stock.

Redemption of Preferred Stock

15. A reporting entity that sells or redeems preferred stock back to the issuer shall recognize consideration received in excess of the book/adjusted carrying value as a realized gain or loss. This recognition shall occur regardless of whether the issuer repurchases the preferred shares at market value, or if the shares are redeemed by the issuer at a predetermined set call price.

22. Dividends on mandatorily redeemable preferred stock shall be accrued to the redemption price, even if not declared, using the interest method over the period ending on the redemption date.

23. Cash dividends paid on PIK stock during the stock dividend period shall be accounted for as a reduction in the investment.

Exchanges and Conversions

24. If preferred stock is exchanged or converted into other securities, the fair value of the preferred stock surrendered at the date of the exchange or conversion shall become the cost basis for the new securities with any gain or loss realized at the time of the exchange or conversion. However, if the fair value of the securities received in an exchange or conversion is more clearly evident than the fair value of the preferred stock surrendered, then it shall become the cost basis for the new securities.

Disclosures

25. The following disclosures regarding preferred stocks shall be made in the financial statements:

   a. Fair values in accordance with SSAP No. 100R—Fair Value (SSAP No. 100R);

   b. Concentrations of credit risk in accordance with SSAP No. 27;

   c. Basis at which the preferred stocks are stated; and

   d. A description, as well as the amount, of preferred stock that is restricted and the nature of the restriction.
e. For each balance sheet presented, all preferred stocks in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of preferred stocks with unrealized losses.

g. As of the date of the most recent balance sheet presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

h. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:

iii. The aggregate carrying value of the investments not evaluated for impairment, and

iv. The circumstances that may have a significant adverse effect on the fair value.

26.18. Refer to the Preamble for further discussion regarding disclosure requirements. The disclosure requirements of paragraphs 3117.b., 3117.e., 3117.f., 3117.g. and 3117.h. shall be included in the annual audited statutory financial reports only.

Relevant Literature


Effective Date and Transition

20. 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 guidance in paragraphs 23-26 was previously included within SSAP No. 99—Accounting for Securities Subsequent to an Other-Than-Temporary Impairment and was effective for reporting periods beginning on January 1, 2009, and thereafter, with early adoption permitted. In 2010, the guidance from SSAP No. 99 was incorporated within the impacted standards, with SSAP No. 99 superseded. The original impairment guidance included in this standard, and the substantive revisions reflected in SSAP No. 99 are retained for historical purposes within Issue Paper No. 131. The guidance in paragraphs 2 and 3 to SSAP No. 32 was originally superseded January 1, 2005, by guidance included in SSAP No. 88—Investments in Subsidiaries, Controlled and Affiliated Entities, A replacement of SSAP No. 46, and then subsequently reflected in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities. In 2011, the guidance related to preferred stock of
SCAs from SSAP No. 97 was incorporated into this statement and revised to reflect a definition of preferred stock. The original guidance included in this statement, and the substantive revisions reflected in SSAP No. 88 and SSAP No. 97 (including the title change already reflected in SSAP No. 32) are retained for historical purposes within Issue Paper Nos. 32 and 118. Guidance in paragraph 17 was originally contained in INT 99-29: Classification of Step-Up Preferred Stock and was effective December 6, 1999.

28-21. On July 30, 2020, substantive revisions, as detailed in Issue Paper No. 164—Preferred Stock were adopted. These revisions, effective January 1, 2021, update definitions of preferred stock and reporting values based on characteristics of the preferred stock.

REFERENCES

Other

- Purposes and Procedures Manual of the NAIC Investment Analysis Office
- NAIC Valuation of Securities product prepared by the Securities Valuation Office

Relevant Issue Papers

- Issue Paper No. 32—Investments in Preferred Stock (excluding investments in preferred stock of subsidiary, controlled, or affiliated companies)
- Issue Paper No. 131—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment
- Issue Paper No. 164—Preferred Stock
EXHIBIT A – GLOSSARY

Callable Preferred Stock – A preferred stock in which the issuer has the right to call or redeem the stock at a preset price after a defined date. Callable preferred stock can be either redeemable preferred stock or perpetual preferred stock depending on other characteristics of the preferred stock. For example, callable preferred stock with a maturity or a specific buyback date would be redeemable preferred stock, whereas callable preferred stock electable at the discretion of the issuer is perpetual preferred stock.

Convertible Preferred Stock – A preferred stock that is convertible into another security based on a conversion rate. For example, convertible preferred stock that is convertible into common stock on a two-for-one basis (two shares of common for each share of preferred).

Cumulative Preferred Stock – A preferred stock with a provision that missed dividend payments must be paid to cumulative preferred stock shareholders before other classes of preferred stock shareholders and common shareholders can receive dividend payments. Cumulative preferred stock may have different levels, with a “first” or “senior” cumulative preferred, “regular” cumulative preferred and “subordinate” cumulative preferred that determines the priority in which accumulated unpaid dividends or asset liquidation occurs. (Under SSAP No. 32R, holders of cumulative preferred stock are not permitted to recognize a receivable for unpaid cumulative dividends until declared and the reporting entity is entitled to the divided.)

Dividend Declaration Date – The date a corporation declares a dividend payment to its shareholders.

Dividend Record Date – The date that identifies the shareholders that are entitled to a declared dividend.

Dividend Payment Date – The date the declared dividend will be paid.

Ex-Dividend Date – The cut-off date of holding stock to be captured as a shareholder on record entitled to the dividend. (A shareholder that sells their stock on the ex-dividend date would continue to be identified as a shareholder on record entitled to a declared dividend. Anyone who acquires a stock on the ex-dividend date would not be a shareholder on record entitled to a declared dividend.)

Mandatory Redeemable Preferred Stock – A preferred stock that embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur. (The existence of a mandatory redemption right does not convert the holder of a preferred stock into a creditor, and an issuer may be prohibited from redeeming shares when redemption would cause an impairment of capital.)

Noncumulative Preferred Stock – A preferred stock that does not entitle the stockholder to accumulated unpaid dividends. After missing dividend payments, a corporation only has to be make current dividend payments to preferred stock holders before providing dividends to common stock holders.

Participating Preferred Stock – A preferred stock that gives the holder participation in the additional earnings of a business or liquidation rights in addition to the normal preferred stock dividend. Pursuant to the terms of the preferred stock, the participation rights may only be activated when income or operations of the issuer exceeds a certain threshold level.

Payment-in-kind (PIK) – A term of the preferred stock prospectus that identifies that dividends may take the form of securities (e.g., common stock) rather than cash.
Perpetual Preferred Stock - Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer. Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock.

Preferred stock - A security, which may or may not be publicly traded, that shows ownership of a corporation and gives the holder a claim, prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation.

Redeemable Preferred Stock - Preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; 2) is redeemable at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more of these three criteria is redeemable preferred stock regardless of other attributes such as voting rights or dividend rights.

Restricted Preferred Stock - Redeemable or perpetual preferred stock that must be traded in compliance with special SEC regulations concerning its purchase and resale. These restrictions generally result from affiliate ownership, M&A activity and underwriting activity. Pursuant to the SEC, restricted securities are securities acquired in an unregistered, private sale from the issuing company or from an affiliate of the issuer. They typically bear a “restrictive” legend clearly stating that the holding may not resell the stock in the public marketplace unless the sale is exempt from the SEC’s registration requirements.

Sinking Fund – A potential component of a preferred stock charter that requires the issuer to regularly set funds aside in a separate custodial account for the exclusive purpose of redeeming preferred stock shares. Failure of an issuer to provide to the sinking fund does not create an act of default. Rather, the stock charter may implement provisions for failing to provide to the sinking fund, which could include penalties, restrictions of providing common stock dividends or the repurchase of the preferred stock.

Step-Up Preferred Stock – A potential component of a preferred stock charter that identifies whether specific terms will increase over time or with stated provisions. For example, a “step-up dividend” is a feature that increases the dividend rate. A “step-up call” is a feature that increases the call price. A “step-up conversion” increases the conversion price.

Term Preferred Stock – Preferred stock with a mandatory redemption requirement (maturity date) captured in the definition of redeemable preferred stock.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

**Issue:** Accounting for Bond Tender Offers

**Check (applicable entity):**

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**Description of Issue:** Questions have arisen regarding the accounting treatment for when a held bond is retired early through the acceptance of a “bond tender offer.” A bond tender offer occurs when the bond issuer repurchases some, or all, of a particular bond issuance prior to its scheduled maturity date. These offers are generally an attempt to retire a substantial amount of outstanding debt by making a one-time, special offer to bond holders. Generally, the purpose of a tender offer is to retire bonds that were originally issued at higher interest rates; however, some tender offers have occurred as a mechanism for capital restructuring. As expected, these activities are most common in a decreasing or depressed interest rate environment.

Tender offers typically share similar characteristics in that the offer is: 1) for a predetermined (finite) number of bonds, 2) a specified, nonnegotiable price, 3) available to the market as a whole – generally advertised through a press release, 4) only available for a limited period of time, and 5) contingent upon acceptance by a substantial percentage of debt holders – generally accepted by at least 25% of those eligible for early buyout.

From a bond holder’s perspective, the only material difference between a called and tendered bond is that with the tender offer, the bond holder must elect to accept the repurchase offer. If the tender offer is not accepted, the bond’s terms (including scheduled maturity date) remain unchanged. Bond tender offers are generally offered at rates slightly above market value, as an economic enticement for the holder to “sell” the bond. This increased compensation is reflective of prepayment penalties and/or acceleration fees noted in called bonds. The reinvestment risk assumed by holding a bond with a call option is generally compensation through a higher yield or a known prepayment penalty. Similarly, through a bond tender offer, increased compensation comes in the form of additional termination payout as compared to current market value.

Specific guidance for the reporting and allocation of investment income and/or capital gain/loss associated with callable bonds (where the issuer, at its sole discretion, can redeem a bond before it scheduled maturity date) is noted in SSAP No. 26R—Bonds; however guidance is not reflected for when a bond is retired early through a tender offer. As previously discussed, called bonds and bond tender offers are similar in the fact that the issuer can retire a bond early, however with a bond tender offer, the holder must elect to accept the offer. If the offer is not accepted, the original terms of the bond are not modified.

**Existing Authoritative Literature:**

The reporting of prepayment penalties or acceleration fees in the event a bond is liquidated prior to its scheduled termination date are detailed in SSAP No. 26R—Bonds.

**Income**

15. Interest income for any period consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium
amortization and interest paid on acquisition of bonds, and the addition of discount accrual. In accordance with SSAP No. 34—Investment Income Due and Accrued, investment income shall be reduced for amounts which have been determined to be uncollectible. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.

16. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

17. The amount of prepayment penalty and/or acceleration fees to be reported as investment income or loss shall be calculated as follows:

   a. For called bonds in which the total proceeds (consideration) received exceeds par:
      i. The amount of investment income reported is equal to the consideration received less the par value of the investment; and
      ii. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses, subject to the authoritative literature in SSAP No. 7.

   b. For called bonds in which the consideration received is less than par:
      i. To the extent an entity has in place a process to identify explicit prepayment penalty or acceleration fees, these should be reported as investment income. (An entity shall consistently apply their process. Once a process is in place, an entity is required to maintain a process to identify prepayment penalties for called bonds in which consideration received is less than par.)
      ii. After determining any explicit prepayment penalty or acceleration fees, the reporting entity shall calculate the resulting realized gain as the difference between the remaining consideration and the BACV, which shall be reported as realized capital gain, subject to the authoritative literature in SSAP No. 7.

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: While bond tenders were not specifically discussed, the accounting and reporting of revenues as a result of early termination, was addressed in agenda item 2018-32: SSAP No. 26R—Prepayment Penalties. In this agenda item, authoritative guidance was adopted detailing the breakout of revenues between investment income and capital gains when the called bond consideration was less than par.

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. 26R—Bonds to clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a call

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1 This guidance applies to situations in which consideration received is less than par but greater than the book adjusted carrying value (BACV). Pursuant to the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest asset value. In the event a bond has not been amortized to the lowest value prior to the call (BACV is greater than the consideration received), the entire difference between consideration received and the BACV shall be reported to investment income.
or a tender offer, shall be similarly applied. NAIC staff believes this is in line with original intent as the initial
SSAP No. 26 codification guidance (still reflected in paragraph 16 of SSAP No. 26R) is not specific to called
bonds. Rather, the guidance refers to “prepayment penalties or acceleration fees in the event the bond is
liquidated prior to its scheduled termination date.” This guidance would seemingly include all dynamics in
which an issuer provides a penalty / fee to the holder to terminate the bond.

A bond retired early through either a call or tender offer are functionally equivalent to a bond holder. The only
potential additional consideration for the bond holder is that the yield-to-worst concept was likely not applied in
relation to the bond tender offer (as the tender offer amount and date were not known/expected at the time of
acquisition). However, this concern is negated as bond tender offers are generally at or above market value and the
holder must elect to participate. If a bond tender offer is not economically beneficial to the holder, the holder would
simply not participate.

**SSAP No. 26R – Proposed Updates**

16. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior
to its scheduled termination date. Such fees shall be reported as investment income when received.

17. The amount of prepayment penalty and/or acceleration fees to be reported as investment income or loss
shall be calculated as follows:

a. For called or tendered bonds in which the total proceeds (consideration) received exceeds par:

i. The amount of investment income reported is equal to the consideration received less the
par value of the investment; and

ii. Any difference between the book adjusted carrying value (BACV) and the par value at the
time of disposal shall be reported as realized capital gains and losses, subject to the
authoritative literature in SSAP No. 7.

b. For called or tendered bonds in which the consideration received is less than par:

iii. To the extent an entity has in place a process to identify explicit prepayment penalty or
acceleration fees, these should be reported as investment income. (An entity shall
consistently apply their process. Once a process is in place, an entity is required to maintain
a process to identify prepayment penalties for called bonds in which consideration received
is less than par.)

iv. After determining any explicit prepayment penalty or acceleration fees, the reporting entity
shall calculate the resulting realized gain as the difference between the remaining
consideration and the BACV, which shall be reported as realized capital gain, subject to
the authoritative literature in SSAP No. 7.

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – January 2020

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2 This guidance applies to situations in which consideration received is less than par but greater than the book adjusted carrying value (BACV).
Pursuant to the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest asset value. In the event
a bond has not been amortized to the lowest value prior to the call, or in cases of an accepted tender bond offer (BACV is greater than the
consideration received), the entire difference between consideration received and the BACV shall be reported to investment income.
Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 26R—Bonds, to clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a call or a tender offer, shall be similarly applied. The current guidance refers to “prepayment penalties or acceleration fees in the event the bond is liquidated prior to its schedule termination date,” and includes all dynamics in which an issuer provides a penalty/fee to the holder to terminate the bond. This item has a comment period deadline ending May 29, 2020.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 26R—Bonds, as illustrated below, to clarify that the accounting and reporting of investment income and capital gain/loss, due to early liquidation either through a call or a tender offer, shall be similarly applied. Additionally, an effective date of Jan 1, 2021 was permitted, however is only applicable to reporting entities in which had historically applied differing accounting methodology and require systems changes in order to capture tendered bonds in scope of this guidance.

SSAP No. 26R – Adopted Updates

16. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

17. The amount of prepayment penalty and/or acceleration fees to be reported as investment income or loss shall be calculated as follows:

   a. For called or tendered bonds in which the total proceeds (consideration) received exceeds par:
      i. The amount of investment income reported is equal to the consideration received less the par value of the investment; and
      ii. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses, subject to the authoritative literature in SSAP No. 7.

   b. For called or tendered bonds in which the consideration received is less than par:
      v. To the extent an entity has in place a process to identify explicit prepayment penalty or acceleration fees, these should be reported as investment income. (An entity shall consistently apply their process. Once a process is in place, an entity is required to maintain a process to identify prepayment penalties for called bonds in which consideration received is less than par.)
      vi. After determining any explicit prepayment penalty or acceleration fees, the reporting entity shall calculate the resulting realized gain as the difference between the remaining consideration and the BACV, which shall be reported as realized capital gain, subject to the authoritative literature in SSAP No. 7.

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3 This guidance applies to situations in which consideration received is less than par but greater than the book adjusted carrying value (BACV). Pursuant to the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest asset value. In the event a bond has not been amortized to the lowest value prior to the call, or in cases of an accepted tender bond offer (BACV is greater than the consideration received), the entire difference between consideration received and the BACV shall be reported to investment income.
Effective Date and Transition (New Paragraph)

37. On July 30, 2020, nonsubstantive revisions were adopted to clarify existing guidance that all prepayment penalty and acceleration fees for when a bond is liquidated prior to its scheduled maturity date, including those from tendered bonds, shall follow the guidance in SSAP No. 26R. Reporting entities that have historically applied this guidance shall not change historical practices, but an effective date of January 1, 2021, with early application permitted, is allowed for reporting entities to make systems changes to capture tendered bonds in scope of this guidance.
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

**Issue:** Enhanced Goodwill Disclosures

**Check (applicable entity):**

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**Description of Issue:** This agenda item was drafted to request additional goodwill information and to clarify reporting on Schedule D, Part 6, Section 1 – Valuation of Shares of Subsidiary, Controlled and Affiliated Companies.

1) With the adoption of agenda item 2017-18: Goodwill Limitations in SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, the information reported regarding goodwill, as provided in Annual Statement Footnote 3 – Business Combinations and Goodwill, has improved. This agenda item proposes additional disclosures to enhance the reporting of an SCA’s book adjusted carrying value (BACV). As goodwill is a significant component of many SCAs’ BACV, this agenda item will assist in facilitating review and disclosure of each balance.

2) During a review of SCA Sub 2 filings, it is noted that many companies do not calculate the amortization of goodwill correctly, which sometimes overstates the value of the SCA. Many companies also do not provide additional information to verify beginning goodwill and purchase price; as such NAIC staff rely on a review of Footnote 3 for these details. If the goodwill amount is not verifiable, it is not be allowed to be admitted as part of the SCA’s value.

3) The goodwill limitation of 10% of the insurance reporting entity’s goodwill-capital and surplus is a calculation that all reporting entities who have goodwill must perform. While the admitted result is in the Annual Statement, the details of the calculation are not easily identifiable. This agenda item proposes the addition of a disclosure to capture the admissibility information, to ensure transparency in the admission of goodwill.

Additionally, feedback is requested in terms of the proposed edits to Schedule D – Part 6 – Sections 1 and 2. As detailed in the proposal below, two column headings and related Blanks instruction refer to “Intangible Assets,” however NAIC staff believe the original intent of these disclosures were to capture goodwill. FASB defines intangible assets as assets (not including financial assets) that lack physical substance and refer to assets other than goodwill. Feedback is requested from regulators and interested parties regarding what has historically been included in this disclosure and if changing the definition to articulate goodwill is warranted. Upon a sampled review by NAIC staff, it appears as though goodwill is the sole number currently being reported in these applicable columns.

**Existing Authoritative Literature:**

Goodwill calculation and admittance limitations are detailed in SSAP No. 68—Business Combinations and Goodwill. Relevant areas in relation to this agenda item have been bolded for emphasis.
Statutory Purchases of SCA Investments

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition. Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date.

4. For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii or 8.b.iv. of SSAP No. 97, and joint venture, partnership or limited liability company entities accounted for in accordance with paragraph 8 of SSAP No. 48, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity’s share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity’s share of the book value, positive goodwill exists. When the cost of the acquired entity is less than the reporting entity’s share of the book value, negative goodwill exists. Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.

5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity’s share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer’s share of the statutory book value of the acquired entity.

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

7. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

8. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown in the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted.

---

1 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

2 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 21 of SSAP No. 97.
accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction. (INT 01-18)

Disclosures:

15. For business combinations accounted for under the statutory purchase method, the financial statements shall disclose the following for as long as unamortized goodwill is reported as a component of the investment:

   a. The name and brief description of the acquired entity;
   b. Method of accounting, that is the statutory purchase method;
   c. Acquisition date, cost of the acquired entity and the original amount of admitted goodwill; and
   d. The amount of amortization of goodwill recorded for the period; the admitted goodwill as of the reporting date, and admitted goodwill as a percentage of the SCA’s book adjusted carrying value (gross of admitted goodwill).

16. For business combinations taking the form of a statutory merger, the financial statements shall disclose:

   a. The names and brief description of the combined entities;
   b. Method of accounting, that is the statutory merger method;
   c. Description of the shares of stock issued or cancelled in the transaction;
   d. Details of the results of operations of the previously separate entities for the period before the combination is consummated that are included in the current combined net income, including revenue, net income, and other changes in surplus; and
   e. A description of any adjustments recorded directly to surplus for any entity that previously did not prepare statutory statements.

17. The financial statements shall disclose the following information regarding goodwill resulting from assumption reinsurance:

   a. The name of the ceding entity;
   b. The type of business assumed;
   c. The cost of the acquired business and the amount of goodwill; and
   d. The amount of amortization of goodwill recorded for the period.

18. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

   a. A description of the impaired assets and the facts and circumstances leading to the impairment; and
   b. The amount of the impairment charged to realized capital gains and losses and how fair value was determined.
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 March 2018, the Working Group adopted agenda item 2017-18: Goodwill Limitations in SSAP Nos. 68 and 97, requiring additional goodwill disclosures in Footnote 3 – Business Combinations and Goodwill (shown below).

Additional goodwill items under consideration by the Working Group relate to the currently exposed, agenda items:

1) Agenda item 2019-14: Attribution of Goodwill. This agenda item proposes the expansion of statutory guidance regarding the attribution of purchase price and goodwill from an acquisition and to add explicit language regarding the accounting treatment for situations in which an insurance company acquires a holding company that owns multiple companies.

2) Agenda item 2019-17: Pushdown Accounting. This agenda item reviewed the guidance in ASU 2014-17, Business Combinations – Pushdown Accounting and its applicability for statutory accounting. Three options were suggested for consideration which included complete rejection, allowance of pushdown for non-insurance entities, or allowance of pushdown only if previously elected (for SEC Registrants).

Also, in December 2019, the Working Group adopted an edit to SSAP No. 68—Business Combinations and Goodwill to clarify that all goodwill from an insurance entity’s acquisition of SCAs, regardless of whether pushdown accounting is applied, is subject to the existing 10% admittance limitation.

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 this agenda item with nonsubstantive revisions to SSAP No. 68—Business Combinations and Goodwill, as detailed below, to add additional goodwill disclosures. The proposed disclosures will improve the validity and accuracy of numbers currently being reported and will assist with the regulators’ review of reported assets not readily available for the payment of policyholder claims.

Proposed additional disclosures in SSAP No. 68—Business Combinations and Goodwill:

Disclosures
19. For business combinations accounted for under the statutory purchase method, the financial statements shall disclose the following for as long as unamortized goodwill is reported as a component of the investment:

a. The name and brief description of the acquired entity;

b. Method of accounting, that is the statutory purchase method;

c. Acquisition date, cost of the acquired entity, the original amount of goodwill and the original amount of admitted goodwill; and

d. Each SCA’s book value, the amount of amortization of goodwill recorded for the period; the SCA’s admitted goodwill as of the reporting date;

e. Total admitted goodwill as of the reporting date; and
Admitted goodwill as a percentage of the SCA’s book adjusted carrying value (gross of admitted goodwill).

20. For business combinations taking the form of a statutory merger, the financial statements shall disclose:
   a. The names and brief description of the combined entities;
   b. Method of accounting, that is the statutory merger method;
   c. Description of the shares of stock issued or cancelled in the transaction;
   d. Details of the results of operations of the previously separate entities for the period before the combination is consummated that are included in the current combined net income, including revenue, net income, and other changes in surplus; and
   e. A description of any adjustments recorded directly to surplus for any entity that previously did not prepare statutory statements.

21. The financial statements shall disclose the following information regarding goodwill resulting from assumption reinsurance:
   a. The name of the ceding entity;
   b. The type of business assumed;
   c. The cost of the acquired business and the amount of goodwill; and
   d. The amount of amortization of goodwill recorded for the period.

22. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:
   a. A description of the impaired assets and the facts and circumstances leading to the impairment; and
   b. The amount of the impairment charged to realized capital gains and losses and how fair value was determined.

23. A reporting shall disclose the subcomponents and calculation of adjusted surplus and total admitted goodwill as a percentage of adjusted surplus:

**Proposed Blank updates related to SSAP No. 68 include the following:**

**Footnote 3 (A) Illustration:**

<table>
<thead>
<tr>
<th>Purchased Entity</th>
<th>Acquisition Date</th>
<th>Cost of Acquired Entity</th>
<th>Original Amount of Goodwill</th>
<th>Original Amount of Admitted Goodwill</th>
<th>Admitted Goodwill as of the Reporting Date</th>
<th>Amount of Goodwill Amortized During the Reporting Period</th>
<th>Book Value of SCA</th>
<th>Admitted Goodwill as a % of SCA BACV, Gross of Admitted Goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ Insurance Company</td>
<td>6/30/__</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>XXX</td>
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<td>XXX</td>
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<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

© 2020 National Association of Insurance Commissioners 5
New Footnote, proposed to be numbered 3(E):

<table>
<thead>
<tr>
<th>Calculation of Limitation using Prior Quarter Numbers</th>
<th>Current reporting period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital &amp; Surplus</td>
<td>XXX.</td>
</tr>
<tr>
<td>Less Admitted Positive Goodwill</td>
<td>&lt;XXX.&gt;</td>
</tr>
<tr>
<td>Less Admitted EDP Equipment &amp; Operating System Software</td>
<td>&lt;XXX.&gt;</td>
</tr>
<tr>
<td>Less Admitted Net Deferred Taxes</td>
<td>&lt;XXX.&gt;</td>
</tr>
<tr>
<td>Adjusted Capital and Surplus</td>
<td>XXX.</td>
</tr>
</tbody>
</table>

Limitation on amount of goodwill (adjusted capital and surplus times 10%)

Current period reported Admitted Goodwill

Current Period Admitted Goodwill as a % of prior period Adjusted Capital and Surplus %

In addition to the above, changes are proposed for the following schedules which detail the Valuation of Shares of Subsidiary, Controlled of Affiliated Companies. As previously addressed, column clarifications regarding the reporting of Goodwill as opposed to Intangible Assets (as currently indicated).

Schedule D – Part 6 – Section 1 (Original) – Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

<table>
<thead>
<tr>
<th>1 CUSIP Identification</th>
<th>2 Description Name Of Subsidiary, Controlled or Affiliated Company</th>
<th>3 Foreign</th>
<th>4 NAIC Company Code</th>
<th>5 ID Number</th>
<th>6 NAIC Valuation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Do Insurer's Assets Include Intangible Assets Connected with Holding of Such Company's Stock?</td>
<td>8 Total Amount of Such Intangible Assets</td>
<td>9 Book / Adjusted Carrying Value</td>
<td>10 Nonadmitted Amount</td>
<td>Stock of Such Company Owned by Insurer on Statement Date</td>
<td></td>
</tr>
<tr>
<td>11 Number of Shares</td>
<td>12 % of Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note 1 in Schedule D-Part 6-Section 1 (below), is proposed for removal due to the addition of footnote 3 (D). It is anticipated that if adopted as exposed, both changed would occur simultaneously.

1. Amount of insurer’s capital and surplus from the prior period’s statutory statement reduced by any admitted EDP, goodwill and net deferred tax assets included therein: $....................................
2. Total amount of intangible assets goodwill nonadmitted $ ...................................................................................

For brevity, only instructions for affected columns have been included. Remaining paragraph numbers will be renumbered accordingly.

Column 7  Do Insurer’s Assets Include Intangible Assets Connected with Holding of Such Company’s Stock?

State whether the assets shown by the reporting entity in this statement include, through the carrying value of stock of the SCA company valued under the SSAP No. 97—Subsidiary, Controlled and Affiliated Entities, intangible assets arising out of the purchase of such stock by the reporting entity or the purchase by the SCA Company of the stock of a lower-tier company controlled by the SCA Company. For purposes of this question, intangible assets at purchase shall be defined as the excess of the purchase price over the tangible net worth (total assets less intangible assets and total liabilities) represented by such shares as recorded, immediately prior to the date of purchase, on the books of the company whose stock was purchased.

Column 8  Total Amount of Such Intangible Assets Goodwill

If the answer in Column 7 is “Yes,” give Report the total amount of intangible goodwill assets involved whether admitted or nonadmitted. The intangible assets shown for the SCA Company should include any intangible assets that are included in the SCA Company’s carrying value of the stock of one or more lower-tier companies controlled by the SCA Company. In all cases, the goodwill current intangible assets equals the goodwill calculated intangible assets at purchase, as defined above in SSAP No. 68—Business Combinations and Goodwill, minus any
impairments/write-off thereof between the date of purchase and the statement date. If any portion of the total amount of intangible assets/goodwill is required to be nonadmitted for all SCA companies combined in accordance with SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities and SSAP No. 68—Business Combinations and Goodwill state the total amount nonadmitted in the footnote at the bottom of the this section of the schedule.

Schedule D – Part 6 – Section 2 – Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSIP Identification</td>
<td>Name of Lower-Tier Company</td>
<td>Name of Company Listed in Section 1 Which Controls Lower-Tier Company</td>
<td>Total Amount of Intangible Assets Goodwill Included in Amounts Shown in Column 8, Section 1</td>
<td>Stock in Lower-Tier Company Owned Indirectly by Insurer on Statement Date</td>
<td>Number of Shares</td>
</tr>
</tbody>
</table>

For brevity, only instructions for affected columns have been included.

Column 4 – Total Amount of Intangible Assets Goodwill Included in Amount Shown in Column 8, Section 1

As explained in the instructions for Section 1, this amount is based on the intangible assets/goodwill purchase of the stock of the lower-tier company, reduced by any subsequent impairment/write-off. The reporting entity also bases the amount shown on the proportionate ownership of the lower-tier company.

Staff Review Completed by: Jim Pinegar & Fatima Sediqzad, NAIC Staff – January 2020

Status:
On March 18, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 68—Business Combinations and Goodwill, as illustrated above, to add additional goodwill disclosures. The proposed disclosures will improve the validity and accuracy of numbers currently being reported and will assist with the regulators’ review of reported assets not readily available for the payment of policyholder claims. Revisions to Schedule D, Part 6, Section 1 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies and Schedule D, Part 6, Section 2 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies primarily focus on the current reference to intangible assets. This item has a comment period deadline ending May 29, 2020.

On July 30, 2020, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to SSAP No. 68—Business Combinations and Goodwill, as illustrated below, adding goodwill disclosures that will improve the validity and accuracy of intangible assets currently being reported in the financial statements. This disclosure will be effective for the year-end 2021 financial statements.
Adopted disclosures in SSAP No. 68—Business Combinations and Goodwill:

Disclosures

15. For business combinations accounted for under the statutory purchase method, the financial statements shall disclose the following for as long as unamortized goodwill is reported as a component of the investment:

a. The name and brief description of the acquired entity;

b. Method of accounting, that is the statutory purchase method;

c. Acquisition date, cost of the acquired entity, the original amount of goodwill and the original amount of admitted goodwill; and
d. Each SCA’s book value, the amount of amortization of goodwill recorded for the period; the SCA’s admitted goodwill as of the reporting date;

e. Total admitted goodwill as of the reporting date; and

d. f. and e. Admitted goodwill as a percentage of the SCA’s book adjusted carrying value (gross of admitted goodwill).

16. For business combinations taking the form of a statutory merger, the financial statements shall disclose:

f. The names and brief description of the combined entities;

g. Method of accounting, that is the statutory merger method;

h. Description of the shares of stock issued or cancelled in the transaction;

i. Details of the results of operations of the previously separate entities for the period before the combination is consummated that are included in the current combined net income, including revenue, net income, and other changes in surplus; and

j. A description of any adjustments recorded directly to surplus for any entity that previously did not prepare statutory statements.

17. The financial statements shall disclose the following information regarding goodwill resulting from assumption reinsurance:

e. The name of the ceding entity;

f. The type of business assumed;

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18. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

a. A description of the impaired assets and the facts and circumstances leading to the impairment; and

b. The amount of the impairment charged to realized capital gains and losses and how fair value was determined.
19. A reporting shall disclose the subcomponents and calculation of adjusted surplus and total admitted goodwill as a percentage of adjusted surplus:

Effective Date and Transition

22. This statement is effective for years beginning January 1, 2001. The provisions of this statement shall be applied to all business combinations entered into on or after January 1, 2001. Goodwill that had been written off prior to the effective date of this statement is prohibited from being restored for purposes of applying the provisions of this statement. The guidance in paragraphs 4-6 was previously included within SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities and was effective for reporting periods ending on and after December 31, 2007. In 2011, the guidance related to goodwill included in SSAP No. 97 was incorporated into this statement. The original guidance included in this standard, and the substantive revisions reflected in SSAP No. 97 are retained for historical purposes within Issue Paper No. 118. Guidance reflected in paragraph 1, incorporated from INT 03-16: Contribution of Stock, was effective December 7, 2003. Guidance reflected in paragraph 3 incorporated from INT 99-10: EITF No. 97-8: Accounting for Contingent Consideration Issued in a Purchase Business Combination was effective June 7, 1999. Disclosure modifications adopted in July 2020, reflected in agenda item 2020-03, are effective for the year-end 2021 financial statements.

Proposed Blank updates related to SSAP No. 68 include the following:

Footnote 3 (A) Illustration:

<table>
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<th>Purchased Entity</th>
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<td></td>
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In addition to the above, changes are proposed for the following schedules which detail the Valuation of Shares of Subsidiary, Controlled of Affiliated Companies. As previously addressed, column clarifications regarding the reporting of Goodwill as opposed to Intangible Assets (as currently indicated).

Schedule D – Part 6 – Section 1 (Original) – Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

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<th>NAIC Valuation Method</th>
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<tbody>
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<td>7</td>
<td>Do Insurer's Assets Include Intangible Assets Connected with Holding of Such Company's Stock?</td>
<td>8</td>
<td>Total Amount of Such Intangible Assets</td>
<td>9</td>
<td>Book / Adjusted Carrying Value</td>
<td>10</td>
<td>Nonadmitted Amount</td>
<td>Stock of Such Company Owned by Insurer on Statement Date</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11 Number of Shares</td>
<td>12 % of Outstanding</td>
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<td></td>
</tr>
</tbody>
</table>

Schedule D – Part 6 – Section 1 (Proposed Tracked Changes) – Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

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<th>Book / Adjusted Carrying Value</th>
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<tbody>
<tr>
<td>7</td>
<td>Do Insurer's Assets Include Intangible Assets Connected with Holding of Such Company's Stock?</td>
<td>8</td>
<td>Total Amount of Goodwill included in Book / Adjusted Carrying Value Such Intangible Assets</td>
<td>9</td>
<td>Book / Adjusted Carrying Value</td>
<td>10</td>
<td>Nonadmitted Amount</td>
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</tr>
</tbody>
</table>

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Note 1 in Schedule D-Part 6-Section 1 (below), is proposed for removal due to the addition of footnote 3 (D). It is anticipated that if adopted as exposed, both changed would occur simultaneously.

1. Amount of insurer’s capital and surplus from the prior period’s statutory statement reduced by any admitted EDP, goodwill and net deferred tax assets included therein: $ ....................................

12. Total amount of intangible assets, goodwill nonadmitted $ ...........................................................................................................

For brevity, only instructions for affected columns have been included. Remaining paragraph numbers will be renumbered accordingly.

Column 7  –  Do Insurer’s Assets Include Intangible Assets Connected with Holding of Such Company’s Stock?

State whether the assets shown by the reporting entity in this statement include, through the carrying value of stock of the SCA company valued under the SSAP No. 97—Subsidiary, Controlled and Affiliated Entities, intangible assets arising out of the purchase of such stock by the reporting entity or the purchase by the SCA Company of the stock of a lower-tier company controlled by the SCA Company. For purposes of this question, intangible assets at purchase shall be defined as the excess of the purchase price over the tangible net worth (total assets less intangible assets and total liabilities) represented by such shares as recorded, immediately prior to the date of purchase, on the books of the company whose stock was purchased.

Column 8  –  Total Amount of Such Intangible Assets, Goodwill

If the answer in Column 7 is “Yes,” give Report the total amount of intangible, goodwill, assets involved whether admitted or nonadmitted. The intangible assets shown for the SCA Company should include any intangible assets that are included in the SCA Company’s carrying value of the stock of one or more lower-tier companies controlled by the SCA Company. In all cases, the goodwill, current intangible assets equals the goodwill, calculated intangible assets at purchase, as defined above in SSAP No. 68—Business Combinations and Goodwill, minus any impairments/write-off thereof between the date of purchase and the statement date. If any portion of the total amount of intangible assets, goodwill is required to be nonadmitted for all SCA companies combined in accordance with SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities and SSAP No. 68—Business Combinations and Goodwill state the total amount nonadmitted in the footnote at the bottom of the this section of the schedule.

Schedule D – Part 6 – Section 2 – Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

| 1 | CUSIP Identification | 2 | Name of Lower-Tier Company | 3 | Name of Company Listed in Section 1 Which Controls Lower-Tier Company | 4 | Total Amount of Intangible Assets, Goodwill Included in Amounts Shown in Column 8, Section 1 | Stock in Lower-Tier Company Owned Indirectly by Insurer on Statement Date |
|---|---|---|---|---|---|---|---|
| 5 | Number of Shares | 6 | % of Outstanding |
For brevity, only instructions for affected columns have been included.

Column 4 – Total Amount of Intangible Assets Goodwill Included in Amount Shown in Column 8, Section 1

As explained in the instructions for Section 1, this amount is based on the intangible assets at goodwill purchase of the stock of the lower-tier company, reduced by any subsequent impairment/write-off. The reporting entity also bases the amount shown on the proportionate ownership of the lower-tier company.
Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-09: Basis Swaps as a Result of the LIBOR Transition

INT 20-09 Dates Discussed

Email Vote to Expose July 15, 2020; July 30, 2020

INT 20-09 References

Current:
SSAP No. 86—Derivatives

INT 20-09 Issue

1. This interpretation is to provide statutory accounting and reporting guidance for “basis swaps.” Basis swaps within the scope of this interpretation are defined as compulsory derivatives issued by Central Clearing Parties (CCP), for certain cleared derivatives, issued solely in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR) and toward the Secured Overnight Financing Rate (SOFR).

2. SOFR is a broad measure of the cost of borrowing cash overnight, generally collateralized by Treasury Securities. It represents nearly a risk-free rate that is correlated with other money market rates and is fully transaction based (thus ensuring full transparency), by reflecting a broad measure of overnight U.S. Treasury repurchase transactions. In conjunction with the transition from LIBOR, many alternative reference rates, such as the Effective Federal Funds Rate (EFFR), an interest rate typically utilized by banks representing a charge for overnight loans, used to meet regulatory reserve requirements, are also being transitioned to SOFR. Accordingly, under the general topic referred to as “Reference Rate Reform,” contracts which reference or utilize LIBOR or EFFR, are anticipated to be modified to reference SOFR.

3. The Working Group previously adopted INT 20-01: Reference Rate Reform, which substantially adopted ASU 2020-04 – Reference Rate Reform and applies to all SSAPs with contracts within scope of ASU 2020-04. INT 20-01 allows for contract modifications, due to reference rate reform, to be accounted for as a continuation of the existing contract and thus not requiring remeasurement. Among other things, INT 20-01 allows for 1) certain hedging relationships to continue without requiring redesignation upon a change in certain critical terms (i.e. changing reference rates), and 2) changes in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship. INT 20-01 recognized that many of these contracts, as part of the discontinuance of LIBOR, will transition to SOFR, an industry recognized preferred benchmark rate.

4. CCPs will make a similar transition, converting open derivative end-of-day valuation calculations from EFFR to SOFR. This transition will occur in two steps, both of which are anticipated to occur on October 16. First, the CCPs will conduct a standard end-of-day valuation cycle based on EFFR. Then, the CCP will conduct a special valuation cycle on those same positions, however utilizing SOFR as the new, ongoing discounting rate. Based on the differences between EFFR and SOFR, the CCP will issue cash adjustments to each account to offset the value adjustments arising from the change in discount rates and additionally will issue mandatory EFFR/SOFR basis swaps, thus restoring the account holder’s original risk profile.

5. SSAP No. 86—Derivatives addresses the recognition and measurement of derivatives used for hedging, income generation, and replication transactions. Additionally, guidance is provided for derivatives not utilized for one of these broad categories (known as “other derivatives”). Derivatives that are classified as “other derivatives” are nonadmitted under SSAP No. 86, whereas derivatives in the other categories are admitted provided they conform to the requirements of the statement.
6. The accounting issues are:
   a. Issue 1: How should EFFR/SOFR basis swaps be classified and reported in the statutory financial statements?
   b. Issue 2: How should EFFR/SOFR basis swaps be valued in the statutory financial statements?

**INT 20-09 Discussion**

7. For Issue 1, the Working Group reached a consensus that mandatory basis swaps issued by CCPs, in response to reference rate reform, shall be classified as a derivative used for “hedging.” In collaboration with industry representatives, Working Group support staff has confirmed that a significant majority of the derivatives transacted through a CCP meet the definition of a hedging transaction. By using this “used for hedging” classification, instead of an “other derivative” classification, the basis swap derivative received will be admitted under SSAP No. 86.

8. For Issue 2, the Working Group reached a consensus that although the instrument shall be considered a hedging derivative, the instrument shall not be considered or reported as an “effective” hedging derivative (using the “hedge accounting” measurement approach permitted in SSAP No. 86), unless the instrument qualifies, with the required documentation, as a highly effective hedge under SSAP No. 86. Unless the effective hedge requirements are met, the instruments shall be reported on Schedule DB, utilizing the category of “Hedging Other.” Pursuant to the guidance in SSAP No. 86, if the basis swap derivative is not an effective hedge, the derivative shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting.)

**INT 20-09 Status**

8. No further discussion is planned.
MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group

FROM: Kevin Fry, Chair, Valuation of Securities (E) Task Force

Cc: Charles Therriault, Director, NAIC Securities Valuation Office
    Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)
    Julie Gann, Assistant Director, NAIC Financial Regulatory Services
    James Pinegar, Manager II, NAIC Financial Regulatory Services

DATE: May 29, 2020

RE: Referral to the Statutory Accounting Principles (E) Working Group Requesting Affirmation that Non-conforming Credit Tenant Loan (CTL) Transactions that Relied Upon Credit Ratings are included in SSAP No. 43R – Loan-Backed and Structured Securities and Have the Characteristics of a Bond if Assigned an NAIC Designation by the SVO Staff.

1. Summary – Early in 2019 the SVO became aware that certain insurance company filers were submitting through the Filing Exempt (FE) process credit tenant loan (CTL) transactions that contained variants or deviations from the Bond Lease Based and Credit Lease Based CTL legal and structural characteristics not otherwise contemplated or defined in the P&P Manual (Non-conforming CTLs) and transactions which were subsequently defined in the P&P Manual as ground lease financing (GLF) transactions. For example, several CTLs were submitted to the SVO which contained balloon payments of greater than 5% without residual value insurance or another acceptable mitigant. In another instance, a security was submitted for which the Credit Rating Provider (CRP) analysis explained that its rating relied on the “dark value” of the property to cover payment of principal on the notes. The P&P Manual requires all CTL structures to be submitted to the SVO for review so it can determine if they reflect bond characteristics and, if so, assign an NAIC Designation. The SVO considers GLF transactions, which were previously referred to the Working Group, to be distinct from CTL transactions and their related guidance in the P&P Manual. The SVO studied GLF transactions in detail and ultimately recommended new guidance for them to the Valuation of Securities (E) Task Force (the Task Force) which was adopted on Dec. 8, 2019. The SVO is now making a recommendation to the Task Force on addressing what they are calling Non-conforming CTL transactions that have been submitted through the Filing Exempt (FE) process in reliance on CRP ratings instead of being submitted to the SVO for review, and to prevent future incorrect filing procedures. To effect such changes, the SVO proposed P&P Manual amendments to the policy in Part One, “The Use of Credit Ratings of NRSROS In NAIC Processes,” and in Part Three, “Credit Tenant Loans.”

2. The Referral - The SVO staff recommendation to the Task Force includes additional guidance in the policy on the “The Use of Credit Ratings of NRSROS In NAIC Processes” clarifying that there should be no presumption of permanent eligibility to receive an NAIC Designation based upon an NAIC CRP rating. The policy currently states, “The sole NAIC objective in obtaining and using publicly available credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO.” Additionally, the policy clarifies that in its use of CRP ratings the NAIC is not, “endorsing the credit rating or analytical product of any CRP.” Therefore, nothing about the use of CRP ratings should be interpreted, as was seemingly the case with Non-conforming CTLs and certain other investments, that the Task Force has approved the use of CRP ratings for the determination of NAIC Designations or for any other purpose, other than conserving SVO staff resources. The new policy guidance further affirms the Task Force’s role in making all decisions on the use of CRP ratings.
and provides additional guidance to insurance company filers on what to do if they are uncertain about the filing procedure for a particular security or class of securities.

The SVO further recommends a “grandfathering” provision to permit an insurance company filer to file Non-conforming CTLs, which it owned prior to January 1, 2020 and which have CRP ratings, with the SVO for assessment and to authorize the SVO to use its own judgement in assessing eligibility for an NAIC Designation and, if appropriate, to assign an NAIC Designation which need not correspond to the CRP rating.

The Task Force is referring this memo and proposed amendment to the Statutory Accounting Principles (E) Working Group and requesting the Working Group affirm that they would consider these Non-conforming CTLs to have the characteristics of a bond if assigned an NAIC Designation by the SVO staff. Like the referral from earlier this year on GLFs, these Non-conforming Credit Tennant Loan (CTL) Transactions have historically been reported under the Accounting Practices & Procedures Manual’s SSAP No. 43R – Loan-Backed and Structured Securities under Paragraph 27, b as a type of CTL. The SVO staff recommends affirming that treatment only if the SVO staff can assign an NAIC Designation.

Attached is the memorandum and the exposed amendment prepared by the staff for this request. Please direct any questions to Charles Therriault of the SVO.

W:\National Meetings\2020\Summer\TF\App\SAP\Minutes\Att One-V_VOSTF to SAPWG - Non-conforming CTL.docx
MEMORANDUM

TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force
    Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
       Marc Perlman, Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Proposed Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office
     (P&P Manual) with Updated Instructions for Non-conforming Credit Tennant Loan (CTL) Transactions that
     Relied Upon Credit Ratings

DATE: April 30, 2020

1. **Summary** – Early in 2019 the SVO became aware that certain insurance company filers were submitting
    through the Filing Exempt (FE) process credit tenant loan (CTL) transactions that contained variants or deviations
    from the Bond Lease Based and Credit Lease Based CTL legal and structural characteristics not otherwise
    contemplated or defined in the P&P Manual (Non-conforming CTLs) and transactions which were subsequently
    defined in the P&P Manual as ground lease financing (GLF) transactions. For example, several CTLs were
    submitted to the SVO which contained balloon payments of greater than 5% without residual value insurance or
    another acceptable mitigant. In another instance, a security was submitted for which the Credit Rating Provider (CRP)
    analysis explained that its rating relied on the “dark value” of the property to cover payment of principal on the notes. The
    P&P Manual requires all CTL structures to be submitted to the SVO for review so it can determine if they reflect bond
    characteristics and, if so, assign an NAIC Designation. The SVO considered the GLF transactions to be distinct from
    CTL transactions and their related guidance in the P&P Manual. The SVO studied GLF transactions in detail and
    ultimately recommended new guidance for them to the Valuation of Securities (E) Task Force (the Task Force) which
    was adopted on December 8, 2019. Now we recommend addressing those Non-conforming CTL transactions that
    have been submitted through the Filing Exempt (FE) process in reliance on CRP ratings instead of being submitted to
    the SVO for review, and to prevent future incorrect filing procedures. To effect such changes, the SVO proposes P&P
    Manual amendments to the policy in Part One, “The Use of Credit Ratings of NRSROS In NAIC Processes,” and in
    Part Three, “Credit Tenant Loans.”

2. **Recommendation** – The SVO staff recommends that the Task Force include additional guidance in the
    policy on the “The Use of Credit Ratings of NRSROS In NAIC Processes” clarifying that there should be no
    presumption of permanent eligibility to receive an NAIC Designation based upon an NAIC CRP rating. The policy
    currently states, “The sole NAIC objective in obtaining and using publicly available credit ratings is to conserve
    limited regulatory resources; e.g., the resources of the SVO.” Additionally, the policy clarifies that in its use of CRP
    ratings the NAIC is not, “endorsing the credit rating or analytical product of any CRP.” Therefore, nothing about
    the use of CRP ratings should be interpreted, as was seemingly the case with Non-conforming CTLs and certain
    other investments, that the Task Force has approved the use of CRP ratings for the determination of NAIC
    Designations or for any other purpose, other than conserving SVO staff resources. The new policy guidance further
    affirms the Task Force’s role in making all decisions on the use of CRP ratings and provides additional guidance to
insurance company filers on what to do if they are uncertain about the filing procedure for a particular security or class of securities.

The SVO further recommends a “grandfathering” provision to permit an insurance company filer to file Non-conforming CTLs, which it owned prior to January 1, 2020 and which have CRP ratings, with the SVO for assessment and to authorize the SVO to use its own judgement in assessing eligibility for an NAIC Designation and, if appropriate, to assign an NAIC Designation which need not correspond to the CRP rating. The SVO also recommends referring this memo and proposed amendment to the Statutory Accounting Principles (E) Working Group and requesting the Working Group affirm that they would consider these Non-conforming CTLs to have the characteristics of a bond if assigned an NAIC Designation by the SVO staff.

3. Proposed Amendment – The following text in red shows the proposed revisions in Part One and Part Three.

PART ONE

POLICIES OF THE NAIC

THE USE OF CREDIT RATINGS OF NRSROs IN NAIC PROCESSES

NOTE: See “Policies Applicable to the Filing Exemption (FE) Process” below; “NAIC Policy on the Use of Credit Ratings of NRSROs” (especially “Definition – Credit Ratings Eligible for Translation to NAIC Designations”) in Part Two (the definition of “Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or that it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset); and “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” in Part Three.

Providing Credit Rating Services to the NAIC

57. The NAIC uses credit ratings for a number of regulatory purposes, including, to administer the filing exempt rule. Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services1 to the NAIC.

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1 Credit Rating Services is defined as: (a) electronic data feed transmissions of credit ratings assigned by the NRSRO with their corresponding CUSIP number and other pertinent security specific information in English, updated as frequently as provided to other customers; (b) other analytical services or products, in English, provided to other customers; and (c) access to the NRSRO’s rating analysts by SVO staff.
Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List

58. The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

59. In adopting or in implementing the procedure described in this section, the NAIC acts solely as a private consumer of publicly available credit ratings. The sole NAIC objective in obtaining and using publicly available credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO. The VOS/TF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of publicly available credit rating opinions.

60. The NAIC is not selecting, approving or certifying NRSROs or other rating organizations or distinguishing among them for any public or policy purpose whatsoever. Nor is the NAIC endorsing the credit rating or analytical product of any CRP or rating organization or distinguishing between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

No Waiver/Express Reservation of Authority

61. Nothing in this section should be interpreted or construed as a waiver of the authority of the VOS/TF, in its sole and absolute discretion, to modify or change, in any manner whatsoever, the NAIC Policy on the Use of Credit Ratings of NRSROs, including but not limited to:

- Directing the removal of one or more NRSROs from the NAIC Credit Rating Provider List (subject only to the adjustment of any existing contractual obligations);
- Directing the SVO to study any issue related to NRSRO operations in furtherance of state insurance regulatory policy;
- eliminating the NAIC Credit Rating Provider List; or
- Directing any other action or activity the VOS/TF may deem to be useful or necessary to the creation, maintenance or discharge of state-based regulatory policy.

No Presumption of Permanent Eligibility Based Upon a NAIC CRP Rating

62. Nothing in this Manual should be interpreted or construed as affirming that a security has been explicitly approved by the VOS/TF as being permanently eligible to receive an NAIC Designation solely because it was rated by an NAIC CRP. Investment Securities that have received NAIC Designations based on an Eligible NAIC CRP rating through the filing exempt process could, upon direction from the VOS/TF, become subject to SVO or SSG review or declared ineligible to be assigned an NAIC Designation.
63. Securities that meet the general legal and structural characteristics of any type of Investment Security described in this Manual should be presumed to be governed by the policies specific to that type of Investment Security, including Filing Exemption eligibility, or lack thereof. It is incumbent upon the insurer to seek clarification from the SVO when a classification or regulatory treatment of a security is in doubt. Additionally, the insurer or SVO Director may, together or independently, propose amendments to this Manual as they deem appropriate to further clarify the classification or regulatory treatment of Investment Securities identified in this Manual consistent with the Procedures to Amend This Manual.

64. Insurers or other parties wishing to know the probable regulatory treatment and eligibility of a security are encouraged to utilize the Regulatory Treatment Analysis Service – Emerging Investment Vehicle process in this Manual to initiate such a regulatory review and interpretation by the SVO or SSG.
Non-conforming Transactions

70. An insurer that acquired a CTL that contains a variant or deviation from the Bond Lease Based and Credit Lease Based CTL legal and structural characteristics not otherwise contemplated or defined herein (a “Non-conforming CTL”) prior to January 1, 2020, may file it with the SVO. Along with each Non-conforming CTL, the insurer shall submit for review an Audited Financial Statement of the lessee, Credit Lease Based CTL Evaluation Form (including the documents described in the Evaluation Form), a separate memorandum identifying and describing the variants or deviations which make the investment a Non-conforming CTL and all Eligible NAIC CRP Rating analyses of the transaction. Subsequent filings shall require the most recent Eligible NAIC CRP Rating analyses of the transaction, if available from the CRP, and the Audited Financial Statement of the lessee. Upon review of the submission, the SVO may assign an NAIC Designation if the risks posed by the Non-conforming CTL’s variants are, in the opinion of the SVO, adequately mitigated and the Non-conforming CTL would be consistent with an investment security that has characteristics of a bond.

The SVO has complete discretion to make the determination of whether the CTL has characteristics of a bond and the NAIC Designation, including rejecting the transaction as not reflecting bond characteristics, adjusting the NAIC Designation for the transaction downward and away from the Eligible NAIC CRP Rating as the SVO deems analytically appropriate, or requesting additional information the SVO deems necessary for its analysis. If the Non-conforming CTL transaction does not maintain an Eligible NAIC CRP Rating for subsequent filings, the SVO has complete discretion to determine if an NAIC Designation can continue to be assigned. Non-conforming CTL transactions acquired by the insurer after December 31, 2019, shall not be reported as a bond.
71. As directed by the No Presumption of Permanent Eligibility Based Upon a NAIC CRP Rating section of this Manual, the VOS/TF considers securities that generally meet the legal and structural characteristics of Bond Lease Based or Credit Lease Based CTLs, but which do not meet all the specified characteristics, to be CTLs, and therefore not eligible for Filing Exemption and otherwise ineligible for reporting as a bond on Schedule D, except as explained in the paragraph above.
MEMORANDUM

TO: Dale Bruggeman (OH)
Chair of the Statutory Accounting Principles (E) Working Group

FROM: Commissioner Scott A. White (VA)
Chair of the Financial Condition (E) Committee

DATE: June 12, 2020

RE: Referral Regarding Reporting of “Basis” Swaps

The Financial Condition (E) Committee recently received a request from the American Council of Life Insurers relative to the treatment of certain “basis swaps” under state law as a result of the transition away from the London Interbank Offered Rate (LIBOR)(See attached presentation which includes the request). The request recognized that insurance companies are required to abide by investment guidelines and legal and regulatory constraints established by the state insurance law where most state laws limit insurers’ derivative use to the explicit activities of hedging, replication, and income-generation activities. As discussed in the presentation, as part of a market-wide transition away from LIBOR and toward the Secured Overnight Financing Rate (SOFR), U.S. central clearing counterparties (CCPs) will shift their discounting rate from the Effective Federal Funds Rate (EFFR) to the SOFR using a one-time special valuation cycle. This is expected to occur later this year on Oct. 16. As part of this unique market event, the CCPs will revalue existing cleared swaps and issue basis swaps on a mandatory basis to all parties that clear swaps on the CCPs to restore a counterparty’s original risk profile. The issue is that these swaps may not fit into one of these categories of permissible derivatives under state insurance law and therefore may not be allowed.

On June 12, the Committee issued a memorandum to all commissioners, directors and superintendents to make them aware of the issue and more specifically to indicate the Committee’s support to issue state bulletins allowing insurers to hold such swaps as “permissible derivative investments” for up to one year. The Committee made this determination on the basis that insurers have no control over the distribution of such basis swaps to them, and recognizing that insurers may be disadvantaged if required to dispose of such basis swaps upon receipt.

The original request was that these swaps be treated specifically as effective hedges. However, the Committee did not make a determination on the type of permissible investment and while the Committee did not believe that such a determination was needed for most state laws, a determination will be needed for reporting in the statutory financial statements. The Committee requests the Working Group address that specific reporting issue. If you have any questions, please contact Dan Daveline (ddaveline@naic.org).
ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

The mission of the Accounting Practices and Procedures (E) Task Force is to identify, investigate and develop solutions to accounting problems with the ultimate goal of guiding insurers in properly accounting for various aspects of their operations; modify the Accounting Practices and Procedures Manual (AP&P Manual) to reflect changes necessitated by Task Force action; and study innovative insurer accounting practices that affect the ability of state insurance regulators to determine the true financial condition of insurers.

Ongoing Support of NAIC Programs, Products or Services

1. The Accounting Practices and Procedures (E) Task Force will:

2. The Blanks (E) Working Group will:
   A. Consider improvements and revisions to the various annual/quarterly statement blanks to:
      1. Conform these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers.
      2. Develop reporting formats for other entities subject to the jurisdiction of state insurance departments.
      3. Conform the various NAIC blanks and instructions to adopted NAIC policy.
      4. Oversee the development of additional reporting formats within the existing annual financial statements as needs are identified.
   B. Continue to monitor state filing checklists to maintain current filing requirements.
   C. Continue to monitor and improve the quality of financial data filed by insurance companies by recommending improved or additional language for the Annual Statement Instructions.
   D. Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Accounting Practices and Procedures (E) Task Force affecting annual financial statements and/or instructions.
   E. Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces.
   F. Coordinate with the Life Actuarial (A) Task Force to use any special reports developed and avoid duplication of reporting.
   G. Review requests for investment schedule blanks and instructions changes in connection with the work being performed by the Capital Adequacy (E) Task Force and its Investment Risk-Based Capital (E) Working Groups.
   H. Review changes requested by the Valuation of Securities (E) Task Force relating to its work on other invested assets reporting for technical consistency within the investment reporting schedules and instructions.
3. **The Statutory Accounting Principles (E) Working Group** will:

   A. Maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new generally accepted accounting principles (GAAP) pronouncements. Provide authoritative responses to questions of application and clarifications for existing statutory accounting principles. Report all actions and provide updates to the Accounting Practices and Procedures (E) Task Force.

   B. At the discretion of the Working Group chair, develop comments on exposed GAAP and International Financial Reporting Standards (IFRS) pronouncements affecting financial accounting and reporting. Any comments are subject to review and approval by the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee.

   C. Coordinate with the Life Actuarial (A) Task Force on changes to the Accounting Practices and Procedures Manual (AP&P Manual) related to the Valuation Manual VM-A, Requirements, and VM-C, Actuarial Guidelines, as well as other Valuation Manual requirements. This process will include the receipt of periodic reports on changes to the Valuation Manual on items that require coordination.

   D. Obtain, analyze and review information on permitted practices, prescribed practices or other accounting treatments suggesting that issues or trends occurring within the industry may compromise the consistency and uniformity of statutory accounting, including, but not limited to, activities conducted by insurers for which there is currently no statutory accounting guidance or where the states have prescribed statutory accounting that differs from the guidance issued by the NAIC. Use this information to consider possible changes to statutory accounting.

   E. Review and possibly modify Schedule F and any corresponding annual financial statement pages to determine how best to reflect the expected changes to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). Give due consideration to alternatives, including whether an allowance for doubtful accounts is appropriate. Complete by the 2020 Fall National Meeting.

NAIC Support Staff: Robin Marcotte
The Accounting Practices and Procedures (E) Task Force met via conference call July 22, 2020. The following Task Force members participated: Kent Sullivan, Chair, represented by Jamie Walker (TX); Trinidad Navarro, Vice Chair, represented by Rylynn Brown (DE); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Sheila Travis (AL); Alan McClain represented by Mel Hepes (AR); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by Kathy Belfi (CT); Karima M. Woods represented by N. Kevin Brown (DC); David Altmaier represented by Virginia Christy (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Nathan Faragher and Amber Re (ID); Stephen W. Robertson and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither (KY); James J. Donelon represented by Caroline Fletcher (LA); Gary Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Barbara Carey (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfrey represented by Matt Fischer (ND); Bruce R. Ramge represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Doug Bartlett (NH); Marlene Caride (NJ); Russell Toal (NM); Linda A. Lacewell represented by Robert Kasinow (NY); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Jessica K. Altman represented by Joe DiMenna (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. Deiter represented by Johanna Nickelson (SD); Hodgen Mainda represented by Trey Hancock (TN); Todd E. Kiser represented by Jake Gamm (UT); Scott A. White represented by Doug Stolte and David Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark Afable represented by Amy Malm (WI); James A. Dodrill represented by Jamie Taylor (WV); and Jeff Rude represented by Linda Johnson (WY).

1. Adopted Revisions to INT 20-08

Ms. Walker stated that on the July 1 conference call, the Financial Condition (E) Committee received and adopted the Accounting Practices and Procedures (E) Task Force report of interim adoptions of the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group, except for Interpretation (INT) 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends. She noted that INT 20-08 was returned to the Task Force with direction to revise the Interpretation in a way that is still supported by two-thirds of the Task Force members and with the request that the Task Force consider incorporating flexibility in reporting. She stated that during the July 1 call, the American Property Casualty Insurance Association (APCIA) and a few other reporting entities were seeking alternative treatment to allow underwriting expense treatment for reporting entities, which made either manual rate filing or policy endorsements that allow for voluntary payments to policyholders, in response to decreased activity for COVID-19. Ms. Walker said while the reporting entities seeking this treatment are in the minority, they wanted to be permitted to follow this reporting approach without having to seek a permitted practice in multiple states.

Robin Marcotte (NAIC) provided a summary of the prior votes regarding INT 20-08. She stated that on June 15, INT 20-08 was adopted by the Statutory Accounting Principles (E) Working Group with a two-thirds majority vote as required by the NAIC Policy Statement on Maintenance of Statutory Accounting Principles (Policy Statement) for interpretations that provide new guidance or provide temporary overrides to existing guidance. She noted that the Policy Statement requires a minimum number of Working Group members to be present and voting (67%) and a super-majority supporting adoption for these interpretations to be adopted. She stated the voting requirements are in place to permit immediate adoption and application of statutory accounting guidance, most often in response to catastrophes or other situations that require a quick response. She noted that on June 22, INT 20-08 was adopted by a two-thirds majority of the Task Force with 28 members voting in favor, nine members dissenting, and one member abstaining. She stated that per the Policy Statement, these interpretations can be adopted, overturned, amended or deferred only by a two-thirds majority of the Task Force membership (e.g., 28 out of 42 members).

Ms. Marcotte stated that NAIC staff has drafted tracked updates to the proposed INT 20-08 for Task Force review based on input from Task Force members from California, Connecticut, Texas and Virginia. She stated that these representatives are also members of the Statutory Accounting Principles (E) Working Group. She noted that the proposed NAIC redraft included the following key revisions:
Updated title as follows: INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends.

Voluntary premium payments are an adjustment to premium unless the reporting entity is applying the limited-time exception described in the INT 20-08 or they have a different prescribed or permitted practice issued by their state of domicile.

Limited-time exception to allow underwriting expense reporting is applicable only for property and casualty policies, which prior to June 15 filed manual rate filings or endorsements to allow for discretionary payments to policyholders due to COVID-19 related issues and disclosed the intent to apply expense treatment. This treatment does not require additional domestic regulator approval; however, if a domestic jurisdiction disapproved of this treatment, then the limited-time exception would not be permitted.

Requires disclosure of all COVID-19 related payments in Note 21A as unusual or infrequent items by category (e.g., refunds, rate reductions, policyholder dividends, etc.).

Requires disclosure of the application of the limited-time exception in the similar manner as a prescribed practice. This disclosure shall include the impact on operating ratios caused by use of the limited-time exception in Note 1.

Strengthens the previously noted guidance that premium taxation is determined in accordance with the laws and administrative rules of the applicable jurisdiction. INT 20-08 defers to each jurisdiction’s premium tax requirements for the purposes of determining taxable amounts.

INT 20-08 maintains the expiration date of Jan. 1, 2021.

Ms. Marcotte noted that there is a proposed edit to paragraph 24 for disclosures to ensure it includes all payments. She stated that the edit is to add the phrase “limited-time exception payments” in two places in the list of types of payments and to add quotes around the term “payments” in paragraph 24.b, as the disclosure includes payments and other methods, such as a lowered billing amount.

Ms. Belfi stated that the state insurance regulators who provided input to address the Financial Condition (E) Committee recommendations believe that the draft addresses the Committee’s direction to provide flexibility and preserves the statutory accounting standards. She noted that it addresses the perceived concern voiced by industry on prior calls that insurance groups with multiple domestic regulators may not all grant the same permitted practice for all members of the group. Ms. Belfi stated that while some of the state insurance regulators thought that the concern was unlikely, the limited-time exception addresses this possible issue. She stated that they continue to believe that the best disclosure of the limited-time exception is in annual statement footnote 1 as if it were a prescribed or permitted practice for a few different reasons. She stated that having premium reporting as the default and the limited-time exception disclosed fully allows state insurance regulators to demonstrate to federal and international regulators that we remain consistent in our core statutory accounting principles (SAPs). She noted that it also enables analysts to have information fully disclosed to identify the impacts on key ratios. She summarized that the redraft in the materials addresses the Financial Condition (E) Committee referral. Mr. Hudson stated that California supports the comments of Ms. Belfi and believes the redraft is a fair compromise.

Ms. Marcotte provided an overview of the comments received (Attachment Three-A). She noted that that prior to the public posting of the NAIC redraft of INT 20-08, the APCIA provided proposed draft revisions. She stated that the draft is very similar to a prior version discussed by the Working Group on May 20. She stated that instead of noting that underwriting expense treatment is an exception, the APCIA draft proposed to add a policyholder benefit issue as if underwriting expense treatment were always an option under Statement of Statutory Accounting Principles (SSAP) No. 70—Allocation of Expenses. She noted that the APCIA will provide its own comments, but her understanding is that the APCIA supports the current NAIC redraft.

Ms. Marcotte stated that Anthem Inc. and UnitedHealthcare (UHC) provided comments prior to the public posting of the NAIC discussion redraft of INT 20-08, noting support for premium accounting in the original interpretation. She stated that the comments recommend that the revised interpretation make clear that these refunds generally are a return of premium and the only exception to that treatment is for the circumstances described in the APCIA May 20 letter. She stated that the health industry letter noted that the exception should only be made as an accommodation to address concerns raised by state insurance regulators and members of the property and casualty industry. She stated that the letter noted that treating such refunds and credits to policyholders as a reduction in premium is clearly the proper answer from the standpoint of statutory accounting principles. She stated that the comments noted that it must be clear for purposes of the federal Affordable Care Act’s (ACA’s) medical loss ratio (MLR) rebate provisions that these payments are a reduction of premium to avoid a health insurer being forced to refund the same premium dollar twice; i.e., once through these discretionary refunds and again as an MLR rebate. She stated that a potential income tax concern was also provided.
Ms. Marcotte stated that America’s Health Insurance Plans (AHIP) and the Blue Cross Blue Shield Association (BCBSA) provided comments after the posting of the NAIC redraft of INT 20-08 expressing support for the NAIC redraft, including that the limited-time exception for underwriting expense reporting should only be applicable to property and casualty lines because such reporting is problematic for health products.

Phillip L. Carson (APCIA) stated agreement and support for the NAIC redraft of INT 20-08. He stated that default reporting in INT 20-08 as an adjustment to premium was the position that the APCIA originally supported. He stated that the APCIA also later asked for an exception that allows underwriting expense reporting and the redraft to provide the limited-time exception. He said the APCIA encourages the Task Force to adopt the revisions to provide certainty for second quarter financial reporting.

Joseph E. Zolecki (BCBSA), representing the BCBSA and AHIP, stated support for the collaborative and expeditious revisions that provide reporting consistency and limited-time flexibility. He noted that as summarized by NAIC staff, their letter supports premium adjustment as the default treatment, and the limited-time exception applies only to property and casualty lines of business. He noted that limiting to the property and casualty lines of business will prevent any misapplication of the guidance for health carriers in the determination of federal or state MLR calculations.

Jim Braue (UHC) stated that the UHC and Anthem Inc. comment letter was submitted before the redraft was available. He noted support for the redraft, as it addresses the issues raised in their letter, and premium treatment is the appropriate accounting. He stated that scoping the limited-time exception to property and casualty lines helps to avoid any potentially serious issues related to the MLR rebate for health carriers and income taxes for policyholders. He stated that they believe the redraft addresses the issues noted in their letter, and he stated support for the redraft.

Mr. Bruggeman stated support for the work of the state insurance regulators that came together to draft a unique approach to the very unique circumstance. He stated that the use of the permitted and prescribed practice disclosure, which are already in place for exceptions, allows data capture for users of the financial statements. He noted that the strengthening of language regarding premium taxes was also beneficial. He encouraged industry members to be consistent in naming the COVID-19 relief payments for ease of identification in the financial statements and the notes.

Mr. Kasinow asked a question regarding the limited-time exception language that requires the reporting entities to have communicated to state insurance regulators their intention to report their payments to policyholders as expenses. He asked if such a disclosure is required to be with the rate filings and policy endorsements or if it could be a disclosure at some point in the process. Ms. Marcotte replied that because of the variety of ways this was accomplished, the format and timing of the discussion was not specified because different entities accomplished this in different ways; therefore, this is left to the judgement of the state of domicile.

Ms. Belfi made a motion, seconded by Mr. Hudson, to adopt the revised consensus in INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends, as redrafted with the minor edit to the disclosure described by NAIC staff (See NAIC Proceedings – Summer 2020, Financial Condition (E) Committee, Attachment Seven). The motion passed with Michigan dissenting. The motion met the two-thirds membership required by the NAIC Policy Statement on Maintenance of Statutory Accounting Principles. The revised INT 20-08 is effective for second quarter 2020 reporting.

Ms. Marcotte noted that the revised INT 20-08 will be posted on the Statutory Accounting Principles (E) Working Group web page. She stated the next call of the Task Force will be Aug. 3, and the revised INT 20-08 will be included in the minutes reviewed by the Task Force as part of the virtual NAIC Summer National Meeting. She stated that the revised INT 20-08 will be reported to the Financial Condition (E) Committee on Aug. 11.

Ms. Walker noted the next call of the Task Force is Aug. 3, and attendees need to register for the virtual NAIC Summer National Meeting in order to attend.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
## Comment Letters Received for Items Exposed for the June 15, 2020 Conference Call

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Interpretation of the Statutory Accounting Principles Working Group

INT 20-08: COVID-19 Premium Refunds, Rate Reductions, Policyholder Benefit Payments and Policyholder Dividends

INT 20-08 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020; June 15, 2020

INT 20-08 References

SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets
SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items
SSAP No. 53—Property Casualty Contracts—Premiums
SSAP No. 54R—Individual and Group Accident and Health Contracts
SSAP No. 65—Property and Casualty Contracts
SSAP No. 66—Retrospectively Rated Contracts
SSAP No. 70- Allocation of Expenses

INT 20-08

Issue

COVID-19

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

Premium Refunds, Rate Reductions, Policyholder Benefits and Policyholder Dividends

2. The federal, state or local government orders requiring non-essential workers to “stay home” caused a significant reduction in commercial and non-commercial activity, including automotive usage. Some consumer groups wrote letters and issued press releases calling for insurance premium refunds or pricing decreases, which included specific comments directed toward consumer automotive lines. The comments presumed that the decrease in activity would result in fewer losses.

3. Recognizing the extraordinary economic hardship experienced by their policyholders, the reduction in auto accident frequency, and the resulting decline in economic activity, many insurers designed various programs to provide a portion of the favorable experience realized from reduced accident frequency to policyholders. The underlying objective of the programs were to provide temporary relief to customers during the period that various government-imposed “stay home” orders remained in effect. Those government orders resulted in a significant decline in general economic activity and a significant reduction in accident frequency below historic levels. The methods utilized to deliver temporary relief to policyholders include voluntary premium refunds, future rate reductions, policyholder benefit payments (in certain instances, based on manual rule filings or policy endorsements) or policyholder dividends. Most of the relief programs relate to automotive lines of business.
Insurers have provided the policyholder relief in a variety of ways, including direct relief payments for in-force policies, as well as relief programs designed as rate reductions to be applied to future policy renewals.

Voluntary

4. The majority of the relief programs are being offered voluntarily and are not amounts required under existing policy terms. The aggregate monetary amount of the relief programs is considered materially significant.

Jurisdiction Directed

5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on accident and health insurance and varying lines of property and casualty insurance, including but not limited to: private passenger automobile, commercial automobile, workers’ compensation, commercial multiple peril, commercial liability and medical professional liability. In addition, some jurisdictions have indicated support for refunds or rate reductions, but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues

6. The intent of this interpretation is to address the accounting and reporting for premium refunds, rate reductions, policyholder benefit payments and policyholder dividends attributable to COVID-19 impact on the private passenger and commercial auto insurance business. Due to the severity of the pandemic and the speed at which it emerged, different insurers designed and implemented policyholder relief programs that are fundamentally different, even if designed to achieve a similar objective. The intent of this guidance is to ensure that for accounting purposes, the programs are accounted for in accordance with their design and execution, and, separately, to provide policyholders and other stakeholders with information about the size and scope of the programs and the disclosures that should be required. This interpretation provides guidance on the following issues:

- Issue 1: How to account for refunds not required under the existing policy terms.
- Issue 2: How to account for refunds required under the existing policy terms.
- Issue 3: How to account for rate reductions on in-force and renewal business.
- Issue 4: How to account for policyholder benefit payments under modified policy terms.
- Issue 5: How to account for policyholder dividends.
- Issue 6: Where to disclose premium refunds, rate reductions, policyholder benefit payments and policyholder dividends related to COVID-19 decreases in activity.

INT 20-08 Discussion

7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible, consistent with the design and execution of the programs. Insurers that filed policy endorsements or manual rule filings and disclosed with the relevant states their intention to report their payments to policyholders as expenses, before adoption of the INT, should treat those payments in accordance with Issue 4 below, while disclosing those payments as required in Issue 6 of the INT.

Issue 1: How to Account for Refunds Not Required Under the Policy Terms
8. The Working Group reached a consensus that voluntary premium refunds because of decreased activity related to COVID-19 and jurisdiction-directed premium refunds that are not required by the policy terms shall be accounted for as immediate adjustments to premium. The premium refunds shall be recognized as a reduction to written or earned premium and the unearned premium reserve adjusted accordingly.

9. Premium refunds shall be recognized as a liability when the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets is met. For example, the declaration of a voluntary dividend by the board of directors will trigger liability recognition. In cases where the refunds are directed by a jurisdiction, the SSAP No. 5R definition of a liability shall be used to determine timing of liability recognition.

10. Immediate adjustment to premium is consistent with the existing guidance in SSAP No. 53—Property Casualty Contracts—Premiums. SSAP No. 53 guidance requires adjustments to the premium charged for changes in the level of exposure to insurance risk. It is also consistent with the treatment of loss sensitive premium adjustments in SSAP No. 66—Retrospectively Rated Contracts. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply.

11. Immediate adjustments to premium for voluntary accident and health premium refunds is also consistent with the guidance in SSAP No. 54R—Individual and Group Accident and Health Contracts on contracts subject to redetermination. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply. The liability for voluntary health premium refunds attributable to COVID-19 and which are not required under the policy terms shall be recognized in aggregate write-ins for other liabilities.

Issue 2: How to Account for Refunds Required Under the Policy Terms

12. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53, SSAP No. 54R or SSAP No. 66 continues to apply:

   a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers’ compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but unbilled (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.

   b. SSAP No. 54R provides guidance for policies subject to redetermination in which the premium is subject to adjustments by contract terms. This is commonly seen in federal and state groups. The guidance notes that estimates are based on experience to date and premium adjustments are estimated for the portion of the policy that has expired. Accrued return premiums are recorded as a liability with a corresponding entry to written premium. Refunds required under the policy terms would continue to be reported as retrospective or redetermination premium liabilities if applicable.

   c. SSAP No. 66 provides guidance for policies whose terms or legal formulas determine premium
based on losses. SSAP No. 66 references other applicable statements based on contract type for the initial accrual of premium. Estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium. SSAP No. 66 guidance specifies the corresponding annual statement reporting lines for different entity types.

**Issue 3: How to Account for Rate Reductions**

13. Some reporting entities are offering rate reductions instead of premium refunds. Some of these rate reductions provide one-time price decreases to future payments on in-force policies. Other reporting entities have provided offers of rate reductions on future renewals. Some of the offers for future rate reductions are only applicable to in-force policyholders as of a specified date. Some reporting entities have offered one-time rate reductions for future renewals for both existing and new policyholders for 2020.

   a. Rate reductions on in-force business shall be recognized as immediate adjustments to premium.

   b. Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. The renewal is outside of the policy boundary and cannot require accrual before contract inception. While the amount of a future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate; therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue No. 5.

**Issue 4: How to Account for Policyholder Benefit Payments Under Modified Policy Terms (e.g., Manual Rule Filings or Policy Endorsements)**

15. In an effort to expedite relief to policyholders, certain insurers filed manual rule filings or policy endorsements to modify the terms of their insurance contracts to allow for the payment of discretionary policy benefits. In these instances, policy endorsements or manual rule filings were determined to be the most efficient method to provide relief to policyholders.

16. The manual rule filings or policy endorsements in paragraph 14 allowed for discretionary benefit payments to policyholders that were not otherwise provided under the contract (e.g., the payment did not result from an indemnifiable loss or a premium adjustment based on changes in insurance risk attributable to a policy change or cancellation) and were stated to be in response to circumstances surrounding COVID-19. The manual rule filings or policy endorsement was utilized to expedite relief to policyholders. These insurers represented in their filings that they would treat these payments as expenses. The manual rule filings or policy endorsements would not impact written premium and, therefore, would not result in adjustments to agent commissions. In determining the appropriate accounting and presentation of discretionary policy benefit payments provided through the manual rule filings or policy endorsements, the following factors should be considered:

   a. Accounting for discretionary policy benefits paid in accordance with contract terms modified through a manual rule filing or endorsement authorizing payment to policyholders that are not directly related to a change in the level of insurance risk is not specifically addressed in existing statutory accounting literature.

   b. SSAP 70, *Allocation of Expenses*, does, however, state that allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit, as follows: loss adjustment expenses, investment expenses, other underwriting expenses. Other underwriting expense is defined as allocable expenses other than loss adjustment expenses and investment relate expenses.
c. Given the absence of existing definitive guidance, the need for insurers to expedite relief to policyholders, insurer representations in their state filings as to how these payments would be reported, and the fact that those filings were not disapproved by those states, it would be appropriate to allow those insurers to follow their conveyed relief programs and related accounting.

d. In those circumstances when an insurer modifies the terms of its insurance contracts to allow for discretionary payments that are not directly related to the level of insurance risk under the contract, the payments are not designed as a premium refund, and the insurer has represented in those manual rule filings or policy endorsements that the payment would be reported as an expense, the payment shall be accounted for as an “other underwriting expense”.

17. Policyholder payments shall be recognized as a liability when the definition of a liability in SSAP No. 5R – Liabilities, Contingencies and Impairments of Assets is met.

Issue 5: How to Account for Policyholder Dividends

18. SSAP No. 65—Property and Casualty Contracts, paragraph 46 requires that dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability.

19. The Working Group noted that policyholder dividends are typically only provided on participating policies or policies issued by non-stock companies, such as mutual entities and other corporate entity types in which profits are shared with policyholders.

20. Research during the development of this item identified that a small number of jurisdictions have legal restrictions which only allow policyholder dividends to be provided after the expiration of the policy period for which the dividend was earned. This interpretation only addresses policyholder dividends which are permitted by the applicable jurisdiction.

21. The property and casualty annual statement blank provides specific reporting lines for policyholder dividends including, but not limited to, a liability line and a line in the income statement and statement of cash flow. For those entities whose policies are participating or whose corporate shell type and/or membership structure allow for policyholder dividends, the accounting for policyholder dividends is unchanged by this interpretation.

22. This interpretation does not change the policyholder dividend disclosure or reporting, but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 6.

Issue 6: Where to Disclose Premium Refunds, Rate Reductions, Policyholder Benefit Payments and Policyholder Dividends Related to COVID-19 Decreases in Activity

23. There are various places in the notes to the statutory annual statement where disclosures of various aspects of premium refunds, premium reductions or policyholder dividends are required. This interpretation does not recommend changes to those existing disclosures. This interpretation does, however, recommend a consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

24. SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items requires disclosure of the nature and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. This disclosure is currently required to be reported in annual statement Note 21A. (Reporting entities shall maintain jurisdiction-specific
information to be made available upon request from the department of insurance or revenue regulators.)

25. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement Note 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For clarification, refunds required under the policy terms as discussed in paragraph 12, (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends. Policies, whose terms were modified after the declaration of emergency in response to COVID-19, are required to disclose the COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends.

INT 20-08 Consensus

26. The Working Group reached a consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:

   a. Reporting entities that provide voluntary or jurisdiction-directed premium refunds that are not required under the policy terms shall follow the guidance in paragraphs 8-11 of this interpretation. This guidance stipulates that such premium refunds shall be recognized as a reduction of premium.

   b. Reporting entities that provide premium refunds in accordance with insurance policy terms shall follow paragraph 13 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53, SSAP No. 54R or SSAP No. 66 shall be followed as applicable.

   c. Reporting entities that provide rate reductions shall follow paragraph 14 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

   d. Reporting entities that provide for the payment of discretionary policy benefits through a manual rule filing or policy endorsement that authorizes payments to policyholders not otherwise provided under the contract (e.g., not a payment resulting from an indemnifiable loss or a return of premium based on changes in insurance risk related to the policy or not related to a policy change or cancellation) and that disclosed in those filings that they intended to report those payments as expense shall account for the payments in accordance with the guidance in paragraphs 15 – 17. This INT addresses and is limited to the accounting for the particular circumstances when policyholder payments, as specified in modified policy terms, are related to conditions resulting from COVID-19 for manual rule filings or policy endorsements filed in response to COVID-19 activity.

   e. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends, which is summarized in paragraphs 18-22 and in addition, shall complete the disclosures described in paragraphs 23-25.

   f. Paragraphs 23-25 of this interpretation indicate that reporting entities shall continue to comply with all statutory accounting disclosure requirements, and also require that all premium refunds, rate
reductions, policyholder benefit payments and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A as unusual or infrequent items.

g. Any related transactions that do not follow the fact patterns described in paragraph 26a through 26e should be considered a permitted or prescribed practice pursuant to SSAP No. 1.

27. The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

28. This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

INT 20-08 Status

29. Further discussion is planned.
July 7, 2020

Commissioner Kent Sullivan, Chair
Accounting Practices and Procedures (E) Task Force
National Association of Insurance Commissioners

Via electronic mail to Robin Marcotte

Dear Commissioner Sullivan:

We submit these comments on behalf of the undersigned companies, who together provide insurance and health care coverage for millions of Americans, regarding the accounting treatment for refunds of premium to policyholders that are made in response to the COVID-19 pandemic.

Over the last several months, the emergence of the COVID-19 virus has caused well-documented challenges to people, businesses and institutions across national and global health care systems. Among them is the disruption to traditional patterns of delivering health care causing related economic disruption and imbalances to the nation’s health care coverage systems. In response to this challenge, the undersigned companies have taken a variety of actions to provide financial relief to our members. Once such action is the issuance of premium refunds, including voluntary refunds not outlined in the policy terms. It is the accounting for such programs of refunds or credits that is the subject of this letter.

As you are aware, we supported the accounting treatment proposed in INT 20-08T, as adopted by the Statutory Accounting Principles Working Group on June 15 and by the Accounting Practices and Procedures Task Force on June 22. The Financial Condition Committee has now asked you to reconsider that accounting guidance, in particular to allow more flexibility with regard to non-premium treatment. We strongly urge that any such “flexibility” be limited to the exception proposed in the June 25, 2020 letter from the APCIA, namely:

Companies that filed policy endorsements or manual rate filings and disclosed with the relevant states their intention to report their payments to policyholders as expenses before adoption of the INT should treat those payments as other underwriting expenses, while disclosing those payments as required in Issue 5 of the INT. This treatment would apply to all payments made through the end of 2020.

We urge furthermore that the revised interpretation make clear that this exception is being made as an accommodation, to address concerns raised by regulators and members of the property and casualty industry. We are concerned that any ambiguity on this point could create confusion, and resultant adverse consequences, for both insurers and policyholders.

We believe that treating such refunds and credits to policyholders as a reduction in premium is clearly the proper answer from the standpoint of accounting principles. The payments are not being made as the result of an insured loss, and therefore are not claim payments. They are not being made to purchase goods or services, or to pay for the services of the insurer’s own employees, and therefore are not general expenses. They are not being made pursuant to some statutory authority on the part of policyholders to tax or assess insurers; therefore, they are not taxes, regulatory fees, or assessments. Neither should they be relegated to an undefined, write-in expense category. We are crediting these amounts to policyholders solely because those same policyholders paid premium to us in the first place, and therefore the payments should be related to premium. We recount this at length because we are troubled by the suggestions that appropriate accounting treatment for purposes of solvency regulation should somehow be overridden by concerns such as maximizing premium tax revenue or facilitating the payment of agents’ commissions. We believe...
that it is imperative first to determine the conceptually appropriate accounting treatment, and then to carve out only such limited exceptions as are deemed necessary to address other regulatory goals.

We wish to point out two issues that could arise from creating ambiguity about whether these payments to policyholders are genuinely returns of premium: one from the insurer’s point of view, the other from the policyholder’s. Insofar as the insurer is concerned, it must be clear for purposes of the Affordable Care Act’s Medical Loss Ratio (MLR) rebate provisions that these payments are a reduction of premium. Otherwise, an insurer may be forced to refund the same premium dollar twice, once through these discretionary refunds and again as an MLR rebate. Clearly, it would be an undesirable outcome from the standpoint of solvency regulation that an insurer should be forced to pay out twice a dollar that it had only received once. If the discretionary refund is accounted for as an administrative expense or miscellaneous write-in item rather than a reduction of premium, it would not be given the correct treatment in the MLR rebate calculation, and the undesirable double-payment could result. Even if the refund is initially accounted for as a reduction of premium, if that treatment is viewed as being at the discretion of the insurer, it could be challenged when the MLR calculation is audited by either state insurance regulators or the Centers for Medicare and Medicaid Services.

Even more of a concern may be the potential impact on policyholders, as regards their income taxation. It is well established that a return of premium is generally not taxable to the policyholder; at most, if the premium payment was a deductible expense for that policyholder, the policyholder would lose that deduction. If the NAIC takes the position that these refunds are not a return of premium, that could add confusion to the policyholders’ tax positions. In particular for individual policyholders, for whom the premium payments would typically not be a deductible expense in the first place, this would raise the issue of whether they now have taxable income for federal and/or state income tax purposes. Policyholders would be forced to seek tax advice, or to make a decision on their own as to whether and how to report income from the refund. It is also worth considering whether the payment would be considered income for other purposes; e.g., if an individual policyholder is eligible for some form of government financial assistance, could this payment be deemed income that would reduce or eliminate that eligibility? While we hope that the respective governmental authorities would in each case reach an appropriate conclusion on these issues, we feel that raising the issues in the first place by an ambiguous accounting treatment would create unnecessary uncertainty and burdens for policyholders.

Accordingly, we reiterate our recommendation: that the revised INT make clear that these refunds generally are a return of premium; and that the only exception to that treatment is for the circumstances described in the APCI A’s letter, as cited above.

We would be happy to discuss this matter with you further.

Sincerely,

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Cc: Dan Daveline, NAIC
Sherry Gillespie, UHC
July 17, 2020

Commissioner Kent Sullivan, Chair  
Accounting Practices and Procedures (E) Task Force  
c/o National Association of Insurance Commissioners

Via electronic mail to Robin Marcotte, NAIC Staff


Dear Commissioner Sullivan,

On behalf of America’s Health Insurance Plans (AHIP) and the Blue Cross Blue Shield Association (BCBSA), we thank you for the opportunity to provide comments regarding the accounting treatment for refunds of premium to policyholders that are made in response to the COVID-19 pandemic. In these difficult times, providing financial relief in the form of voluntary premium refunds is among the variety of proactive measures for the hundreds of millions of members that AHIP and BCBSA members serve.

We laud the NAIC’s expeditious efforts through recent collaborative discussions at the Statutory Accounting Principles Working Group (SAPWG), this Task Force and Financial Condition (E) Committee to craft guidance that is flexible for the various ways that insurers report premium refunds, rate reductions and policyholder dividends.

We are writing to express our support of the proposed NAIC staff modifications made to INT 20-08T that are included in the materials for this Task Force’s consideration during its upcoming conference call meeting on July 22. We particularly agree with the bifurcated accounting optionality approach for refunds not required under the existing policy terms and the limited time exception for expense reporting as applicable to P&C lines only since underwriting expense treatment is problematic for health products.

We thank the entire Task Force for its consideration of our comments. If you have any questions, please do not hesitate to contact Joe Zolecki at joseph.zolecki@bcbsa.com or Bob Ridgeway at Bridgeway@AHIP.org.

Respectfully yours,

Joe Zolecki  
Director, Financial Regulatory Services  
Blue Cross Blue Shield Association

Bob Ridgeway  
Senior Counsel, Government Affairs  
America’s Health Insurance Plans
The Accounting Practices and Procedures (E) Task Force met via conference call June 22, 2020. The following Task Force members participated: Kent Sullivan, Chair, represented by Jamie Walker (TX); Trinidad Navarro, Vice Chair, represented by Rylynn Brown (DE); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Sheila Travis (AL); Alan McClain represented by Tony Gilbert (AR); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by Kathy Belfi (CT); Karima M. Woods represented by N. Kevin Brown (DC); David Altmaier represented by Virginia Christy (FL); Doug Ommen represented by Kevin Clark (IA); Stephen W. Robertson and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Bill Clark (KY); James J. Donelon represented by Stewart Guerin (LA); Gary Anderson represented by John Turchi (MA); Eric A. Cioppa represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge represented by Lindsay Crawford (NE); Chris Nicolopoulos represented by Doug Bartlett (NH); Marlene Caride represented by Diana Sherman (NJ); Russell Toal represented by Leatrice Geckler (NM); Linda A. Lacewell represented by Robert Kasinow (NY); Jillian Froment represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger, Diane Carter and Andrew Schallhorn (OK); Jessica K. Altman represented by Joe DiMemmo (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. 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 David Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark Afable represented by Amy Malm (WI); James A. Dodrill represented by Tonya Gillespie (WV); and Jeff Rude represented by Linda Johnson (WY). Also participating was: Eric Moser (IL).


Mr. Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met June 15, May 20, April 15 and March 18. During these meetings, the Working Group took the following action:

a. Adopted its Jan. 8 minutes, which included the following action:

   1. Adopted an editorial item (Ref #2019-44).

b. Adopted the following substantive revisions to statutory accounting guidance:


   2. SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: Revisions incorporate principle concepts that will restrict the classification of “rolling” related party or affiliated investments as cash equivalents or short-term investments. The investment schedule will identify investments (or substantially similar investments) that remain on the short-term schedule for more than one consecutive year. (Ref #2019-20)

   3. SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts: Revisions specify that changes as a result of VM-21, Requirements for Principle-Based Reserves for Variable Annuities,
optional phase-in requirements shall be disclosed as a change in valuation basis, with additional disclosures regarding the phase-in period beginning Jan. 1, 2020. (Ref #2019-47)

4. **SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities**: Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the subsidiary, controlled and affiliated entity’s (SCA’s) equity value. The reported equity losses of an SCA would not go negative (thus stopping at zero); however, the guaranteed liabilities would be reported to the extent that there is a financial guarantee or commitment. (Ref #2018-26)

5. **SSAP No. 5R, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives**: Revisions reject Accounting Standards Update (ASU) 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception in SSAP No. 86 and incorporate guidance into SSAP No. 5R and SSAP No. 72, requiring issued, free-standing financial instruments with characteristics of both liability and equity to be reported as a liability to the extent that the instrument embodies an unconditional obligation of the issuer. (Ref #2019-43)

6. **SSAP No. 25—Affiliates and Other Related Parties**: Revisions data-capture existing disclosures, which are currently completed in a narrative format. A blanks proposal to data-capture the template was proposed to be concurrently exposed. (Ref #2019-33)

7. **SSAP No. 26R—Bonds**: Revisions clarify that the assessment of an other-than-temporary impairment (OTTI) shall be based on modified contract terms. The revisions provide consistency with guidance in SSAP No. 36R—Troubled Debt Restructuring and SSAP No. 103R. (Ref #2020-14)

8. **SSAP No. 41R—Surplus Notes**: Revisions require disclosures of surplus notes that are structured in a manner in which cash-flow exchanges have been reduced or eliminated. (Ref #2019-37)

9. **SSAP No. 47—Uninsured Plans**:
   i. Revisions reject ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers in SSAP No. 47. (Ref #2020-08)
   ii. Revisions reject ASU 2018-18, Collaborative Arrangements (Topic 808) in SSAP No. 47. (Ref #2020-09)

10. **SSAP No. 51R, SSAP No. 56—Separate Accounts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance**: Revisions: 1) ensure that separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures; 2) correct an identified inconsistency in one of the new disclosures regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%; and 3) add a cross reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R, as the disclosures include separate account products. (Ref #2019-35)

11. **SSAP No. 51R and SSAP No. 52—Deposit-Type Contracts**: Revisions add a footnote to aggregate deposit-type contracts, which are captured in annual statement Exhibit 5—Life Contracts. This item did not result in statutory revisions, but instead it resulted in a blanks proposal. (Ref #2019-08)

12. **SSAP No. 53—Property and Casualty Contracts—Premiums**: Revisions clarify that the installment fee guidance should be narrowly applied. If warranted, a separate agenda item would be prepared to discuss any installment expense comments received from the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group, as they both were notified of the prior exposure. (Ref #2019-40)

13. **SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses**: Revisions emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). (Ref #2018-38)
14. SSAP No. 62R—Property and Casualty Reinsurance: Revisions incorporate disclosure updates for reinsurers from reciprocal jurisdictions. (Ref #2019-48)

15. SSAP No. 97: Revisions clarify that a more-than-one holding company structure is permitted for look-through if each of the holding companies within the structure complies with the look-through requirements in SSAP No. 97. (Ref #2019-32)


17. Appendix A—Excerpts of NAIC Model Laws: Appendix A-001, Investments of Reporting Entities: Revisions add a line for “Total Valuation Allowance” to Appendix A-001, Section 3, Summary Investment Schedule. (Ref #2020-07)

18. Appendix B—Interpretations of Statutory Accounting Principles:
   i. Interpretation (INT) 20-01: Reference Rate Reform: This interpretation provides optional guidance, allowing for the continuation of certain contracts that are modified in response to ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. Additionally, it provides waivers from derecognizing hedging transactions and exceptions for assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates. (Ref #2020-12 and INT 20-01)

   ii. INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19: This interpretation provides an optional extension of the 90-day rule before nonadmitting premium receivables and receivables from non-government uninsured plans in response to COVID-19. (INT 20-02)

   iii. INT 20-03: Troubled Debt Restructuring Due to COVID-19: This interpretation clarifies that a modification of mortgage loan or bank loan terms in response to COVID-19, shall follow the provisions detailed in the April 7, 2020, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” and the provisions of the federal Coronavirus Aid, Relief and Economic Security (CARES) Act in determining whether the modification shall be reported as a troubled debt restructuring. (INT 20-03)

   iv. INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19: This interpretation provides limited time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. (INT 20-04)

   v. INT 20-05: Investment Income Due and Accrued: This interpretation provides temporary exceptions for the assessment of collectability for specific investments, as well as exceptions on the nonadmittance of investment income due and accrued that becomes more than 90 days past due in response to COVID-19. (INT 20-05)

   vi. INT 20-06: Participation in the 2020 TALF Program: This interpretation provides guidance for reporting entities that participate as a direct borrower or material investor in the 2020 Term Asset-Backed Securities Loan Facility (TALF). This interpretation permits direct borrowers to admit securities pledged to the TALF program; although, the TALF program does not permit substitution of pledged assets if other admittance criteria is met. (INT 20-06)

   vii. INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19: This interpretation provides temporary practical expedients in assessing whether modifications in response to COVID-19 are insignificant under SSAP No. 36R and in assessing whether a modification shall be considered an exchange under SSAP No. 103R. (INT 20-07)
19. Appendix D—Nonapplicable GAAP Pronouncements:
   
i. Revisions reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting. (Ref #2019-46)
   
   ii. Revisions reject ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606 for statutory accounting. (Ref #2020-10)
   
   iii. Revisions reject ASU 2017-14, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842) for statutory accounting. (Ref #2020-11)
   
d. Adopted the following editorial revisions to statutory accounting:
   
   1. SSAP No. 21R—Other Admitted Assets: Removes the excerpts from SSAP No. 4—Assets and Nonadmitted Assets regarding the definition and accounting treatment for admitted assets. (Ref #2020-06EP)
   
   2. SSAP No. 51R: Updates various paragraph references, requiring that changes in valuation basis be consistent with the originally adopted language in Issue Paper No. 154—Implementation of Principle-Based Reserving, Exhibit A. (Ref #2020-06EP)
   
   3. SSAP No. 62R: Revisions update references in Exhibit A – Implementation Questions and Answers and paragraph 85 to match the current format of property/casualty (P/C) annual statement Schedule F – Reinsurance. (Ref #2019-44EP)
   
   4. Various other SSAPs: Revisions revise all references to the annual statement instructions for consistency and combine life and fraternal statement references. (Ref #2019-44EP)
   
e. Disposed the following without revisions to statutory accounting guidance:
   
   1. Agenda item 2019-39: Acceptable Collateral for Derivatives was disposed without statutory revisions as third-party derivative exposure through centrally cleared exchanges is appropriately captured in the existing financial statement disclosure requirements and blanks. (Ref #2019-39)
   
   2. Agenda Item 2019-41: Eliminating Financial Modeling Process: This item proposed revisions to SSAP No. 43R—Loan-Backed and Structured Securities to remove the financial modeling process. This item was proposed in response to initial action by the Valuation of Securities (E) Task Force. As the Task Force has taken a different approach, this agenda item was disposed without statutory revisions. (Ref #2019-41)
   
f. The effective dates for the following INTs are as follows:
   
   1. INT 20-02, INT 20-04 and INT 20-05 are effective for the March 31, 2020, and June 30, 2020, financial statements only, but consideration of an extension will occur in August 2020.
   
   2. INT 20-03 and INT 20-07 have an effective date that mirrors the CARES Act and will only be applicable for the period beginning on March 1, 2020, and ending on the earlier of Dec. 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak terminates.


Mr. Garn provided the report of the Blanks (E) Working Group, which met via conference call May 28 and took the following action:
a. Adopted its Dec. 17, 2019, minutes.

b. Adopted 24 proposals:

1. 2019-25BWG – Modify the instruction for Column 10 (Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-out supplement) to remove instruction to exclude adjusting and other reserves from the column and add instruction to include those reserves with the defense and cost containment reserves. Add a new instruction for Column 12 for the same schedules. Add crosschecks to Schedule P, Part 1.

2. 2019-28BWG – Modify the instruction for Supplemental Investment Risk Interrogatories Lines 13.02 through 13.11 clarifying when to identify the actual equity interests within a fund and aggregate those equity interests for determination of the 10 largest equity interests.


4. 2019-30BWG – Add a category and instructions for Reciprocal Jurisdiction Companies in Schedule S for the Life/Fraternal and Health blanks and to Schedule F for the Property and Title blanks. Add a list of identification numbers in instruction to Schedule Y, Part 1A; Schedule Y, Part 2; and Schedule D, Part 6, Section 1 for Reciprocal Jurisdiction Companies. Add a reference to Reciprocal Jurisdiction Companies in the Trusteed Surplus Statement instructions for Life/Fraternal, Health and Property statements.

5. 2020-01BWG – Add crosschecks to Lines 13 and 14 of the Exhibit of Premiums, Enrollment and Utilization (State Page) to Lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Add crosschecks to Lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, Line 61.

6. 2020-03BWG – Modify the instruction and illustration for 13(11) to the Notes to Financial Statement. Change the numbering from 1 through 13 to A through M to reflect the disclosure addition for SSAP No. 41R being adopted by the Statutory Accounting Principles (E) Working Group and correct the instruction.

7. 2020-04BWG – Modify the instruction and illustration for Note 23A – Unsecured Reinsurance Recoverables to reflect the disclosure addition for SSAP No. 62R being adopted by the Statutory Accounting Principles (E) Working Group.

8. 2020-05BWG – Modify the instruction and illustration for Note 2 – Accounting Changes and Correction of Errors to reflect the disclosure addition for SSAP No. 3 and SSAP No. 51R being adopted by the Statutory Accounting Principles (E) Working Group.


10. 2020-08BWG – Add a disclosure instruction for 10C to the Notes to Financial Statement for related party transactions not captured on Schedule Y to reflect the disclosure addition for SSAP No. 25 being adopted by the Statutory Accounting Principles (E) Working Group. Combine existing 10C into 1B instructions and illustration narrative.

11. 2020-09BWG – Modify the Annual Statement Instructions for Schedule F, Part 3 to reflect the factors for all uncriticalized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified and reciprocal reinsurance.

12. 2020-10BWG – Revise the column 10 header in the Variables Annuities Supplement Blank to be Contract Level Reserves Less Cash Surrender Value. Revise the line descriptions in Lines 1 through 3 in the footer and add a line for the Reserve Credit from Other Reinsurance and for Post-Reinsurance Ceded Aggregate Reserve. Adjust the instructions to correspond with changes made to the blanks, as well as changes in the 2020 Valuation Manual for the new Variable Annuities (VA) Framework.
13. 2020-11BWG – For the VM-20 Reserves Supplement Blank, split Part 1 into Part 1A and Part 1B.
   i. For Part 1A, change the description header for column 3 to Due and Deferred Premium Asset to match the instructions. Add “XXX” in the two places needed to indicate that a due and deferred premium asset does not need to be reported in the lines shown for Total Reserves. Change the reporting units for all columns to be in dollars rather than in thousands. Expand all columns to allow room for a number as large as 999,999,999,999. Change the product labels for clarity.
   ii. For Part 1B, change the reporting units for the reserve columns to be in dollars rather than in thousands. Expand the reserve columns to allow room for a number as large as 999,999,999,999. Change the face amount columns to allow room for a number as large as 9,999,999,999. Change the product labels for clarity. Remove Part 2 and renumber the remaining parts. Adjust the instructions according to the changes made to the blanks. Clarify instructions and add examples for Parts 1A and 1B.

14. 2020-12BWG – The proposal will require appointed actuaries to attest to meeting continuing education (CE) requirements and participate in the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) CE review procedures, if requested.

15. 2020-13BWG – Remove Line 24.04 from the General Interrogatories, Part 1 and renumber remaining lines for Interrogatory Question 24. Modify Lines 24.05 and 24.06 to require reporting amounts for conforming and non-conforming collateral programs.

16. 2020-14BWG – Modify the columns and rows on the blank pages for the Long-Term Care Experience Reporting Forms 1 through 5 and make appropriate changes to the instructions for those forms.

17. 2020-15BWG – Contains a new Private Flood Insurance Supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages.

18. 2020-16BWG – Modify Questions 3.1 and 3.2 of General Interrogatories Part 2 and provide instructions.

19. 2020-17BWG – Adjust the asset valuation reserve (AVR) presentation to include separate lines for each of the expanded bond designation categories.

20. 2020-18BWG Modified – Clarify the instructions to indicate which funds reported on Schedule D, Part 2, Section 2 (annual filing) and Schedules D, Part 3 and Part 4 (quarterly filing) must have an NAIC designation, NAIC designation modifier, and Securities Valuation Office (SVO) administrative symbol. Modify the reference to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) found in the following investment instructions.

21. 2020-19BWG – Add a code of “%” to the code column for all investments which have been reported on Schedule DA, Part 1 and Schedule E, Part 2 for more than one consecutive year. Add certification to the General Interrogatories, Part 1 inclusion of these investments on Schedule DA, Part 1 and Schedule E, Part 2 (SAPWG 2019-20).

22. 2020-20BWG – For Schedule D, Part 1, add code “10” to Column 26 – Collateral Type for ground lease financing. Renumber “Other” code to “11.”

23. 2020-21BWG – Add a new line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumber existing line 4.05 to 4.06. Modify the instructions to include a crosscheck for new line 4.05 back to Schedule B – Verification Between Years. Clarify the instructions for 4.01–4.04 to explicitly show crosschecking to Column 8 of Schedule B, Part 1.

24. 2020-23BWG – Add footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 separate accounts to disclose cases when a mortality risk is no longer present or a significant factor, i.e., due to a policyholder electing a payout benefit (SAPWG 2019-08).
c. Adopted its editorial listing.

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

3. Adopted INT 20-08

The Task Force took a separate vote on INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends, which was adopted by the Statutory Accounting Principles (E) Working Group with a two-thirds majority vote. This separate vote was to allow the discussion of additional industry comments. INT 20-08 provides guidance on how to account for premium refunds, rate reductions and policyholder dividends in response to decreased insured activity related to COVID-19. With regards to premium refunds that are outside of policy terms, INT 20-08 identifies that these shall be reported as a reduction of premium and not as an expense. INT 20-08 provides that reporting in expenses would require a prescribed or permitted practice. INT 20-08 also provides guidance on premium reductions and policyholder dividends. INT 20-08 directs an aggregate disclosure to allow for the identification of the full impact from COVID-19 in the financial statements. INT 20-08 notes that premium taxation is determined by the respective jurisdiction and not the interpretation. (INT 20-08)

Ms. Marcotte stated that per the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, interpretations that provide new guidance or provide temporary overrides to existing guidance are required to be adopted by a two-thirds majority of the Working Group. In addition, there is a requirement for at least two-thirds of the Working Group to be present to vote. These vote requirements are in place to permit immediate adoption and application of statutory accounting guidance, most often in response to catastrophes or other situations that need a quick response. Prior examples include hurricanes; the California wildfires; and most recently, the COVID-19 pandemic. Additionally, per the policy statement, interpretations can be adopted, overturned, amended or deferred by a two-thirds majority of the Task Force membership; however, this has not previously occurred. Ms. Marcotte stated that INT 20-08 was originally exposed by email vote on May 5 and initially discussed on May 20. After the May 20 discussion, which included consideration of comments received, the Working Group retained the original concepts within the proposed interpretation but re-exposed the item to include additional provisions for health insurers and disclosure refinements. On June 15, after discussion and consideration of the recent and previous comments received, the Working Group adopted the interpretation with 13 members voting and two opposed, noting that the chair also did not vote, as his vote would not have changed the outcome. The 13 members voting in the affirmative exceeded the two-thirds requirements for adoption.

Ms. Marcotte stated that several comment letters were received noting that most commenters focused on Issue 1: How to account for refunds not required under policy terms.

Ms. Marcotte stated there seems to be general support for:

- **Issue 2**: How to account for refunds required under policy terms.
- **Issue 3**: How to account for rate reductions on in-force and renewal business.
- **Issue 4**: Requires policyholder dividends to follow existing guidance and complete the disclosures per Issue 5.
- **Issue 5**: Requires reporting entities to comply with statutory accounting disclosure requirements, and requires that all premium refunds, rate reductions or policyholder dividends provided because of the decreased activity due to COVID-19, be aggregated and reported in Note 21A as unusual and infrequent items. She noted that the property and casualty actuaries who perform rate reviews and analysis noted that transparency will assist them in evaluating 2020 activity.

Regarding Issue 1, Ms. Marcotte stated that the refund will be an adjustment to written or earned premium with corresponding adjustments to unearned premium, as applicable. Liability recognition is required in accordance with SSAP No. 5R. It also states that refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures. She stated Issue 2 specified that refunds required under policy terms shall be recognized as an adjustment to premium; however, discounts on future business shall be recognized during the future policy period. Issue 3 addresses rate reductions on in-force and renewal business, and it requires rate reductions on in-force business to be recognized as immediate adjustments to income. Additionally, rate reductions on future business shall be reflected in premium upon renewal. Issue 4 requires policyholder dividends to continue following existing guidance and to complete the disclosures described in Issue 5. Ms. Marcotte stated that the interpretation notes that premium taxation requirements vary by jurisdiction, and it is determined by each jurisdiction as to whether premium taxation occurs on premium written or returned to the policyholder. Additionally, due to the short-term
nature of the items included, this interpretation will be automatically nullified on Jan. 1, 2021. Ms. Marcotte stated the guidance provided in this interpretation would ensure continued financial statement comparability, with variations approved by state insurance regulators as permitted or prescribed practices to then be reported in a data-captured disclosure. Additionally, the guidance is consistent with existing guidance and historical precedent in which amounts returned to policyholders are recognized in the same manner in which they were originally recognized.

Ms. Marcotte stated industry support regarding Issue 1 remains divided. The industry representatives in support of premium reduction also noted historical precedent, comparability, as well as concern that changing policy forms to permit non-indemnity-based payments at the discretion of the company raises several additional issues for accounting and reporting. However, other industry representatives opposed the premium reduction proposal and supported reporting the refund as an underwriting expense, especially in cases where the insurer filed a policy endorsement or amended rate filing with their domestic regulator.

Phillip L. Carson (American Property Casualty Insurance Association—APCIA) stated that the APCIA offered a compromised reporting proposal to the Statutory Accounting Principles (E) Working Group; however, as the compromise was not adopted, the APCIA is requesting consideration at the Task Force level. The reporting compromise would only affect insurers that have filed an endorsement or an amended rate filing with the state. He noted that in these filings, the insurers communicated their intent to report the relief payments as a policyholder expense and desire to be allowed to do so while disclosing those payments per the requirements of this interpretation. This treatment would allow insurers who have taken such actions to continue to report the COVID-19 relief payments as an other underwriting expense. This treatment would apply to all applicable payments made during the remainder of 2020. Mr. Carson noted that the APCIA supports all other aspects of the interpretation; however, it is supportive of allowing a reporting exception for these insurers, who in good faith, developed COVID-19 relief programs and worked with state insurance regulators throughout the crisis. He stated that compromise would not jeopardize consistent reporting, as the disclosure requirements in the interpretation provide adequate financial information and would not negatively affect non-policyholder stakeholders, such as agent commissions or state premium taxes. Additionally, without a compromise, insurers will incur the burden of having to pursue numerous permitted practices in many jurisdictions.

Jeff Beck (Selective Insurance Company of America) stated their organization is comprised of multiple entities in numerous jurisdictions, and it will incur significant logistical challenges in attempting to obtain one consistent accounting treatment among the states in which it operates. He stated that it would be most efficient to allow reporting flexibility and thus not require the administrative process of pursuing a permitted practice, as is directed in the interpretation.

Jeffrey Shank (Progressive Insurance) stated that Progressive supports flexibility in the reporting of COVID-19 relief payments. Progressive operates in a dozen domiciliary states, which if the interpretation is adopted in its current form, will require the insurer to obtain multiple permitted practices. Mr. Shank noted that this process creates uncertainty, and it will likely result in greater inconsistency in reporting.

Jonathan Rodgers (National Association of Mutual Insurance Companies—NAMIC) stated great respect for statutory accounting and analysis, but he noted that this event is unprecedented and that there is great diversity of actions and preferences among its members. Insurers acted in good faith and in the best interest of their policyholders, and NAMIC is requesting reporting flexibility due to the unprecedented nature of the return of funds to policyholders. Mr. Rodgers noted that without reporting flexibility, state insurance regulators will see an unprecedented volume of permitted practice requests. He stated that the process of obtaining a permitted practice will create an unnecessary hurdle, as flexibility could be granted, thus not requiring the exercise, cost and uncertainty in being granted permitted practice. He stated that in response to COVID-19, insurers have responded to hundreds of special requests or additional regulations—i.e., suspending cancellations for non-payments, waiving late fees, and waiving co-pays—and they view the relief payments, especially those made through a policy endorsement, all in the same category as insurers appropriately responded to the crisis. He stated that characterizing the return of funds to policyholders as a return of premium does not work for everyone. Due to the unprecedented nature of the return of funds to policyholders, the payments were done in a sense of urgency and generally with ongoing communication with domestic regulators. Mr. Rodgers noted that some members desired to treat the payments as a dividend, but they did not have the ability to do so. He stated that rather than pursuing permitted practices, the preferred method to clarify the accounting should be through an interpretation, however flexibility should be allowed so that the accounting through the INT process for such relief payments. He noted NAMIC’s support for allowing the method that was previously communicated with domestic regulators. He stated that if flexibility is not permitted, many companies will seek a permitted practice, which also further erodes the comparability of financial statements. Additionally, by not allowing flexibility to treat the relief payments as a reduction in
revenues, the impact will be felt by agents through reduced commissions and by states through reduced premium taxes. Mr. Rodgers stated that NAMIC was supportive of the reporting compromise proposed by the APCIA.

Birny Birnbaum (Center for Economic Justice—CEJ) stated that the CEJ began calling for premium relief payments at the early onset of COVID-19. He stated the relief was in correlation with the reduction in risk exposure of affected policies, i.e., a significant reduction in automobile usage, which occurred in early March 2020. The aggregate risk exposures for current policies reflect an overnight reduction in risk, and the return of funds reflect the return of premium associated with the reduced insured risk. Without these premium relief payments, insurers would have experienced windfall profits due to the significantly lower claim counts. Mr. Birnbaum stated that the premium relief was to reflect the new (reduced) expected risk exposure, and it was calculated as a percentage of premium for a certain number of affected months. He stated that to account for these relief payments as an expense would not be appropriate because they do not typically reflect an expense activity. In terms of consistent reporting, the permitted practice process allows for the possibility of inconsistent reporting, while if flexibility is granted in the interpretation, inconsistent reporting is almost assured. Mr. Birnbaum stated support for the accounting treatment as a return of premium, which would assist in both the comparability of financial statements and the ease in analysis by state insurance regulators.

Kevin Spataro (Allstate) stated support of the interpretation as it relates to premium refunds, rate reductions and policyholder dividends, but he stated that the interpretation should be expanded to allow flexibility in the accounting and reporting guidance for discretionary payments provided to policyholders. He stated that the disclosure proposed in the interpretation would provide adequate detail and transparency of the relief payments, and he is supportive of the compromised reporting as proposed by the APCIA and the comments of NAMIC, at least through the end of 2020. He stated that the calculation of the relief payment amounts was significantly more complex than simply reviewing miles driven, and thus a rate filing was not elected. At the time the funds were disbursed to policyholders, actuarial information, such as differences in crash severity, distracted driving, or other vehicle uses, was not available, thus an amended rate filing was not a viable option. Mr. Spataro stated that Allstate believes the nature of its payments to policyholders would qualify as an other underwriting expense, and it supports expanded comprehensive disclosures to detail the policyholder COVID-19 relief payments.

Keith Bell (Travelers) stated that Travelers arrived at the conclusion that these relief payments are in fact a reduction in premium because they reflected a reduction in risk exposures. He noted support for premium reduction for reasons similar to those listed by Mr. Birnbaum. Additionally, by not accounting for the relief payments as a reduction in premium, it would have been improperly reflected in the [pure] loss ratio. Mr. Bell noted that when Travelers heard that some industry members were advocating for expense reporting, it evaluated the definition of an expense and believed these payments did not fulfill the requirements for expense reporting in the guidance or SSAP No. 70—Allocation of Expenses. He said Travelers ultimately reviewed level five guidance in the statutory hierarchy, which includes Financial Accounting Standards Board (FASB) Concept Statement Number 6. He noted that the review concluded that the payments are a reduction of premium revenue. He stated that additionally, Travelers contacted several of its domestic regulators, and they also concurred with the treatments of such payments as a reduction to premium. He also noted that insurers all acted in the best interests of policyholders in returning funds quickly.

Rachel Underwood (The Cincinnati Insurance Companies) stated support for modifying the interpretation to allow for COVID-19 relief payments to be recognized as an expense. She stated that the Cincinnati Insurance Companies believe that reporting relief payments as an expense is the most conservative approach in that it would reflect the true nature of the cash outflows. She stated that if consistent reporting is the primary reason for not allowing flexibility in reporting, the interpretation already allows for some variation through the reporting of either a reduction in premium or a policyholder dividend. She stated that a specific expense line does not currently exist in the financial statements, so the use of an aggregate write-in expense is recommended. Additionally, underwriting or loss data was not evaluated when considering the calculation of the relief payments, thus it is not strictly a reduction to premium. If reported as a reduction to premium, analysis ratios, which rely heavily on premium, could be adversely affected. Ms. Underwood also noted a concern with potentially receiving different treatment from different states of domicile.

Ms. Belfi stated that during the financial crisis, multiple permitted practices were given to multiple companies covering a wide range of issues; however, despite this, there were not any issues with comparability due to the details that are required to be provided in footnote 1. Despite the multiple granted permitted practices, inconsistencies were not noted as a problem among state insurance regulators, as they work well together and should not cause any undue process in granting permitted practices across multiple jurisdictions.
Ms. Underwood stated the financial crisis was significantly different than the COVID-19 pandemic currently being experienced. During the financial crisis, most permitted practices were related to investments and relief regarding other-than-temporary impairment analysis requirements. Ms. Underwood stated that this situation is different in that COVID-19 is broader and has a greater impact than just on an insurer’s investments. She stated that the nature of the relief payments does not reflect a reduction in premium nor a policyholder dividend, and she supports a one-time aggregate write-in as an expense. She stated that not allowing reporting as an expense feels like a disadvantage, as it creates a burden for insurers who will wish to seek a permitted practice close to the end of the quarter, when the end results will have the same net impact to the income statement.

Mr. Stolte inquired to previous commenters if a policy endorsement has historically allowed a separation from statutory accounting guidance regarding consistency, i.e., allowing a company to determine how financial items are reported. Mr. Spataro responded that the endorsements are not in the statutory hierarchy. He noted that in his view the nature and intent of the policy endorsement reflects the true nature of the relief payments, that as a policyholder benefit. He said that is why Allstate concluded that expense treatment is appropriate. Mr. Stolte stated he remained concerned with the lack of consistency if flexibility is granted in the interpretation. He stated that state analysts are experienced in reviewing footnote 1 in terms of permitted or prescribed practices, which note any impact on income or surplus and risk-based capital (RBC). Mr. Stolte stated that he believes not reporting the relief payments as a reduction to revenue does not reflect the economic reality of the transaction and that premium is an important metric. He also noted a concern regarding the comparability of treating some of the payments as a reduction of revenue and others as an underwriting expense. Mr. Spataro noted support for adequate disclosure.

Mr. Birnbaum stated that if a reporting compromise is allowed, a new disclosure will be required to articulate and detail the financial impact of the relief payments. He noted that the proposed compromise would create diversity in reporting. This new disclosure causes concern, as it will need to be developed and interpreted, all while the existing disclosures required for a permitted practice have been in place for a number of years. Utilizing existing disclosures will ensure consistent reporting. Mr. Birnbaum stated that in response to reporting relief payments as an expense, many insurers called the payments “premium relief,” so by their own definition, this should reflect a reduction in premium.

Commissioner Robertson stated that while consistent reporting is important, we are in unprecedented times and every state has lost tremendous revenue due to the impacts of COVID-19. By requiring companies to record this as a return of premium, the states will be negatively affected through the reduction of premium tax paid to the states. The magnitude of the loss of tax revenue is significant, and Indiana will not support adoption of this interpretation. Commissioner Robertson prefers to account for all relief payments as an expense, with exceptions granted in certain circumstances regarding reductions to premium.

Ms. Brown stated that Delaware agrees with the comments stated by Commissioner Robertson, and it does not support the adoption of requiring relief payments to be accounted for as a reduction in premium. She said Delaware would support allowing an aggregate write in as an other underwriting expense. She noted that the focus should be on the temporary issues caused by the pandemic.

Ms. Walker asked for a clarification regarding the position of Commissioner Robertson and Ms. Brown. She asked if their preference was in support of allowing flexibility in reporting or if the preference was to require all the payments be reported as an expense. Commissioner Robertson noted a preference to have all of the payments be reported as an expense; however, he noted that he appreciates the need for flexibility to allow some of the amounts to be reported as a reduction of premium. He noted concerns about the possibility of state revenue reduction. Ms. Brown noted support for Commissioner Robertson’s position.

Mr. Bruggeman stated he is open to flexibility in reporting, noting that these payments are akin to a policyholder dividend. He stated that the policy endorsements allowing optional payments are different than negative premium. He supports considering an alternative approach, such as an aggregate write-in, used solely for the purpose of the COVID-19 relief payments. He stated that he understands that the relief provided was not necessarily specific to underwriting, was provided to all applicable policyholders, and was performed at an enterprise level, rather than at an individual policy level. Additionally, if reported as a reduction to revenue, premium taxes, agent commission and reinsurance would be adversely affected. Mr. Bruggeman noted that reporting as a reduction of premium would affect other schedules that premium is reported on. However, if allowed to be reported as an expense, the relief payments would be segregated so that they do not affect rate filings in upcoming years. Mr. Bruggeman stated when reviewing on a U.S. generally accepted accounting principles (GAAP) vs. a statutory accounting basis, statutory accounting is more balance sheet focus and rigid in its reporting structure. However, U.S. GAAP filers would typically be allowed to create a supplemental reporting line related to relief payments. Accordingly, an aggregate write-in line, either as an underwriting expense or a negative write in for miscellaneous income, should be considered for statutory accounting. Mr. Bruggeman stated that in terms of a permitted practice, they only apply to domestic regulated companies, not to all companies.
that write premium in their state (foreign insurers). He stated that diversity will be very prevalent amongst different filers throughout many states, all of which will have an impact on premium tax revenue. He stated Ohio is supportive of the APCIA proposed compromise. Mr. Rheagan noted support for flexibility as described by Mr. Bruggeman.

Ms. Belfi stated that throughout the pandemic, state insurance regulators and industry have worked well together to ensure continued financial strength and solvency, all in the interest of policyholders. However, the fundamental building block of reporting consistency remains a cornerstone for statutory accounting. In terms of the flexibility requested by industry, the permitted practice process remains a viable, time tested process, which remains an option for state insurance regulators. Ms. Belfi stated that the use of a consistent reporting process is important, as the accounting will affect critical ratios that are used for regulatory analysis, especially during COVID-19. She stated that footnote 1 is used to describe any differences in accounting. What is determined will set a precedent for future accounting policy during the next crisis. Ms. Belfi stated Connecticut is supportive of the interpretation as written, requiring relief payments to be accounted for as a reduction in premium. She noted further that it is what was also communicated to their companies.

Mr. Stolte expressed agreement with the comments expressed by Ms. Belfi, stating consistent reporting is a critical aspect of statutory accounting. He noted that the prescribed or permitted practice is an option for those desiring flexibility in reporting. He noted that as a long-term original member of the Working Group.

Mr. Garn stated he understands the economic concerns noted by Commissioner Robertson. He noted that he serves on other councils dealing with the loss of revenue; however, the discussion today revolves around a technicality in accounting, thus purporting the reduction of revenue. He stated using a technicality to maintain the level of premiums solely to maintain state revenues might not be the best way to address the revenue issues.

Mr. Hudson stated that the discussion presented fair arguments for both perspectives; however, California remains supportive of accounting for COVID-19 relief payments as a reduction to premiums.

Mr. Moser stated that Illinois is a significant marketplace as many property and casualty insurers are domiciled within the state. He stated that Illinois believes that if an insurer has filed an endorsement with the state, then they should be allowed the option to report these relief payments as an expense. Additionally, with all the discussion on this topic, there will likely be great diversity in reporting, however Illinois is supportive of expense treatment in this circumstance. Mr. Schallhorn expressed support for the position of Illinois.

Mr. Clark stated Iowa is in favor of the interpretation as written, noting that it provides clarity in reporting guidance, and it will ensure consistent reporting among insurers, all while providing flexibility in reporting through the permitted practice process.

Ms. Belfi made a motion, seconded by Mr. Stolte, to adopt the consensus in INT 20-08, as previously adopted by the Statutory Accounting Principles (E) Working Group (See NAIC Proceedings – Summer 2020, Financial Condition (E) Committee, Attachment Seven). The motion passed with 28 members voting in favor and the following nine members dissenting: Delaware, Indiana, Louisiana, Massachusetts, Missouri, North Carolina, Ohio, Oklahoma and Rhode Island. New Jersey abstained. The motion met the two-thirds membership requirement required by the NAIC Policy Statement on Maintenance of Statutory Accounting Principles. INT 20-08 is effective on its June 15, 2020, adoption and is effective for 2020 reporting.

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

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The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call May 28, 2020. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair and Perry Kupferman (CA); Jeffery Bethel (AK); William Arfanis (CT); N. Kevin Brown (DC); Tom Hudson (DE); Carolyn Morgan (FL); Daniel Mathis and Carrie Mears (IA); Roy Eft (IN); Dan Schaefer (MI); Debbie Doggett (MO); Lindsay Crawford (NE); Doug Bartlett and Patricia Gosselin (NH); John Sirovetz (NJ); Tom Botsko, Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Brian Fordham and James Borrowman OR); Joe DiMemmo (PA); Trey Hancock and Hui Wattanaskolpant (TN); Shawn Frederick (TX); Steve Drutz (WA); Randy Milquet (WI); and Jamie Taylor (WV). Also participating was: David Browning (MS).

1. **Adopted its Dec. 17, 2019, Minutes**

The Working Group met Dec. 17, 2019. During this meeting, the Working Group: 1) adopted its Oct. 22, 2019, minutes; 2) adopted two items previously exposed—a proposal that adds clarifying instructions to address questions that have been received regarding the new Analysis of Operations by Lines of Business on the life and health blank and a proposal that requests the removal of the alphabetic index from inclusion at the back of the annual statement blank, instructions and the Blanks (E) Working Group web page; 3) exposed its procedures; 4) exposed four proposals; and 5) adopted the editorial listing.

Mr. Eft made a motion, seconded by Mr. Sirovetz, to adopt the Working Group’s Dec. 17, 2019, minutes (Attachment Four-A1). The motion passed unanimously.

2. **Considered Adoption of Items Previously Exposed**


Mr. Snow stated that this proposal modifies the instructions for column 10, Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-Out Supplement, removing instructions to exclude adjusting and other reserves from the column. The proposal adds instructions to include those reserves with the defense and cost containment reserves. It adds a new instruction for column 12, incurred but not reported (IBNR) loss adjustment expense (LAE) reserves for the same schedules. It adds crosschecks to Schedule P, Part 1. He stated that there was a modification made to clarify that the crosscheck for column 10 does not apply to those companies participating in inter-company pooling participation arrangements where the participation percentage in Schedule P, Part 1, column 34 is not equal to zero.

Mr. Snow made a motion, seconded by Mr. Hudson, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Sirovetz made a motion, seconded by Mr. Hudson, to adopt the modified proposal (Attachment Four-A2). The motion passed unanimously.

   b. **Modify the Instructions for the Supplemental Investment Risk Interrogatories Lines 13.02 Through 13.11 Clarifying When to Identify the Actual Equity Interests Within a Fund and Aggregate Those Equity Interests for Determination of the 10 Largest Equity Interests (2019-28BWG) Effective Dec. 31, 2020.**

Mr. Bruggeman stated that the purpose of this proposal is to clarify when reporting entities are required to identify actual equity interests within a fund and aggregate those equity interests to determine their 10 largest equity interests. The Statutory Accounting Principles (E) Working Group adopted this item in December 2019. This proposal modifies those instructions for Supplemental Investment Risk Interrogatories lines 13.02 through 13.11.

Mr. Bruggeman made a motion, seconded by Ms. Gosselin, to adopt the proposal (Attachment Four-A3). The motion passed unanimously.
c. **Modify the Instructions and Blank for Supplemental Investment Risk Interrogatories Question 14.01 (2019-29BWG)**


Mr. Bruggeman stated that the purpose of this proposal is to clarify that interrogatories 14.06 through 14.15 are to be completed regardless of the answer to Supplemental Investment Risk Interrogatories, question 14.01. This item is in response to questions received on a prior adoption change to specify what is captured in line 2 for total equity exposures. Essentially, the new disclosure for fund managers was captured after a threshold question. The clarification simply indicates that the fund manager disclosure should be completed regardless of that threshold provision. This proposal adds a note to lines 14.06 through 14.15 stating that these lines should be completed, even if the answer to question 14.01 is “yes.”

Mr. Bruggeman made a motion, seconded by Mr. Drutz, to adopt the proposal (Attachment Four-A4). The motion passed unanimously.


Jake Stultz (NAIC) stated that the intent of this proposal is to set up the annual reporting blanks for companies to report reinsurance with reciprocal jurisdiction reinsurers as soon as the states begin enactment of the 2019 revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786). These minor revisions are similar to those that were made to incorporate the certified reinsurer provisions in 2011. The proposal adds the ability to report the new type of reinsurer and adds some descriptions of this new category of reinsurer.

Mr. Stultz stated that as a result of the interested party comments, there were several minor revisions highlighted in the proposal. He noted that an instruction was added for the annual 2020 reporting, which clarifies the details for proper reporting where the reporting entity’s software may not yet be able to capture reinsurance from reciprocal jurisdiction reinsurers. Additionally, NAIC staff have made a correction to the original exposed document. The reference to “Alien Insurer Identification Number” was stricken when “Certified Reinsurer Identification Number” should have been removed. This correction has been included in the document presented for adoption.

Ms. Doggett made a motion, seconded by Mr. Sirovetz, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Arfanis made a motion, seconded by Ms. Gosselin, to adopt the modified proposal (Attachment Four-A5). The motion passed unanimously.

e. **Add Crosschecks to Lines 13 and 14 of the Exhibit of Premiums, Enrollment and Utilization (State Page) to Lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Add Crosschecks to Lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, Line 61 (2020-01BWG) Dec. 31, 2020.**

Ms. Gosselin stated that this proposal affects the health blank and adds crosschecks to line 13 and line 14 of the Exhibit of Premiums, Enrollment and Utilization (State Page) to line 10 and line 11 of the Underwriting and Investment Exhibit, Part 1 for the life and property premiums written. It adds crosschecks to line 9, line 10 and line 11 of the Underwriting and Investment Exhibit, Part 1 for the health, life and property premiums to tie to the respective columns within Schedule T for line 61.

Ms. Gosselin made a motion, seconded by Mr. Schaefer, to adopt the proposal (Attachment Four-A6). The motion passed unanimously.

f. **Modify the Instructions and Illustration for Note 10L to Reflect the Disclosure Changes for Statement of Statutory Accounting Principles (SSAP) No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities Being Considered for Adoption by the Statutory Accounting Principles (E) Working Group (2020-02BWG).**

Mr. Bruggeman stated that this proposal was originally intended to modify the instructions and illustration for Note 10L – Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties to reflect SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities disclosure changes planned for discussion by the Statutory Accounting Principles
The item is still exposed with comments due May 29, and Mr. Bruggeman stated that he does not recommend adoption of the modifications at this time as the disclosure is likely to change beyond the current suggestions after comments are received. He stated that he recommends the Blanks (E) Working Group defer this item until the Statutory Accounting Principles (E) Working Group reviews comments and takes appropriate action.

Mr. Bruggeman made a motion, seconded by Mr. Sirovetz, to defer the proposal. The motion passed unanimously.


Mr. Bruggeman stated that the purpose of this proposal is to reflect the disclosure addition for SSAP No. 41R—Surplus Notes adopted by the Statutory Accounting Principles (E) Working Group on May 20 and correct the instructions. This proposal modifies the instructions and illustration for 13(11) for the Notes to Financial Statement. It changes the numbering of 1 through 13 to A through M to be more consistent with numbering sequences. Interested parties also requested additional disclosure instructions to reference information about any guarantees, support agreements or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements. He stated that this corresponds to number 18.O of the Statutory Accounting Principles (E) Working Group exposure. It aligns the order of the disclosures between the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group exposures. There were some editorial modifications made to the proposal as requested by interested parties.

Mr. Bruggeman made a motion, seconded by Ms. Crawford, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Mr. Sirovetz, to adopt the modified proposal (Attachment Four-A7). The motion passed unanimously.


Mr. Bruggeman stated that the purpose of this proposal is to reflect the disclosure addition of reciprocal jurisdiction for SSAP No. 62R—Property and Casualty Reinsurance previously adopted by the Statutory Accounting Principles (E) Working Group. This proposal modifies the instructions and illustration for Note 23A – Unsecured Reinsurance Recoverables.

Mr. Bruggeman made a motion, seconded by Mr. Hudson, to adopt the proposal (Attachment Four-A8). The motion passed unanimously.


Mr. Bruggeman stated that this proposal modifies the instructions and illustration for Note 2 – Accounting Changes and Correction of Errors to reflect the disclosure addition for SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts adopted by the Statutory Accounting Principles (E) Working Group. He stated that interested parties proposed clarifying language defining the amounts to be disclosed, to use language consistent with VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and to recognize the role of VM-21 to define the reserve requirement.

Mr. Bruggeman made a motion, seconded by Mr. Milquet, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Mr. Eft, to adopt the modified proposal (Attachment Four-A9). The motion passed unanimously.

j. Modify the Instructions and Illustration for Note 19 on Managing General Agents (MGAs) and Third-Party Agents (TPAs) to Reflect the Disclosure Addition for SSAP No. 51R—Life Contracts, SSAP No. 53—Property Casualty Contracts—Premiums, SSAP No. 54R—Individual and Group Accident and Health Contracts and SSAP No. 59—
Credit Life and Accident and Health Insurance Contracts Being Considered for Adoption by the Statutory Accounting Principles (E) Working Group (2020-06BWG Modified).

Mr. Bruggeman stated that this item is still being considered by the Statutory Accounting Principles (E) Working Group. Due to the extent of expected future discussions, it is recommended that the Blanks (E) Working Group withdraw this proposal. A subsequent proposal will be submitted once the Statutory Accounting Principles (E) Working Group has further discussions and determines the appropriate revisions.


Mr. Bruggeman stated that the purpose of this proposal is to reflect the disclosure additions for SSAP No. 61R—Life, Deposit-Type Contracts and Accident and Health Contracts Reinsurance adopted by the Statutory Accounting Principles (E) Working Group. This proposal adds a new disclosure to Note 23 – Reinsurance for Reinsurance Credit (23H – Life/Fraternal, 23E Health and 23K Property). Interested parties had a previous comment regarding capturing the disclosure on a prospective basis. Mr. Bruggeman stated that the comment was rejected as part of statutory accounting.

Mr. Bruggeman made a motion, seconded by Mr. Hudson, to adopt the proposal (Attachment Four-A10). The motion passed unanimously.


Mr. Bruggeman stated that the purpose of this proposal is to reflect the disclosure addition for SSAP No. 25—Affiliates and Other Related Parties adopted by the Statutory Accounting Principles (E) Working Group in March 2020. This proposal adds a disclosure instruction for 10C to the Notes to Financial Statement for related party transactions not captured on Schedule Y. It combines the existing 10C into 1B instructions and illustration narrative. The interested parties made a few editorial revisions, which have been reflected in the proposal. Interested parties requested a few editorial changes, which were incorporated into the proposal as modifications. Interested parties also suggested that if this disclosure is to be data captured, then the normal instruction about using the exact format(s) needs to be added. That modification has also been made.

Mr. Bruggeman made a motion, seconded by Mr. Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Mr. Sirovetz, to adopt the modified proposal (Attachment Four-A11). The motion passed unanimously.

m. Modify the Annual Statement Instructions for Schedule F, Part 3 to Reflect the Factors for All Uncollateralized Reinsurance Recoverable from Unrated Reinsurers be the Same for Authorized, Unauthorized, Certified, and Reciprocal Reinsurance (2020-09BWG) Effective Dec. 31, 2020.

Mr. Botsko stated that this proposal modifies the annual statement instructions for Schedule F, Part 3 to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified and reciprocal reinsurance. The factors for reinsurance recoverables from uncollateralized, unrated reinsurers is being updated by the Property and Casualty Risk-Based Capital (E) Working Group to move towards a charge that is more aligned with the risk-indicated factors used by the rating agencies. He stated that with respect to the broader implementation of the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement), the Working Group identified the need to eliminate the different treatment of uncollateralized reinsurance recoverables from the authorized versus unauthorized, unrated reinsurers.

Mr. Botsko made a motion, seconded by Mr. Milquet, to adopt the proposal (Attachment Four-A12). The motion passed unanimously.


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Jennifer Frasier (NAIC) stated that this proposal suggests changes to the Variable Annuities Supplement for the 2020 annual filing. The new framework for the variable annuities reserves was incorporated into the 2020 *Valuation Manual*. The proposal reflects those changes to include revising the column 10 header in blank to “Contract Level Reserves Less Cash Surrender Value.” It revises the line descriptions in the footer and adds a line for the reserve credit from other reinsurance and for post-reinsurance ceded aggregate reserve to be consistent with the framework changes in the 2020 *Valuation Manual*.

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the proposal (Attachment Four-A13). The motion passed unanimously.

For the VM-20 Reserves Supplement Blank, Split Part 1 into Part 1A and Part 1B. For Part 1A: Change the Description Header for Column 3 to be “Due and Deferred Premium Asset” to Match the Instructions. Add “XXX” in the Two Places Needed to Indicate that a Due and Deferred Premium Asset Does Not Need to be Reported in the Lines Shown for Total Reserves. Change the Reporting Units for All Columns to be in Dollars Rather than in Thousands. Expand All Columns to Allow Room for a Number as Large as 999,999,999,999. Change the Product Labels for Clarity.

For Part 1B: Change the Reporting Units for the Reserve Columns to be in Dollars Rather Than in Thousands. Expand the Reserve Columns to Allow Room for a Number as Large as 999,999,999,999. Expand the Face Amount Columns to Allow Room for a Number as Large as 9,999,999,999. Change the Product Labels for Clarity. Remove Part 2 and Renumbering the Remaining Parts. Adjust the Instructions According to the Changes Made to the Blanks. Clarify Instructions and Add Examples for Parts 1A and 1B (2020-11BWG) Effective Dec. 31, 2020.

Ms. Frasier stated that this proposal makes changes to the VM-20, Requirements for Principle-Based Reserves for Life Products, Reserves Supplement blank and instructions for the 2020 filing. There are no new requirements, but there are two main changes to the supplement. For Part 1, the proposal requests changing the reserves to be reported in whole dollars rather than in thousands. She stated that in order to create enough space to allow for this, Part 1 has been split into Part 1A and Part 1B. The intent is to create more consistency with other blanks and reduce reporting errors. Ms. Frasier stated that the proposal also removes Part 2 as it is no longer applicable and re-numbers the remaining parts. She stated that there was an interested party comment regarding the reporting in whole dollars versus thousands. After discussions with interested parties, it was agreed to proceed without any modifications.

Mr. Sirovetz made a motion, seconded by Mr. Eft, to adopt the proposal (Attachment Four-A14). The motion passed unanimously.


Kris DeFrain (NAIC) stated that this proposal requests changes to the Property and Casualty Statement of Actuarial Opinion instructions to require appointed actuaries to meet the education requirements. Some interested party comments were received. Phil Vigliaturo, Casualty Actuarial and Statistical (C) Task Force chair, provided a statement to address the comments. Ms. DeFrain read the statement: “The annual statement instructions in this proposal is in response to the Casualty Actuarial and Statistical (C) Task Force’s continued competence charge, which originated from the Executive (EX) Committee and was adopted by the Property and Casualty Insurance (C) Committee in 2017. It was decided at a higher level than the Casualty Actuarial and Statistical (C) Task Force that this project be performed. The annual statement instructions merely lay the framework for the continuing education (CE) log.

The Casualty Actuarial and Statistical (C) Task Force asked for all of the professional organizations in the United States to participate in the discussion. The Casualty Actuarial Society (CAS) and the Society of Actuaries (SOA) agreed to participate. Most of the remaining comments address the actual CE log, which is not addressed in detail in the annual statement instructions, but instead is being discussed by the Task Force. That discussion does not belong to the Blanks (E) Working Group given the annual statement instructions are meant only to lay the framework for the CE log. The annual statement instructions do not include the detail about the CE log to be required by the CAS and SOA. Therefore, Mr. Vigliaturo asked the Blanks (E) Working Group to adopt the proposal without modification.
Shawna Ackerman (American Academy of Actuaries—Academy) stated that she respects the comments read and is limiting her comments to the framework. As was stated in its May 5 comment letter, the Academy believes it is not necessary as part of the framework because the certification is redundant to the instruction that the NAIC already provides, which requires the appointed actuary to state that he or she is qualified. Ms. Ackerman stated that this would cover all aspects of CE. She stated that secondly, with regards to the framework, the Academy is very concerned with qualifications as is the NAIC. She indicated that the Academy has existing tools that both attest to the qualifications of actuaries and track annual CE, and that it offers those tools again, as well as its help with the certification process, to meet the NAIC’s goals without developing something in addition to what is currently in existence. Mr. Garn stated that he appreciates the Academy’s comments. However, he said this is an issue that should be more appropriately addressed by the Casualty Actuarial and Statistical (C) Task Force and not the Blanks (E) Working Group.

Mr. Hudson made a motion, seconded by Mr. Drutz, to adopt the proposal (Attachment Four-A15). The motion passed unanimously.


Mr. Botsko stated that this proposal removes line 24.04 from the General Interrogatories, Part 1, and modifies line 24.05 and line 24.06 to require reporting amounts for conforming and nonconforming collateral programs. This affects all statement types. He stated that interrogatory question 24.05 and question 24.06 are completely dependent on the answer to question 24.04, which works for companies that have either all conforming or all nonconforming collateral programs. When a company has both, only the collateral amount of the conforming programs is captured. This proposal allows the capture of the amount of collateral for both conforming and nonconforming collateral programs when a company has both.

Mr. Botsko made a motion, seconded by Mr. Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Botsko made a motion, seconded by Mr. Milquet, to adopt the modified proposal (Attachment Four-A16). The motion passed unanimously.

r. Modify the Columns and Rows on the Blank Pages for the Long-Term Care Experience Reporting Forms 1 Through 5 and Make Appropriate Changes to the Instructions for Those Forms (2020-14BWG) Effective Dec. 31, 2020.

Mr. Kupferman, Long-Term Care Actuarial (B) Working Group chair, stated that about 15 years ago, the long-term care (LTC) reporting forms were developed, put into effect and have been reported every year. He stated that the Working Group was surveyed and found that there was very limited use of the current data. Around the same time, Mr. Kupferman received a request from one of the LTC executive committees asking for more meaningful data. Over a three-year period, the Working Group worked to develop changes to the forms that provided more information about stand-alone LTC and the newest version of the hybrid riders to be better able to respond to state insurance commissioners or media requests. Within this proposal, four of the five forms have been revised to accommodate those changes. The changes include separate reporting for individual, for group and for stand-alone policies by state. The Working Group believes this is a vast improvement over the current forms. The changes have been vetted by the Working Group, as well as the Health Actuarial (B) Task Force, and discussed with the America’s Health Insurance Plans (AHIP) and the American Council of Life Insurers (ACLI).

Mr. Kupferman made a motion, seconded by Mr. Sirovetz, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Hudson made a motion, seconded by Schaefer, to adopt the modified proposal (Attachment Four-A17). The motion passed unanimously.


Mr. Browning stated that this proposal adds a new supplement to collect private flood insurance data for residential and commercial private flood insurance and revises the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages. He stated that throughout 2019, the Property and Casualty Insurance (C) Committee discussed the need for more granular private flood insurance data. Currently, the only private flood data that exists on the Exhibit of Premiums and Losses (state page) does not distinguish between commercial and residential policies and, therefore, has limited utility. The NAIC reports on this data every year, but state insurance regulators and interested parties cannot get a true picture of the growth of
the private residential flood market from the state page. For several years, state insurance regulators have worked on building
the private flood market in their states so citizens can be better protected from flood risk. The Federal Emergency Management
Agency (FEMA) has had a goal of doubling flood insurance, whether through the National Flood Insurance Program (NFIP)
or private policies, and have asked the NAIC to collect more detailed private flood data. Mr. Browning stated that the Property
and Casualty Insurance (C) Committee adopted this proposal in an attempt to help state insurance regulators better understand
the true growth of the private flood market and the type of policies being written.

Mr. Browning stated that this proposal will separate residential from commercial, as well as capture stand-alone/endorsement
and first-dollar/excess policy information. The revisions to the CIEE will allow for the collection of lender-placed endorsement
coverages in order to get a more complete picture of the private flood insurance market. Interested parties have expressed
concern with reporting IBNR reserves. Therefore, some modifications have been made to the proposal that would split direct
losses into losses paid and paid plus case reserves and case reserves. Similar changes were made to the defense and cost
containment expense columns. Interested parties agreed with these changes.

Mr. Hudson made a motion, seconded by Ms. Doggett, to adopt the modifications to the proposal. The motion passed
unanimously. Mr. Hudson made a motion, seconded by Ms. Doggett, to adopt the modified proposal (Attachment Four-A18).
The motion passed unanimously.

t. Modify Questions 3.1 and 3.2 of General Interrogatories Part 2 and Provide Instructions for the Questions (2020-

Mr. Borrowman stated that the purpose of this proposal is to clarify capturing whether reporting entities have written
participating policies in the current calendar year and reporting amount of premium written for both participating and non-
participating policies. It modifies question 3.1 and question 3.2 of General Interrogatories Part 2 and provides instructions for
the questions to clarify the intended reporting. Question 3.1 currently asks if participating policies are going to be disclosed if
both participating and non-participating policies are written. This created a situation where a company that writes participating
policies only did not need to answer the subsequent question, which was for the amount. He stated that this proposal removes
the word “both” from the question so the amounts would have to be disclosed as well in question 3.2 any time participating
policies are being written.

Mr. Borrowman made a motion, seconded by Mr. Sirovetz, to adopt the proposal, including the friendly amendment
(Attachment Four-A19). The motion passed unanimously.

u. Adjust the AVR Presentation to Include Separate Lines for Each of the Expanded Bond Designation Categories (2020-

Mr. Botsko stated that this proposal adjusts the asset valuation reserve (AVR) presentation to include separate lines for each of
the expanded bond designation categories. He stated that the Blanks (E) Working Group and the NAIC Security Valuation
Office (SVO) have adopted the 20 bond designations for 2020 reporting in the investment schedules and in the AVR. The
reported designations will flow into the risk-based capital (RBC) formula but will not include factors. The current factor for
designations 1–6 will remain in the RBC until an impact analysis can be done to confirm the new factors for the 20 designations.
This proposal applies the same expanded presentation to the AVR as it is used to populate the life RBC formula.

Mr. Botsko made a motion, seconded by Milquet, to adopt the proposal (Attachment Four-A20). The motion passed
unanimously.

v. Clarify the Instructions to Indicate Which Funds Reported on Schedule D, Part 2, Section 2 (Annual Filing) and
Schedules D, Part 3 and 4 (Quarterly Filing) Must Have NAIC Designation, NAIC Designation Modifier and SVO
Administrative Symbol. Modify the Reference to the Purposes and Procedures Manual of the NAIC Investment

Charles Therriault (NAIC) stated that this proposal clarifies the instructions for reporting the NAIC designations, NAIC
designation modifiers and SVO administrative symbols for fund investments reported on the common stock schedule. The
symbols should only be used for securities reported in the line numbers specified in the proposal for mutual funds, unit
investment trusts and closed-end trusts. Otherwise, these NAIC designation fields should not be reported. He stated that
additional information was also added to reference where a list of these funds can be found on the SVO web page and how to
receive the NAIC designations published in AVS+ per the instructions in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) on the compilation and publication of the SVO List of Investment Securities.

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the proposal including the editorial correction (Attachment Four-A21). The motion passed unanimously.


Mr. Bruggeman stated that the purpose of this proposal is to identify instances where cash equivalents and/or short-term investments, or substantially similar investments, remain on the applicable investment schedule for more than one reporting period (i.e., reported as a short-term investment for more than one consecutive year due to the investment being re-underwritten and renewed). This proposal adds a code of “%” to the code column for all investments that have been reported on Schedule DA, Part 1, and Schedule E, Part 2, for more than one consecutive year. It adds a certification to the General Interrogatories, Part 1, questioning the inclusion of these investments on Schedule DA, Part 1, and Schedule E, Part 2.

This item was adopted by the Statutory Accounting Principles (E) Working Group on May 20, and it was noted that the disclosure reference in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments only included short-term investments. The Statutory Accounting Principles (E) Working Group is planning a subsequent agenda item to specifically include cash equivalents. Mr. Bruggeman stated that he agrees with proceeding with the current proposal with the adoption as planned, pending the adoption of the Schedule E, Part 2, reference by the Statutory Accounting Principles (E) Working Group. If the Statutory Accounting Principles (E) Working Group does not subsequently include the cash equivalents reference, then that will be noted as an editorial change and removed from the financial reporting instructions.

Interested parties suggested modifying this exposure to be consistent with the corresponding Statutory Accounting Principles (E) Working Group exposure by adding clarifying language to the instructions. For Schedule DA – Part 1, Column 2, on page 2 of the proposal, revise the % definition as follows: “Enter “%” in this column for all investments, except cash pooling structures and money market mutual funds, which have been reported on this schedule for more than one consecutive year.” Mr. Bruggeman indicated that this change is not being done because money market mutual funds not reported on the schedule and qualifying cash pools are to be reported on Schedule E, Part 2 as other cash equivalents. The suggestion for Schedule E – Part 2, column 3 on page 3 and page 5 of the portable document format (PDF) being revised to reference the “%” in this column for all investments, except cash pooling structures and money market mutual funds, which have been reported on this schedule for more than one consecutive quarter, but also to include the SSAP No. 2R reference.

Mr. Bruggeman made a motion, seconded by Mr. Hudson, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Mr. DiMemmo, to adopt the modified proposal pending the Statutory Accounting Principles (E) Working Group adoption for the Schedule E, Part 2, reporting (Attachment Four-A22). The motion passed unanimously.


Mr. Bruggeman stated that during the 2019 Fall National Meeting, the Valuation of Securities (E) Task Force adopted an amendment to add ground lease financing transactions as a newly-defined asset class to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), effective Jan. 1, 2020, and referred such action to the Statutory Accounting Principles (E) Working Group for consideration. While an update was not required in the Accounting Practices and Procedures Manual (AP&P Manual), specific identification of such activities is warranted for analysis and reporting purposes. This proposal adds the following: for Schedule D, Part 1, add code “10” to column 26 – Collateral Type for ground lease financing. Renumber “Other” code to 11. Mr. Bruggeman stated that interested parties suggested an editorial change correcting the description references of the exposure for Schedule D, Part 1, to be code “10” rather than “9”; the column reference to be “26” rather than “23”; and the “Other” code to be “11” rather than “10”. These changes have been reflected in the proposal.

Mr. Bruggeman made a motion, seconded by Mr. Milquet, to adopt the proposal including the editorial correction (Attachment Four-A23). The motion passed unanimously.
y. Add New Line 4.05 for Valuation Allowance for Mortgage Loans to the Summary Investment Schedule and Renumber Existing Line 4.05 to 4.06. Modify the Instructions to Include a Crosscheck for New Line 4.05 Back to Schedule B – Verification Between Years. Clarify the Instructions for 4.01-4.04 to Explicitly Show Crosschecking to Column 8 of Schedule B, Part 1 (2020-21BWG) Effective Dec. 31, 2020.

Mr. Bruggeman stated that the purpose of this schedule revision is to address that the amount reported on Schedule B, Part 1, column 8 excludes the valuation allowance, but the total reported for mortgage loans in the Summary Investment Schedule must tie to the asset page, which includes the valuation allowance. This change was adopted by the Statutory Accounting Principles (E) Working Group on May 20. This proposal adds a new line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumbers the existing line 4.05 to 4.06. It modifies the instructions to include a crosscheck back to Schedule B – Verification Between Years for the new line 4.05. He stated that the proposal clarifies the instructions for lines 4.01 through 4.04 to explicitly show crosschecking to column 8 of Schedule B, Part 1. Interested parties recommend changing the instructions on page 3 for “line 4.0506” to add the appropriate lines: “Sum of Lines 4.01 to 4.0405.” This has been reflected in the proposal.

Mr. Bruggeman made a motion, seconded by Mr. Sirovetz, to adopt the proposal with the editorial correction (Attachment Four-A24). The motion passed unanimously.

z. Modify the Instructions and Illustration for Note 3A and a New Note 3E with Instructions and Illustrations to be Data Captured. Modify the Blank and Instructions for Schedule D, Part 6, Sections 1 and 2 (2020-22BWG).

Mr. Bruggeman stated that this item is still exposed by the Statutory Accounting Principles (E) Working Group, with comments due May 29. It is recommended that the Blanks (E) Working Group defer this item until the Statutory Accounting Principles (E) Working Group reviews comments and takes an action.

Mr. Bruggeman made a motion, seconded by Mr. Hudson, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Mr. Hudson, to defer the modified proposal. The motion passed unanimously.

aa. Add a Footnote to Exhibit 5 (Life/Fraternal & Health – Life Supplement) and Exhibit 3 Separate Accounts to Disclose Cases When a Mortality Risk is No Longer Present or a Significant Factor – i.e. Due to a Policyholder Electing a Payout Benefit (2020-23BWG) Effective Dec. 31, 2020.

Mr. Bruggeman stated that while this update did not result in a statutory accounting change, this footnote will disclose cases when a mortality risk is no longer present or a significant factor, i.e., due to a policyholder electing a payout benefit. This proposal adds a footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 separate accounts. Interested parties recommend changes to the Exhibit 5 footnote. These revisions were reflected in the proposal.

Mr. Bruggeman made a motion, seconded by Mr. Sirovetz, to adopt the modifications to the proposal. The motion passed unanimously. Mr. Bruggeman made a motion, seconded by Ms. Carter, to adopt the modified proposal (Attachment Four-A25). The motion passed unanimously.

3. Exposed Proposals


Ms. Frasier stated that this proposal makes changes to the Supplemental Exhibits and Schedules Interrogatories for the 2021 annual filing. There are four certifications related to business subject to Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43) being provided in the Principles-Based Reserve Actuarial Report as required by VM-31. The proposal removes questions 29, 30, 31 and 32 referencing these separate certifications.

Hearing no objection, the proposal was exposed for a 60-day public comment period ending July 28.
b. Add a New Column 5 to the Blank for Schedule T with Instructions to Specifically Capture the CHIP Premium. Existing Columns After the New Column 5 will be Renumbered (2020-25BWG).

Mr. Garn stated that this proposal is intended to assist in identifying the Children’s Health Insurance Program (CHIP) premiums as it relates to guaranty fund assessments. This proposal adds a new column to Schedule T with instructions to specifically capture the CHIP premium.

Hearing no objection, the proposal was exposed for a 60-day public comment period ending July 28.


Mr. Bruggeman stated that the purpose of this proposal is to reflect on Schedule DB, Part D, Section 1, and the Notes to Financial Statement disclosure changes to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities being considered by the Statutory Accounting Principles (E) Working Group. This issue pertains to financing derivatives and would reflect premium due/owed for these derivative transactions to be factored into the “counterparty risk” for RBC purposes.

Hearing no objection, the proposal was exposed for a 60-day public comment period ending July 28.

4. Adopted the Editorial Listing

Mr. Hudson made a motion, seconded by Mr. Snow, to adopt the editorial listing (Attachment Four-A26). The motion passed unanimously.

5. Electronic Blanks and Instructions Publications

Mr. Garn stated that in order to continue to provide the blanks and instructions to customers during the current remote work situation, the 2019 annual and 2020 quarterly blanks and instructions have been produced in electronic format using the same Bookshelf product being used for the electronic AP&P Manual. He stated that the NAIC products web page notes that: “New in April 2020 – the Annual Statement Instructions for Data Year 2019 and the Quarterly Statement Instructions for Data Year 2020 will now be offered as individual PDFs via an online subscription service (OSS). This new subscription service provides access to the published version of the publications. Subscriptions are specific to an individual user and access to the platform requires a redemption code, which will be provided via email following verification of the purchase.” Mr. Garn stated that customers will need to contact the NAIC publications department for a subscription.

Having no further business, the Blanks (E) Working Group adjourned.
The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Dec. 17, 2019. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); William Arfanis (CT); N. Kevin Brown (DC); Adrienne Lupo (DE); Virginia Christy, Carolyn Morgan and Jason Reynolds (FL); Carrie Mears and Daniel Mathis (IA); Roy Eft (IN); Dan Schaefer (MI); Debbie Doggett (MO); Justin Schrader (NE); Patricia Gosselin (NH); John Sirotetz (NJ); Dale Bruggeman and Tracy Snow (OH); Eli Snowbarger and Joel Sander (OK); Joe DiMemmo (PA); Trey Hancock and Hui Wattanaskolpant (TN); Shawn Frederick (TX); Steve Drutz (WA); Randy Milquet (WI); and Jamie Taylor (WV).

1. Adopted its Oct. 22 Minutes

Mr. Eft made a motion, seconded by Mr. Sander, to adopt the Working Group’s Oct. 22 minutes (see NAIC Proceedings – Fall 2019, Accounting Practices and Procedures (E) Task Force, Attachment Two). The motion passed unanimously.

2. Adopted Items Previously Exposed


Mr. Schrader stated that this proposal adds clarifying instructions to address questions that have been received regarding the new Analysis of Operations by Lines of Business on the life and health blank. The proposal adds instructions and crosschecks for line 34 on the Analysis of Operations by Lines of Business – Summary. It adds instructions for column 5 for indexed life on the Analysis of Operations by Lines of Business for individual life. It adds clarifying instructions to the Analysis of Operations by Lines of Business for individual life and group life, indicating that the reporting should be consistent with policy type language in the contract and the reporting of policies issued with secondary guarantees that have expired. Mr. Schrader stated that interested parties have some concerns with crosscheck references which have been addressed and highlighted as modifications within the proposal.

Mr. Schrader made a motion, seconded by Mr. Eft, to adopt the modifications to the proposal. The motion passed unanimously. Connie Jasper Woodroof (Sapiens) requested that the adopted proposal language be posted on the Blanks (E) Working Group web page as guidance to assist the life, accident & health/fraternal blank filers with the 2019 annual statement reporting of the Analysis of Operations by Lines of Business. The Working Group members agreed to posting the guidance document.


Mr. Hudson stated that this proposal requests the removal of the alphabetic index from inclusion at the back of the annual statement blank, instructions, and the Blanks (E) Working Group web page. Interested parties indicated that the alphabetic index reference should be deleted from the vendor electronic filing submission directive. Staff will make those changes when updating the directive for the 2019 filing period. The Working Group does not need to take an action on that change.

Mr. Hudson made a motion, seconded by Ms. Gosselin, to adopt the proposal (Attachment Four-A1b). The motion passed unanimously.
3. Exposed its Procedures

Mr. Garn stated that there have been changes incorporated into the procedures document and even more recent changes related to dates and timing. For example, moving the final adoption date to June 1 rather than “June” or what may have been presumed to be June 30. The proposed procedures include a deadline of April 15 for exposure of proposals with an annual statement effective date. Mary Caswell (NAIC) stated that one recent suggested change was to change the word “may” to “can be technically” in the “subsequent requests” paragraph. The sentence would read, “[a]ny proposal which includes data capture elements will be evaluated individually as to whether the data capture can be technically accommodated in that year.” Mr. Bruggeman stated that he agreed with designating specific dates for exposures and adoptions. He also said allowing for exceptions if technically possible makes it easier to understand the timing. John Bauer (Prudential Financial) agrees with the change of “can be technically” language to be incorporated as indicated.

Mr. Hudson made a motion, seconded by Mr. DiMemmo, to adopt the procedures with the minor word modifications as indicated. The motion passed unanimously.

Mr. Garn stated that interested parties had requested one in-person meeting to be held. Since the procedures reference “meetings,” there is no need to specifically reference “in-person” or a specific time period for that meeting in the procedures document. The 2020 Spring National Meeting has been suggested for an in-person meeting. The Meetings Department will perform the scheduling and avoid conflicts with any Financial Condition (E) Committee, Financial Regulation Standards and Accreditation (F) Committee, or International Insurance Relations (G) Committee groups.

4. Exposed Proposals


Mr. Snow stated that this proposal modifies the instructions for Column 10, Schedule F, Part 3 – Property and the Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-out supplement, removing instructions to exclude adjusting and other reserves from the column. It adds instructions to include those with the defense and cost containment reserves. It adds a new instruction for Column 12 for the same schedules. It adds crosschecks to Schedule P, Part 1. Mr. Snow stated that interested parties had a minor modification to add the word “and” that was missing from the reference to “adjusting and other.”

Mr. Snow stated that interested parties also ask for a wording clarification to address companies that might fail crosschecks because of pooling arrangements. Since the proposal is not effective until the annual 2020 filing, there is time to clarify the language and re-expose the proposal. Mr. Snow made a motion, seconded by Mr. Drutz, to re-expose the proposal with the minor modification adding the word “and,” as well as adding clarifying crosscheck language to address companies involved in pooling. The motion passed unanimously.

Mr. Bauer expressed support for re-exposing the proposal with the clarifying language to address the application of crosschecks for companies involved in pooling. Ms. Caswell stated that, with the approval of the Working Group, staff could add language to the crosscheck reference to indicate that it “does not apply to companies with inter-company pooling participation arrangements having amounts reported in Sch P, Part 1, Column 34.” Staff would set up the crosscheck to test any crosscheck failures to see if amounts are recorded in the pooling column of Schedule P, Part 1, Column 34 and pass the crosscheck. It would be set up like an “if-then” statement test.

b. Modify the Instruction for SIRI Lines 13.02 Through 13.11 Clarifying When to Identify the Actual Equity Interests Within a Fund and Aggregate Those Equity Interests for Determination of the Ten Largest Equity Interests (2019-28BWG)

Mr. Bruggeman stated that the purpose of this proposal is to clarify when to identify the actual equity interests within a fund like an exchange-traded fund (ETF) or a mutual fund and aggregate those equity interests for determination of the 10 largest equity interests. The proposal modifies the instruction for Supplemental Investment Risk Interrogatories (SIRI) lines 13.02 through 13.11. The Statutory Accounting Principles (E) Working Group adopted this application at the 2019 Fall National Meeting. This proposal has an annual 2020 effective date. The clarification indicates that the company must look through a non-diversified fund to aggregate exposures in the top 10 equity interest, but a look through is not required with diversified
funds. Hearing no state insurance regulator objection, the proposal was exposed for a public comment period ending Feb. 21, 2020.

c. Modify the Instruction and Blank for Supplemental Investment Risk Interrogatories Question 14.01 (2019-29BWG)

Mr. Bruggeman stated that this proposal is to clarify that interrogatories 14.06 through 14.15 in the blank are to be completed regardless of the answer to SIRI question 14.01. This item was adopted by the Statutory Accounting Principles (E) Working Group at the 2019 Spring National Meeting and adopted by the Blanks (E) Working Group. This proposal is a clarification of that previous proposal. Hearing no objection, the proposal was exposed for a public comment period ending Feb. 21, 2020.

d. Add a Category and Instructions for Reciprocal Jurisdiction Companies in Schedule S for the Life/Fraternal and Health Blanks and Schedule F for the Property and Title Blanks. Add a List of Identification Numbers in Instruction to Schedule Y, Part 1A; Schedule Y, Part 2; and Schedule D, Part 6, Section 1 for Reciprocal Jurisdiction Companies. Add a Reference to Reciprocal Jurisdiction Companies in the Trusteed Surplus Statement Instructions for Life/Fraternal, Health and Property Statements (2019-30BWG)

Jake Stultz (NAIC) stated that this proposal relates to work of the Reinsurance (E) Task Force with regards to the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement) and the creation of a reciprocal jurisdiction. The intent of this proposal is to set up annual reporting blanks to allow companies to report reinsurance with reciprocal jurisdiction reinsurers as soon as the states enact the 2019 revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). This is similar to the process used to implement the certified reinsurer provision in 2011. The Reinsurance (E) Task Force exposed this change during the 2019 Fall National Meeting for a concurrent exposure with the Blanks (E) Working Group. Hearing no objection, the proposal was exposed for a public comment period ending Feb. 21, 2020.

5. Adopted the Editorial Listing

Mr. Hudson made a motion, seconded by Mr. Snow, to adopt the editorial listing (Attachment Four-A1c). The motion passed unanimously.

Having no further business, the Blanks (E) Working Group adjourned.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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</tr>
<tr>
<td>NAME:</td>
<td>Justin C. Schrader</td>
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<td>Chair, Liquidity Assessment (EX) Subgroup</td>
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FOR NAIC USE ONLY

Agenda Item # 2019-26BWG MOD

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<tr>
<td>New Reporting Requirement</td>
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REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact | [ ]
Modifies Required Disclosure | [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 12/17/2019
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ ] QUARTERLY STATEMENT
[ X ] INSTRUCTIONS
[ X ] CROSSCHECKS
[ ] Life, Accident & Health/Fraternal
[ ] Property/Casualty
[ ] Health
[ ] Other _______________________

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE


REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Add clarifying instructions to address questions that have come up regarding reporting on the new Analysis of Operations by Lines of Business pages.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________

Other Comments:

** This section must be completed on all forms.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – SUMMARY

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Detail Eliminated to Conserve Space

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Column 9 – YRT Mortality Risk Only


Line 34 – Policies/Certificates in Force End of Year

The number provided should be count of direct written policies/certificates in force at the end of the year.

The sum of Columns 2, 3, 4 and 5 should equal Line 23, Column 9 of Life Insurance (state page).

The sum of Columns 4 and 5 should equal the Exhibit of Number of Policies, Contracts, Certificates, Income Payable and Account Values in Force for Supplementary Contracts, Accident and Health and Other Policies Line 9 (Column 1 plus Column 3 for the Supplementary Contracts section) plus Line 9 (sum of Columns 1 through 4 for the Annuities section).

Column 6 should equal sum of Column 1, Column 3 and Column 5, Line 10 – Line 3 + Line 8 of the Exhibit of Number of Policies, Contracts, Certificates, Income Payable and Account Values in Force for Supplementary Contracts, Annuities, Accident and Health and Other Policies in the Accident and Health Insurance section.
ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – INDIVIDUAL LIFE INSURANCE

This exhibit shows Lines 1 through 33 of the Summary of Operations by Line of Business, in part.

Reporting for the columns of this schedule should be consistent with the policy type language per the product contract.

Policies where the product was issued with secondary guarantees, but those secondary guarantees have since expired should be reported consistent with how the policy was issued (i.e., still report product as one with secondary guarantees).

For definitions of lines of business, see the appendix of these instructions.

A company shall not omit the columns for any lines of business in which it is not engaged.

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Total</th>
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<td>The lines in this column are to agree with Page 4, Column 1, in part.</td>
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<th>Column 5</th>
<th>Indexed Life</th>
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<td>Include: Indexed universal life with secondary guarantees.</td>
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<table>
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<th>Column 10</th>
<th>Credit Life</th>
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<td>Include: Business not exceeding 120 months.</td>
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This column are not applicable to Fraternal Benefit Societies.

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<thead>
<tr>
<th>Column 11</th>
<th>Other Individual Life</th>
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<tr>
<td>Include: All individual life insurance not included in columns 2 through 10.</td>
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</table>

<table>
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<th>Column 12</th>
<th>YRT Mortality Risk Only</th>
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<tr>
<td>This column should only be completed for assumed and retained (net) yearly-renewable-term reinsurance business where the only risk included is mortality.</td>
<td></td>
</tr>
<tr>
<td>If a company reports YRT assumed business in Columns 2 through 11, then that business should not be reported in column 12.</td>
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Attachment Four-A1a
Accounting Practices and Procedures (E) Task Force
8/3/20

2019-26BWG_Modified.doc
ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – GROUP LIFE INSURANCE

This exhibit shows Lines 1 through 33 of the Summary of Operations by Line of Business, in part.

Reporting for the columns of this schedule should be consistent with the policy type language per the product contract.

Policies where the product was issued with secondary guarantees, but those secondary guarantees have since expired should be reported consistent with how the policy was issued (i.e., still report product as one with secondary guarantees).

For definitions of lines of business, see the appendix of these instructions.

A company shall not omit the columns for any lines of business in which it is not engaged.

Detail Eliminated to Conserve Space
# NAIC BLANKS (E) WORKING GROUP

## Blanks Agenda Item Submission Form

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<tr>
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<tr>
<td>EMAIL ADDRESS:</td>
<td>Changes to Existing Reporting [ X ]</td>
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<td>ON BEHALF OF:</td>
<td>New Reporting Requirement [ ]</td>
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<tr>
<td>NAME: Kim Hudson</td>
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<tr>
<td>TITLE:</td>
<td>PRACTICES AND PROCEDURES IMPACT</td>
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<td>ADDRESS: 300 South Spring St.</td>
<td>Modifies Required Disclosure [ ]</td>
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<td>Los Angeles, CA 90013</td>
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## BLANK(S) TO WHICH PROPOSAL APPLIES

| ANNUAL STATEMENT | [ X ] | QUARTERLY STATEMENT | [ ] |
| INSTRUCTIONS     | [ X ] | CROSSCHECKS         | [ X ] |
| BLANK             | [ ] |

| Life, Accident & Health/ Fraternal | Separate Accounts | [ X ] |
| Property/Casualty                  | Protected Cell    | [ X ] |
| Health                              | Health (Life Supplement) | [ ] |

Anticipated Effective Date: Annual 2020

## IDENTIFICATION OF ITEM(S) TO CHANGE

Remove the alphabetic index from inclusion at the back of the annual statement blank, instructions and Blanks Working Group Web page.

## REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

When the index was added back to being included in the hard copy of the annual statement states were still primarily using hard copies of the statement and the index make finding pages in the statement easier. Now the PDF copies of the statement are primarily used and are bookmarked, inclusion of the index in the statement is no longer needed.

## NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ____________________________

Other Comments:

** This section must be completed on all forms. Revised 6/13/2009
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

INSTRUCTIONS

Detail Eliminated to Conserve Space

INDEX

The annual statement shall contain an alphabetized index on the last page of the hard copy statement, which references the title and page number of all of the pages that are required to be included in that filing. The NAIC shall maintain, and place on its Website at www.naic.org/cmte_e_app_blanks.htm, the alphabetized index for all statement types that is required to be included in the hard copy of the statement. The above is only required on the March 1 filing, and specifically excludes any supplements.

GENERAL

Detail Eliminated to Conserve Space

ANNUAL STATEMENT INSTRUCTIONS – SEPARATE ACCOUNTS

INSTRUCTIONS

FOR COMPLETING SEPARATE ACCOUNTS ANNUAL STATEMENT BLANK

INDEX

The annual statement shall contain an alphabetized index on the last page of the hard copy statement which references the title and page number of all of the pages that are required to be included in that filing. The NAIC shall maintain, and place on its Website at www.naic.org/cmte_e_app_blanks.htm, the alphabetized index for all statement types that is required to be included in the hard copy of the statement. The above is only required on the March 1 filing, and specifically excludes any supplements.

GENERAL

Detail Eliminated to Conserve Space

ANNUAL STATEMENT INSTRUCTIONS – PROTECTED CELL

INSTRUCTIONS

For Completing Protected Cell Annual Statement Blank

INDEX

The annual statement shall contain an alphabetized index on the last page of the hard copy statement which references the title and page number of all of the pages that are required to be included in that filing. The NAIC shall maintain, and place on its Website at www.naic.org/cmte_e_app_blanks.htm, the alphabetized index for all statement types that is required to be included in the hard copy of the statement. The above is only required on the March 1 filing, and specifically excludes any supplements.

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<tbody>
<tr>
<td>2020</td>
<td>Exhibit 6</td>
<td><strong>CHANGE TO INSTRUCTION</strong>&lt;br&gt;Modify the instructions as shown below to clarify loss/claims adjusting expenses are not to be included on the exhibit.&lt;br&gt;Reserves or other amounts relating to uninsured accident and health plans and the uninsured portion of partially insured accident and health plans should be excluded from this exhibit.&lt;br&gt;Do not include amounts for loss/claims adjusting expenses.&lt;br&gt;Column 10 – Credit Accident and Health (Group and Individual)&lt;br&gt;Include: Business not exceeding 120 months.&lt;br&gt;Refer to <em>SSAP No. 59—Credit Life and Accident and Health Insurance Contracts</em> for accounting guidance.&lt;br&gt;<em>This column is not applicable to Fraternal Benefit Societies.</em></td>
<td>L/F</td>
<td>Annual</td>
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<tr>
<td>2020</td>
<td>Exhibit 8</td>
<td><strong>CHANGE TO INSTRUCTION</strong>&lt;br&gt;Modify the instructions as shown below to clarify loss/claims adjusting expenses are not to be included on the exhibit.&lt;br&gt;Amounts relating to uninsured accident and health plans and the uninsured portion of partially insured accident and health plans should be excluded from this exhibit.&lt;br&gt;Do not include amounts for loss/claims adjusting expenses.</td>
<td>L/F</td>
<td>Annual</td>
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<tr>
<td>2019</td>
<td>Schedule DB, Part E</td>
<td><strong>CHANGE TO BLANK</strong>&lt;br&gt;Null column 9, Total line as it is a percentage.</td>
<td>All</td>
<td>Annual</td>
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<tr>
<td>2019</td>
<td>Analysis of Reserves – Accident and Health</td>
<td>CHANGE TO BLANK</td>
<td>SA</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Change name of table from Analysis of Increase in Reserves During the Year – Accident and Health to Analysis of Reserves During the Year – Accident and Health as the table does not calculate an increase (Similar to Exhibit 6 in Life Statement.)</td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td>Schedule D, Parts 3 and 4 Footnote</td>
<td>CHANGE TO BLANK</td>
<td>All</td>
<td>Quarterly</td>
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<tr>
<td></td>
<td></td>
<td>Delete footnote for market indicator to coincide with removal of market indicator and make consistent with annual.</td>
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<tr>
<td>2020</td>
<td>Schedule DB, Part E</td>
<td>CHANGE TO BLANK</td>
<td>All</td>
<td>Quarterly</td>
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<tr>
<td></td>
<td></td>
<td>Header originally was for annual referring to December 31. Change to quarterly terminology: Derivatives Hedging Variable Annuity Guarantees as of Current Statement Date</td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td>General Interrogatories Part 1</td>
<td>CHANGE TO BLANK</td>
<td>All</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Add N/A as a choice on Line 15.2 to mimic annual statement. This will allow entities that answer NO on line 15.1 (do not enter into hedging transactions) to answer N/A.</td>
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# NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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<tr>
<th>CONTACT PERSON:</th>
<th>Tracy Snow</th>
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<tr>
<td>TITLE:</td>
<td>Chief, Captive Insurance</td>
</tr>
<tr>
<td>AFFILIATION:</td>
<td>Ohio Department of Insurance</td>
</tr>
<tr>
<td>ADDRESS:</td>
<td>50 W Town St, 3rd Fl, Ste 300 Columbus, OH 43215</td>
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**DATE:** 09/24/2019

**FOR NAIC USE ONLY**

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<tr>
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<tr>
<td>New Reporting Requirement</td>
<td>[ ]</td>
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**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

| No Impact | [ X ] |
| Modifies Required Disclosure | [ ] |

**DISPOSITION**

| [ ] Rejected For Public Comment |
| [ ] Referred To Another NAIC Group |
| [ ] Received For Public Comment |
| [ X ] Adopted Date 05/28/2020 |
| [ ] Rejected Date |
| [ ] Deferred Date |
| [ ] Other (Specify) |

**BLANK(S) TO WHICH PROPOSAL APPLIES**

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<tr>
<td>[ X ] INSTRUCTIONS</td>
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<tr>
<td>[ X ] CROSSCHECKS</td>
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<tr>
<td>[ X ] Life, Accident &amp; Health/Fraternal</td>
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<td>[ X ] Property/Casualty</td>
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<td>[ ] Health</td>
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<td>[ ] Protected Cell</td>
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<td>[ ] Title</td>
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<tr>
<td>[ ] Other</td>
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<tr>
<td>[ ] Health (Life Supplement)</td>
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Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Modify the instruction for Column 10 (Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-out supplement) to remove instruction to exclude adjusting and other reserves from the column and add instruction include along with the defense and cost containment reserves. Add a new instruction for Column 12 for the same schedules. Add crosschecks to Schedule P, Part 1.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is ensure adjusting other and defense and cost containment reserves are reported properly as Known Case LAE Reserves or IBNR LAE Reserves.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date:______

Other Comments:______

**This section must be completed on all forms.**  Revised 7/18/2018

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ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE F – PART 3

CEDED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

Detail Eliminated to Conserve Space

<table>
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<tr>
<th>Column</th>
<th>Description</th>
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<tr>
<td>9</td>
<td>Known Case Loss Reserves</td>
<td>Total multiplied by 1000 should agree with Underwriting and Investment Exhibit, Part 2A, Line 35, Column 3.</td>
</tr>
<tr>
<td>10</td>
<td>Known Case LAE Reserves</td>
<td>Include: Defense and Cost Containment from Schedule P, Part 1, Columns 18 Adjusting and Other from Schedule P, Part 1, Column 22, in part</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The sum of Schedule F, Part 3, Columns 10 and 12 should equal the sum of Schedule P, Part 1, Columns 18, 20 and 22. (Note: This crosscheck doesn't apply to those companies participating in inter-company pooling participation arrangements where the participation percentage in Schedule P, Part 1, Column 34 is not equal to zero.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exclude: Adjusting &amp; Other Expense Reserves.</td>
</tr>
<tr>
<td>11</td>
<td>IBNR Loss Reserves</td>
<td>Total multiplied by 1000 should agree with Underwriting and Investment Exhibit, Part 2A, Line 35, Column 7.</td>
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<tr>
<td>12</td>
<td>IBNR LAE Reserves</td>
<td>Include: Defense and Cost Containment from Schedule P, Part 1, Columns 20 Adjusting and Other from Schedule P, Part 1, Column 22, in part</td>
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<tr>
<td>13</td>
<td>Unearned Premiums</td>
<td>Total multiplied by 1000 should equal Page 3, Line 9 parenthetical amount.</td>
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Detail Eliminated to Conserve Space
# ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

## WORKERS’ COMPENSATION CARVE-OUT SUPPLEMENT

### SCHEDULE F – PART 2

#### CEDED REINSURANCE

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<td>Known Case Loss Reserves</td>
<td>Total multiplied by 1000 should agree with Underwriting and Investment Exhibit, Part 4, Column 2.</td>
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<td>10</td>
<td>Known Case LAE Reserves</td>
<td>Include: Defense and Cost Containment from Schedule P, Part 1, Columns 18 and 20; Adjusting and Other from Schedule P, Part 1, Column 22, in part. The sum of Schedule F, Part 2, Columns 10 and 12 should equal the sum of Schedule P, Part 1, Columns 18, 20 and 22. (Note: This crosscheck doesn’t apply to those companies participating in inter-company pooling participation arrangements where participation the percentage in Schedule P, Part 1, Column 34 is not equal to zero.)</td>
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<tr>
<td>11</td>
<td>IBNR Loss Reserves</td>
<td>Total multiplied by 1000 should agree with Underwriting and Investment Exhibit, Part 4, Column 5.</td>
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<tr>
<td>14</td>
<td>Contingent Commissions</td>
<td>Include: Contingent commissions receivable from a reinsurer. Regular commissions should be netted with ceded balances payable in Column 16.</td>
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**NAIC BLANKS (E) WORKING GROUP**

### Blanks Agenda Item Submission Form

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**CONTACT PERSON:**

**TELEPHONE:**

**EMAIL ADDRESS:**

**ON BEHALF OF:**

**NAME:** Dale Bruggeman

**TITLE:** Chair SAPWG

**AFFILIATION:** Ohio Department of Insurance

**ADDRESS:** 50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215

### FOR NAIC USE ONLY

- **Agenda Item #:** 2019-28BWG
- **Year:** 2020
- **Changes to Existing Reporting:** [ X ]
- **New Reporting Requirement:** [ ]

### REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

- **No Impact:** [ X ]
- **Modifies Required Disclosure:** [ ]

### DISPOSITION

- [ ] Rejected For Public Comment
- [ ] Referred To Another NAIC Group
- [ ] Received For Public Comment
- [ X ] Adopted Date 05/28/2020
- [ ] Rejected Date
- [ ] Deferred Date
- [ ] Other (Specify) ___________

### BLANK(S) TO WHICH PROPOSAL APPLIES

- [ X ] ANNUAL STATEMENT
- [ X ] QUARTERLY STATEMENT
- [ X ] INSTRUCTIONS
- [ ] CROSSCHECKS
- [ X ]blank ANNUAL STATEMENT
- [ ] Life, Accident & Health/Fraternal
- [ ] Property/Casualty
- [ ] Health
- [ X ] Title
- [ ] Other ___________

Anticipated Effective Date: Annual 2020

### IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instruction for Supplemental Investment Risk Interrogatories Lines 13.02 through 13.11 clarifying when to identify the actual equity interests within a fund and aggregate those equity interests for determination of the ten largest equity interests.

### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify when reporting entities are required to identify actual equity interests within a fund and aggregate those equity interests to determine their ten largest equity interests.

### NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Detail Eliminated to Conserve Space

Line 13.02 through 13.11 – Report the amounts and percentages of admitted assets held in the ten largest equity interests (including equity funds that qualify individually as one of the largest equity interests and a look-through of investments in the shares of non-diversified mutual funds and ETFs, preferred stocks, publicly traded equity securities, and other equity securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in Part Six, Sections 2(f) and (g) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC 1). Equity interests in all funds that are diversified in accordance with the Investment Company Act of 1940 do not need to be individually assessed and aggregated to determine the ten largest equity interests. For funds that are not diversified within the meaning of the Investment Company Act of 1940, insurance reporting entities are required to identify actual equity interests within the fund and aggregate those equity interests to determine their ten largest equity interests.

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

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

## Blanks Agenda Item Submission Form

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<tr>
<td>ON BEHALF OF:</td>
<td>Ohio Department of Insurance</td>
</tr>
<tr>
<td>NAME:</td>
<td>Dale Bruggeman</td>
</tr>
<tr>
<td>TITLE:</td>
<td>Chair SAPWG</td>
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<tr>
<td>AFFILIATION:</td>
<td>Ohio Department of Insurance</td>
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### FOR NAIC USE ONLY

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<td>[ X ]</td>
</tr>
<tr>
<td>New Reporting Requirement</td>
<td>[]</td>
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### REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

- No Impact | [ X ]
- Modifies Required Disclosure | [ ]

### DISPOSITION

- [ ] Rejected For Public Comment
- [ ] Referred To Another NAIC Group
- [ ] Received For Public Comment
- [ X ] Adopted Date 05/28/2020
- [ ] Rejected Date
- [ ] Deferred Date
- [ ] Other (Specify) 

## BLANK(S) TO WHICH PROPOSAL APPLIES

- [ X ] ANNUAL STATEMENT
- [ X ] INSTRUCTIONS
- [ X ] CROSSCHECKS
- [ ] QUARTERLY STATEMENT
- [ ] Separate Accounts
- [ X ] Title
- [ X ] BLANK
- [ ] Protected Cell
- [ ] Other 
- [ X ] Life, Accident & Health/Fraternal
- [ X ] Property/Casualty
- [ X ] Health
- [ X ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

## IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instruction and blank for Supplemental Investment Risk Interrogatories Question 14.01.

## REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify that Interrogatories 14.06 through 14.15 are to be completed regardless of the answer to Supplemental Investment Risk Interrogatories Question 14.01.

## NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________________

Other Comments: ________________________________

** This section must be completed on all forms. 

Revised 7/18/2018

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Line 14.06 through 14.15 – These lines should be completed even if the answer to Question 14.01 is “YES.”

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

14. Amounts and percentages of the reporting entity’s total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity’s total admitted assets? Yes [ ] No [ ]

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05 the remainder of Interrogatory 14.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 11/14/2019

CONTACT PERSON:  Jake Stultz

TELEPHONE:  816-783-8481

EMAIL ADDRESS:  jstultz@naic.org

ON BEHALF OF:  Chlor a Lindley-Myers

NAME:  Chlor a Lindley-Myers

TITLE: Chair, Reinsurance (E) Task Force

AFFILIATION:  Chair, Reinsurance (E) Task Force

ADDRESS:  Chlor a Lindley-Myers

FOR NAIC USE ONLY

Agenda Item # 2019-30BWG MOD

Year  2020

Changes to Existing Reporting  [ X ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact  [ X ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 005/28/2020
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify) ________

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[ X ] QUARTERLY STATEMENT
[ X ] INSTRUCTIONS
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[ ] Separate Accounts
[ ] Protected Cell
[ X ] Title
[ ] Other ______________________

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

See next page for details.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

See next page for details

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________

Other Comments:

** This section must be completed on all forms.

© 2020 National Association of Insurance Commissioners  1  2019-30BWG_Modified.doc
REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE

On June 25, 2019, NAIC Executive (EX) Committee and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate the relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (Covered Agreement). Under the revisions, credit for reinsurance is allowed for domestic ceding insurers for reinsurance that has been ceded to reinsurers from Reciprocal Jurisdictions, and that those reinsurers are not required to post collateral. As a result, it is necessary to consider revisions to the appropriate reinsurance schedules and instructions in order to collect the relevant information with respect to these reinsurance transactions.

IDENTIFICATION OF ITEM(S) TO CHANGE

<table>
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<tr>
<th>Annual Statement Instructions</th>
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</table>

**Life/Fraternal and Health**

**Schedule S General Instructions**
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies.
- Modify note on applying Reciprocal Jurisdiction.
- Add Reciprocal Jurisdiction to the instruction for determining status.
- Reference in certified reinsurer number paragraph.

**Schedule S, Part 1, Section 1**
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 1, Section 2**
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 2**
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 3, Section 1**
- Add category lines for Reciprocal Jurisdiction Companies.
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 3, Section 2**
- Add category lines for Reciprocal Jurisdiction Companies.
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 4**
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Schedule S, Part 5**
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.

**Workers’ Compensation Cave-out Supplement**

**Schedule F General Instructions**
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies.
- Modify note on applying Reciprocal Jurisdiction.
- Add Reciprocal Jurisdiction to the instruction for determining status.
- Reference in certified reinsurer number paragraph.
Schedule F, Part 1
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 2
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Supplemental term and Universal Life Insurance Reinsurance Exhibit
Part 1
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 2.
Part 2A
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 3.
Part 2B
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 3.

Trusted Surplus Statement
- Add instructions for Line 4.4 Reciprocal Jurisdiction Companies

Property

Schedule F General Instructions
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies.
- Modify note on applying Reciprocal Jurisdiction.
- Add Reciprocal Jurisdiction to the instruction for determining status.
- Reference in certified reinsurer number paragraph.

Schedule F, Part 1
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 2
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 3
- Add category lines for Reciprocal Jurisdiction Companies.
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.
- Modify category lines references for the list of lines for Reciprocal Jurisdiction Companies for Columns 28 through 36.
- Modify category lines references for the list of lines for Reciprocal Jurisdiction Companies for Columns 71 and 72.
- Modify category lines references for the list of lines for Reciprocal Jurisdiction Companies for Columns 73 and 74.

Supplemental Schedule for Reinsurance Counterparty Reporting Acceptations – Asbestos and Pollution Contracts
- Add category lines for Reciprocal Jurisdiction Companies.
- Add Reciprocal Jurisdiction to list of type of reinsurers for Columns 1 and 5.

Notes to Financial Statement 23F(1)f
- Add section to illustration for Reciprocal Jurisdiction Companies

Trusted Surplus Statement
- Add instructions for Line 7.4 Reciprocal Jurisdiction Companies
Title

Schedule F General Instructions
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies.
- Modify note on applying Reciprocal Jurisdiction.
- Add Reciprocal Jurisdiction to the instruction for determining status.
- Reference in certified reinsurer number paragraph.

Schedule F, Part 1
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 2
- Add category lines for Reciprocal Jurisdiction Companies.
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 3
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Schedule F, Part 4
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 1.

Operations and Investments Exhibit – Part 2B
- For Line 2 remove the references to authorized, unauthorized and certified. Line is for all types of reinsurers so specifying is not needed.

Notes to Financial Statement 23F(1)f
- Add section to illustration for Reciprocal Jurisdiction Companies

Life/Fraternal, Health, Property, Title

Schedule Y, Part 1A
- Add Reciprocal Jurisdiction to the list of ID numbers provided in Column 4

Schedule Y, Part 2
- Add Reciprocal Jurisdiction to the list of ID numbers provided in Column 2

Schedule D, Part 6, Section 1
- Add Reciprocal Jurisdiction to the list of ID numbers provided in Column 5

Quarterly Statement Instructions

Life/Fraternal and Health

Trusteed Surplus Statement
- Add instructions for Line 4.4 Reciprocal Jurisdiction Companies

Property

Trusteed Surplus Statement
- Add instructions for Line 7.4 Reciprocal Jurisdiction Companies
Life/Fraternal and Health

Schedule S
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 7.
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies

Property and Title

Schedule F
- Add Reciprocal Jurisdiction to list of type of reinsurers for Column 5.
- Modify instructions to include section on numbers for Reciprocal Jurisdiction Companies.

Life/Fraternal, Health, Property, Title

Schedule Y, Part 1A
- Add Reciprocal Jurisdiction to the list of ID numbers provided in Column 4.

Annual Statement Blank

Property

Schedule F, Part 3
- Add the word Reciprocal Jurisdiction to the column descriptions for Columns 73, 74, and 75.

Title

Operations and Investments Exhibit – Part 2B
- For Line 2 remove the references to authorized, unauthorized and certified. Line is for all types of reinsurers so specifying is not needed.

Life/Fraternal and Property

Trusted Surplus Statement
- Add Line 7.4 for Reciprocal Jurisdiction Companies

Quarterly Statement Blank

Life/Fraternal and Property

Trusted Surplus Statement
- Add Line 7.4 for Reciprocal Jurisdiction Companies
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL AND HEALTH (INCLUDES HEALTH LIFE SUPPLEMENT)

SCHEDULE S – REINSURANCE

These parts (except Part 1, which shows reinsurance assumed) provide an analysis by reinsurance carrier of reinsurance ceded data shown in total in various parts of the statement. Information is included on all reinsurance ceded to other entities authorized as well as unauthorized or certified in the state of domicile of the reporting entity. Additional data for unauthorized companies is displayed in Part 4; additional data for certified reinsurers is displayed in Part 5.

NOTE: Certified reinsurer status applies on a prospective basis and is determined by the state of domicile of the ceding insurer. Reciprocal jurisdiction reinsurer status applies on a prospective basis and is for reinsurance agreements entered into, amended, or renewed on or after the effective date of the domiciliary state of the ceding entity enacting the 2019 revisions to the Credit for Reinsurance Models, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal. As such, it is possible that a ceding insurer will report reinsurance balances applicable to a single assuming insurer under multiple classifications within Schedule S. For example, with respect to a certified reinsurer that was considered unauthorized prior to certification, balances attributable to contracts entered into prior to the assuming insurer’s certification would be reported in the unauthorized classification, while balances attributable to contracts entered into or renewed on or after the assuming insurer’s certification would be reported in the certified classification. This will also be the case for reciprocal jurisdiction reinsurance, which may have been classified as certified reinsurance prior to the enactment of the 2019 revisions to the Credit for Reinsurance Models by the domiciliary state of the ceding entity. Proper classification of such balances is essential to ensure accurate reporting of collateral requirements applicable to specific balances and the corresponding calculation of the liability for unauthorized and/or certified reinsurance.

Effective date as used in this schedule is the date the contract originally went into effect.

Index to Schedule S

| Part 1, Section 1 | Reinsurance Assumed Life Insurance, Annuities, Deposit Funds and Other Liabilities Without Life or Disability Contingencies, and Related Benefits |
| Part 1, Section 2 | Reinsurance Assumed Accident and Health Insurance |
| Part 2 | Reinsurance Recoverable on Paid and Unpaid Losses |
| Part 3, Section 1 | Reinsurance Ceded Life Insurance, Annuities, Deposit Funds and Other Liabilities Without Life or Disability Contingencies, and Related Benefits |
| Part 3, Section 2 | Reinsurance Ceded Accident and Health Insurance |
| Part 4 | Reinsurance Ceded to Unauthorized Companies |
| Part 5 | Reinsurance Ceded to Certified Reinsurers |
| Part 6 | Five-Year Exhibit of Reinsurance Ceded Business |
| Part 7 | Restatement of Balance Sheet to Identify Net Credit for Ceded Reinsurance |

ID Number

Most parts of Schedule S require that the “ID Number” be reported for assuming or ceding entities.

Reinsurance intermediaries should not to be listed, because Schedule S is intended to identify the risk-bearing entities.

A ceding insurer can have unauthorized reinsurance, certified reinsurance and reciprocal jurisdiction reinsurance with the same reinsurer, based on when the contract became effective. It is important that the ceding insurer report...
all types correctly. The same reinsurer may be listed on the same Schedule S by the ceding insurer with an AIIN for unauthorized reinsurance, a CRIN for certified reinsurance, and a RJIN for reciprocal jurisdiction reinsurance.

Use of Federal Employer Identification Number

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “ID Number” for other alien insurers even if the federal government has issued such a number.

Alien Insurer Identification Number (AIIN)

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule S instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Pool and Association Numbers

In order to report transactions involving non-risk bearing pools or associations consisting of nonaffiliated companies correctly, the company must include on Schedule S the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC Listing of Companies. The Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Certified Reinsurer Identification Number (CRIN)

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule S instead of the FEIN, AIIN or RJIN. The CRIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)

In order to report transactions involving reciprocal jurisdiction reinsurers correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule S instead of the FEIN, AIIN or CRIN. The RJN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.
Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

For 2020 Reporting Only

Reinsurers that have met the requirements for reciprocal jurisdiction reinsurer status in your state of domicile should be reported in the appropriate reciprocal jurisdiction reinsurer category if the reporting entity has implemented the necessary system and reporting changes for 2020 annual reporting to identify and report those reinsurance transactions in the appropriate reciprocal jurisdiction reinsurer category.

If the reporting entity has not been able to make the necessary system and reporting changes for 2020 annual reporting, the reporting entity may report those reinsurance transactions using the authorized reinsurer lines. Any crosschecks the reporting entity fails as a result of reporting reciprocal jurisdiction reinsurers on the authorized reinsurer lines should be explained.

NAIC Company Code

Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero-filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the “Pool and Association Numbers” section above for details on assignment of Pool/Association Identification Numbers. Risk-bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk-bearing entity (e.g., risk-bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Determination of Authorized Status

The determination of the authorized, reciprocal jurisdiction, unauthorized or certified status of an insurer or reinsurer listed in any part of Schedule S shall be based on the status of that insurer or reinsurer in the reporting entity’s state of domicile.
SCHEDULE S – PART 1 – SECTION 1
REINSURANCE ASSUMED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES
WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURED
COMPANY AS OF DECEMBER 31, CURRENT YEAR

This section should include data on all reinsurance assumed for life insurance, annuities, deposit fund and other liabilities without life or disability contingencies, and related benefits by reinsured company as of December 31, current year.

<table>
<thead>
<tr>
<th>Column 2 – ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.</td>
</tr>
<tr>
<td>Federal Employer Identification Number (FEIN)</td>
</tr>
<tr>
<td>Alien Insurer Identification Number (AIIN)</td>
</tr>
<tr>
<td>Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)</td>
</tr>
<tr>
<td>Certified Reinsurer Identification Number (CRIN)</td>
</tr>
<tr>
<td>Pool/Association Identification Number</td>
</tr>
</tbody>
</table>

SCHEDULE S – PART 1 – SECTION 2
REINSURANCE ASSUMED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURED COMPANY
AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

<table>
<thead>
<tr>
<th>Column 2 – ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.</td>
</tr>
<tr>
<td>Federal Employer Identification Number (FEIN)</td>
</tr>
<tr>
<td>Alien Insurer Identification Number (AIIN)</td>
</tr>
<tr>
<td>Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)</td>
</tr>
<tr>
<td>Certified Reinsurer Identification Number (CRIN)</td>
</tr>
<tr>
<td>Pool/Association Identification Number</td>
</tr>
</tbody>
</table>
REINSURANCE RECOVERABLE ON PAID AND UNPAID LOSSES LISTED BY REINSURING COMPANY
AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Column 2 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

REINSURANCE CEDED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES
WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

NOTE: This schedule is to include Exhibit 7 cessions. Include actual reinsurance ceded on group cases but exclude jointly underwritten group contracts.

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

General Account
- Authorized Affiliates
- U.S.

Group or Category Line Number

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Other .................................................................................................................. 0299999
Total .................................................................................................................... 0399999
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<td>Unauthorized Affiliates</td>
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**Total Reciprocal Jurisdiction Affiliates**: 4099999

### Non-Affiliates

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**Total General Account Reciprocal Jurisdiction**: 4499999

**Total General Account Authorized, Reciprocal Jurisdiction, Unauthorized and Certified**: 34999994599999

### Separate Accounts

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#### Unauthorized

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**Total Unauthorized Affiliates**: 52000006399999

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</tr>
</tbody>
</table>

**Total Separate Accounts Authorized, Reciprocal Jurisdiction, Unauthorized and Certified**

<table>
<thead>
<tr>
<th>Total U.S.</th>
<th>Total Non-U.S.</th>
<th>Total Separate Accounts Authorized, Reciprocal Jurisdiction, Unauthorized and Certified</th>
</tr>
</thead>
<tbody>
<tr>
<td>68999999099999</td>
<td>69999997899999</td>
<td>69999997899999</td>
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<table>
<thead>
<tr>
<th>Column 2 – ID Number</th>
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</thead>
<tbody>
<tr>
<td>Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.</td>
</tr>
</tbody>
</table>

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number
**SCHEDULE S – PART 3 – SECTION 2**

**REINSURANCE CEDED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURING COMPANY**
**AS OF DECEMBER 31, CURRENT YEAR**

Include actual reinsurance ceded on group cases but exclude jointly underwritten group contracts.

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
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</thead>
<tbody>
<tr>
<td>General Account</td>
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<tr>
<td>Authorized</td>
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<tr>
<td>Affiliates</td>
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</tr>
<tr>
<td>U.S.</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0199999</td>
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<tr>
<td>Other</td>
<td>0299999</td>
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<tr>
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<td>0399999</td>
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<td>Affiliates</td>
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<tr>
<td><strong>Total Certified Affiliates</strong></td>
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<td><strong>Total Authorized Affiliates</strong></td>
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### Non-Affiliates

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### Non-Affiliates

<table>
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### Non-Affiliates

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<tr>
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Non-Affiliates

U.S. Non-Affiliates ................................................................. 8699999
Non-U.S. Non-Affiliates ........................................................ 8799999
Total Reciprocal Jurisdiction Non-Affiliates .......................... 8899999

Total Separate Accounts Reciprocal Jurisdiction .................. 8999999
Total Separate Accounts Authorized, Reciprocal Jurisdiction, Unauthorized and Certified ............. 68999999099999

Total U.S. (Sum of 0399999, 0899999, 1499999, 1999999, 2599999, 3099999, 37999993699999,
42999994199999, 4899999, 5399999, 5999999, 6499999, 7099999, 7599999, 8199999 and
64999998699999) ............................................................................................................................. 69999999199999

Total Non-U.S. (Sum of 0699999, 0999999, 1799999, 2099999, 2899999, 3199999, 40999993999999,
43999994299999, 5199999, 5499999, 6299999, 6599999, 7399999, 7699999, 8499999 and
65999998799999) ............................................................................................................................. 70999999299999

Total (Sum of 14999994599999 and 68999999099999) ............................................................................................ 9999999

Column 2 — ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN)
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
Certified Reinsurer Identification Number (CRIN)
Pool/Association Identification Number

Detail Eliminated to Conserve Space

SCHEDULE S – PART 4

REINSURANCE Ceded to Unauthorized Companies

Contains data on life and accident and health insurance in force that is reinsured with companies not authorized in the state of domicile of the reporting insurance company. The purpose of this schedule is to display reinsurance ceded data used in the development of the liability for reinsurance in unauthorized companies. This liability serves to offset those assets and liability reductions that reflect the result of reinsurance ceded with unauthorized companies.

Column 2 — ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN)
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
Certified Reinsurer Identification Number (CRIN)
Pool/Association Identification Number
SCHEDULE S – PART 5

REINSURANCE CEDED TO CERTIFIED REINSURERS

NOTE: This schedule is to be completed by those reporting entities whose domiciliary state has enacted the *Credit for Reinsurance Model Law* (#785) and/or *Credit for Reinsurance Model Regulation* (#786) with the defined certified reinsurer provisions.

Column 2 – ID Number

Enter one of the following as appropriate: CRIN for the entity being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number
ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE F – REINSURANCE

Index to Schedule F

<table>
<thead>
<tr>
<th>Part</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assumed Reinsurance</td>
</tr>
<tr>
<td>2</td>
<td>Portfolio Reinsurance</td>
</tr>
<tr>
<td>3</td>
<td>Ceded Reinsurance</td>
</tr>
<tr>
<td>4</td>
<td>Issuing or Confirming Banks for Letters of Credit from Schedule F, Part 3</td>
</tr>
<tr>
<td>5</td>
<td>Interrogatories for Schedule F, Part 3</td>
</tr>
<tr>
<td>6</td>
<td>Restatement of Balance Sheet to Identify Net Credit for Ceded Reinsurance</td>
</tr>
</tbody>
</table>

NOTE: Certified reinsurer status applies on a prospective basis and is determined by the state of domicile of the ceding insurer. Reciprocal jurisdiction reinsurer status applies on a prospective basis and is for reinsurance agreements entered into, amended, or renewed on or after the effective date of the domiciliary state of the ceding entity enacting the 2019 revisions to the Credit for Reinsurance Models, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal. As such, it is possible that a ceding insurer will report reinsurance balances applicable to a single assuming insurer under multiple classifications within Schedule F. For example, with respect to a certified reinsurer that was considered unauthorized prior to certification, balances attributable to contracts entered into prior to the assuming insurer’s certification would be reported in the unauthorized classification, while balances attributable to contracts entered into or renewed on or after the assuming insurer’s certification would be reported in the certified classification. This will also be the case for reciprocal jurisdiction reinsurance, which may have been classified as certified reinsurance prior to the enactment of the 2019 revisions to the Credit for Reinsurance Models by the domiciliary state of the ceding entity. Proper classification of such balances is essential to ensure accurate reporting of collateral requirements applicable to specific balances and the corresponding calculation of the liability for unauthorized and/or certified reinsurance.

Due Date

All parts of Schedule F are to be filed with the annual statement.

Please note that Parts 1, 3, 4 and 5 of this schedule are reported with thousands omitted. Parts 2 and 6 are reported in whole dollars.

ID Number

Most parts of Schedule F require that the “ID Number” be reported for assuming or ceding entities.

Reinsurance intermediaries should not be listed, because Schedule F is intended to identify only risk-bearing entities.

A ceding insurer can have unauthorized reinsurance, certified reinsurance and reciprocal jurisdiction reinsurance with the same reinsurer, based on when the contract became effective. It is important that the ceding insurer report all types correctly. The same reinsurer may be listed on the same Schedule F by the ceding insurer with an AIIN for unauthorized reinsurance, a CRIN for certified reinsurance, and a RJIN for reciprocal jurisdiction reinsurance.

Use of Federal Employer Identification Number

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “ID Number” for other alien insurers, even if the federal government has issued such a number.
**Alien Insurer Identification Number (AIIN)**

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule F instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact with the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

**Pool and Association Numbers**

In order to report transactions involving non-risk bearing pools or associations consisting of non-affiliated companies correctly, the company must include on Schedule F the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC Listing of Companies. The Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Alien pools and associations should be reported on Schedule F under the category “Other Non-U.S. Insurers” rather than under “Pools, Associations and Similar Facilities.” Pools and associations consisting of affiliated companies should be listed by individual company names rather than by pool or association identification.

**Certified Reinsurer Identification Number (CRIN)**

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule F instead of the FEIN, Alien Insurer Identification Number (AIIN), or Reciprocal Jurisdiction Reinsurer Identification Number (RJIN). The CRIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

**Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)**

In order to report transactions involving alien companies correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule F instead of the FEIN, Alien Insurer Identification Number (AIIN), or Certified Reinsurer Identification Number (CRIN). The RJIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.
For 2020 Reporting Only

Reinsurers that have met the requirements for reciprocal jurisdiction reinsurer status in your state of domicile should be reported in the appropriate reciprocal jurisdiction reinsurer category if the reporting entity has implemented the necessary system and reporting changes for 2020 annual reporting to identify and report those reinsurance transactions in the appropriate reciprocal jurisdiction reinsurer category.

If the reporting entity has not been able to make the necessary system and reporting changes for 2020 annual reporting, the reporting entity may report those reinsurance transactions using the authorized reinsurer lines. Any crosschecks the reporting entity fails as a result of reporting reciprocal jurisdiction reinsurers on the authorized reinsurer lines should be explained.

NAIC Company Code

Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero-filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the “Pool and Association Numbers” section above for details on assignment of Pool/Association Identification Numbers. Risk-bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk-bearing entity (e.g., risk-bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Determination of Authorized Status

The determination of the authorized, reciprocal jurisdiction, unauthorized or certified status of an insurer or reinsurer listed in any part of Schedule F shall be based on the status of that insurer or reinsurer in the reporting entity’s state of domicile.
SCHEDULE F – PART 1

ASSUMED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal of the corresponding group, category, or subcategory, with the specified subtotal line appearing in the same manner and location as the pre-printed total or grand total line and number:

---

Detail Eliminated to Conserve Space

Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

---

SCHEDULE F – PART 2

PREMIUM PORTFOLIO REINSURANCE EFFECTED OR (CANCELED)
DURING CURRENT YEAR

This schedule should list by portfolio any original premiums and reinsurance premiums for portfolio reinsurance transactions affected or canceled during the year. Portfolio reinsurance is the transfer of the entire liability of a reporting entity for in force policies as respects a described segment of the reporting entity’s business.

Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number
### SCHEDULE F – PART 3

#### CEDED REINSURANCE

**AS OF DECEMBER 31, CURRENT YEAR**

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Authorized</strong></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>0199999</td>
</tr>
<tr>
<td>U.S. Non-Pool Captive</td>
<td>0299999</td>
</tr>
<tr>
<td>U.S. Non-Pool Other</td>
<td>0399999</td>
</tr>
<tr>
<td>U.S. Non-Pool Total</td>
<td>0499999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Captive</td>
<td>0599999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Other</td>
<td>0699999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Total</td>
<td>0799999</td>
</tr>
<tr>
<td><strong>Total Authorized – Affiliates</strong></td>
<td>0899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>0999999</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Mandatory Pools*@</td>
<td>1099999</td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>1199999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>1299999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>1399999</td>
</tr>
<tr>
<td><strong>Total Authorized Excluding Protected Cells (Sum of 0899999, 0999999, 1099999, 1199999 and 1299999)</strong></td>
<td>1499999</td>
</tr>
<tr>
<td><strong>Total Unauthorized</strong></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>1599999</td>
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<tr>
<td>U.S. Non-Pool Captive</td>
<td>1699999</td>
</tr>
<tr>
<td>U.S. Non-Pool Other</td>
<td>1799999</td>
</tr>
<tr>
<td>U.S. Non-Pool Total</td>
<td>1899999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Captive</td>
<td>1999999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Other</td>
<td>2099999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Total</td>
<td>2199999</td>
</tr>
<tr>
<td><strong>Total Unauthorized – Affiliates</strong></td>
<td>2299999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>2399999</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Mandatory Pools*@</td>
<td>2499999</td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>2599999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>2699999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>2799999</td>
</tr>
<tr>
<td><strong>Total Unauthorized Excluding Protected Cells (Sum of 2299999, 2399999, 2499999, 2599999 and 2699999)</strong></td>
<td>2899999</td>
</tr>
</tbody>
</table>
Total Certified
Affiliates

<table>
<thead>
<tr>
<th>Pool Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>2999999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3099999</td>
</tr>
<tr>
<td>Other</td>
<td>3199999</td>
</tr>
<tr>
<td>Total</td>
<td>3299999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3399999</td>
</tr>
<tr>
<td>Other</td>
<td>3499999</td>
</tr>
<tr>
<td>Total</td>
<td>3599999</td>
</tr>
</tbody>
</table>

Total Certified – Affiliates ................................................................................. 3699999

Other U.S. Unaffiliated Insurers ............................................................................ 3799999

Pools

<table>
<thead>
<tr>
<th>Pool Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Pools*©</td>
<td>3899999</td>
</tr>
<tr>
<td>Voluntary Pools*©</td>
<td>3999999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>4099999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>4199999</td>
</tr>
</tbody>
</table>

Total Certified Excluding Protected Cells (Sum of 3699999, 3799999, 3899999, 3999999 and 4099999) .................................................................................................................... 4299999

Total Reciprocal Jurisdiction
Affiliates

<table>
<thead>
<tr>
<th>Pool Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>4399999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>4499999</td>
</tr>
<tr>
<td>Other</td>
<td>4599999</td>
</tr>
<tr>
<td>Total</td>
<td>4699999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>4799999</td>
</tr>
<tr>
<td>Other</td>
<td>4899999</td>
</tr>
<tr>
<td>Total</td>
<td>4999999</td>
</tr>
</tbody>
</table>

Total Reciprocal Jurisdiction – Affiliates ................................................................................. 5099999

Other U.S. Unaffiliated Insurers ............................................................................ 5199999

Pools

<table>
<thead>
<tr>
<th>Pool Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Pools*©</td>
<td>5299999</td>
</tr>
<tr>
<td>Voluntary Pools*©</td>
<td>5399999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>5499999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>5599999</td>
</tr>
</tbody>
</table>

Total Reciprocal Jurisdiction Excluding Protected Cells (Sum of 5099999, 5199999, 5299999, 5399999 and 5499999) .................................................................................................................... 5699999

* – Pools and Associations consisting of affiliated companies should be listed by individual company names.
@ – Include in Mandatory Pools all U.S. Government programs (e.g., National Flood Insurance, National Crop Insurance Corporation), all state residual market mechanisms, the Workers Compensation Reinsurance Pool, and the National Council on Compensation Insurance.
% – Include in Voluntary Pools all pool participation that is voluntary on the part of the reporting entity. Include participation in any state program for which participation is not mandatory.
# – Alien Pools and Associations should be reported on Schedule F under the category “Other Non-U.S. Insurers.”
### Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

----

**Detail Eliminated to Conserve Space**

### Ceded Reinsurance Credit Risk – Columns 28 Through 36

**Only complete columns 28 through 36 for the following required groups, categories or subcategories (Line Numbers); otherwise leave blank.**

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Authorized</strong></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0599999</td>
</tr>
<tr>
<td>Other</td>
<td>0699999</td>
</tr>
<tr>
<td>Total</td>
<td>0799999</td>
</tr>
<tr>
<td>Total Authorized – Affiliates</td>
<td>0899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>0999999</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>1199999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>1299999</td>
</tr>
<tr>
<td>Total Authorized Excluding Protected Cells (Sum of 0899999, 0999999, 1099999, 1199999 and 1299999)</td>
<td>1499999</td>
</tr>
<tr>
<td><strong>Total Unauthorized</strong></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>1999999</td>
</tr>
<tr>
<td>Other</td>
<td>2099999</td>
</tr>
<tr>
<td>Total</td>
<td>2199999</td>
</tr>
<tr>
<td>Total Unauthorized – Affiliates</td>
<td>2299999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>2399999</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>2599999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>2699999</td>
</tr>
<tr>
<td>Total Unauthorized Excluding Protected Cells (Sum of 2299999, 2399999, 2499999, 2599999 and 2699999)</td>
<td>2899999</td>
</tr>
</tbody>
</table>
### Total Certified

<table>
<thead>
<tr>
<th>Affiliates</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3399999</td>
</tr>
<tr>
<td>Other</td>
<td>3499999</td>
</tr>
<tr>
<td>Total</td>
<td>3599999</td>
</tr>
<tr>
<td>Total Certified – Affiliates</td>
<td>3699999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>3799999</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pools</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Pools*%</td>
<td>3999999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>4099999</td>
</tr>
<tr>
<td>Total Certified Excluding Protected Cells (Sum of 3699999, 3799999, 3899999, 3999999 and 4099999)</td>
<td>4299999</td>
</tr>
</tbody>
</table>

### Total Reciprocal Jurisdiction

<table>
<thead>
<tr>
<th>Affiliates</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>4799999</td>
</tr>
<tr>
<td>Other</td>
<td>4899999</td>
</tr>
<tr>
<td>Total</td>
<td>4999999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction – Affiliates</td>
<td>5099999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>5199999</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pools</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Pools*%</td>
<td>5399999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>5499999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction Excluding Protected Cells (Sum of 5099999, 5199999, 5299999, 5399999 and 5499999)</td>
<td>5699999</td>
</tr>
</tbody>
</table>

| Total Authorized, Reciprocal Jurisdiction, Unauthorized and Certified Excluding Protected Cells (Sum of 1499999, 2899999, 4299999 and 4399999) | 4399999 |

| Total Totals (Sum of 4399999 and 5799999 and 4499999 and 5899999) | 9999999 |

---

**Detail Eliminated to Conserve Space**

### Provision for Certified Reinsurance – Columns 54 Through 69

**NOTE:** Columns 54 through 69 are to be completed by those reporting entities whose domiciliary state has enacted the *Credit for Reinsurance Model Law (#785)* and/or *Credit for Reinsurance Model Regulation (#786)* with the defined certified reinsurer provisions.

**Only complete columns 54 through 69 for the following required groups, categories, or subcategories (Line Numbers); otherwise leave blank.**

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Certified</td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>2999999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3099999</td>
</tr>
<tr>
<td>Other</td>
<td>3199999</td>
</tr>
<tr>
<td>Total</td>
<td>3299999</td>
</tr>
<tr>
<td>Group or Category</td>
<td>Line Number</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3399999</td>
</tr>
<tr>
<td>Other</td>
<td>3499999</td>
</tr>
<tr>
<td>Total</td>
<td>3599999</td>
</tr>
<tr>
<td>Total Certified – Affiliates</td>
<td>3699999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>3799999</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td></td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Mandatory Pools*@</td>
<td>3999999</td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>4099999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>4199999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td></td>
</tr>
<tr>
<td>Total Certified Excluding Protected Cells (Sum of 3699999, 3799999, 3899999, 3999999 and 4099999)</td>
<td>4299999</td>
</tr>
<tr>
<td>Total Authorized, Reciprocal Jurisdiction, Unauthorized and Certified Excluding Protected Cells (Sum of 1499999, 2899999, 4299999 and 4299999)</td>
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</tr>
<tr>
<td>Total Protected Cells (Sum of 1399999, 2799999, 4199999 and 4199999)</td>
<td>4499999</td>
</tr>
<tr>
<td>Totals (Sum of 4399999 and 4499999)</td>
<td>9999999</td>
</tr>
</tbody>
</table>

Provision for Unauthorized Reinsurance – Columns 71 and 72

Only complete columns 71 and 72 for the following required groups, categories or subcategories (Line Numbers); otherwise enter zero.
Total Authorized, Reciprocal Jurisdiction, Unauthorized and Certified Excluding Protected Cells (Sum of 1499999, 2899999, 4299999 and 42999995699999) ....................................................................................................................................................... 43999995799999
Total Protected Cells (Sum of 1399999, 2799999, and 4199999 and 5599999) ............................................................................................................................................... 44999995899999
Totals (Sum of 43999995799999 and 44999995899999) ............................................................................................................................................... 9999999

Provision for Overdue Authorized and Reciprocal Jurisdiction Reinsurance – Columns 73 and 74

Only complete columns 73 and 74 for the following required groups, categories or subcategories (Line Numbers); otherwise enter zero.

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Authorized - Affiliates</td>
<td></td>
</tr>
<tr>
<td>U.S. Intercompany Pooling</td>
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<tr>
<td>U.S. Non-Pool</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0299999</td>
</tr>
<tr>
<td>Other</td>
<td>0399999</td>
</tr>
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<td>Total</td>
<td>0499999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0599999</td>
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<tr>
<td>Other</td>
<td>0699999</td>
</tr>
<tr>
<td>Total</td>
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</tr>
<tr>
<td>Total Authorized – Affiliates</td>
<td>0899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>0999999</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Mandatory Pools*@</td>
<td>1099999</td>
</tr>
<tr>
<td>Voluntary Pools*%</td>
<td>1199999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>1299999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td></td>
</tr>
<tr>
<td>Total Authorized Excluding Protected Cells (Sum of 0899999, 0999999, 1099999, 1199999 and 1299999)</td>
<td>1499999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction - Affiliates</td>
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<td>U.S. Intercompany Pooling</td>
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<tr>
<td>Other</td>
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</tr>
<tr>
<td>Total</td>
<td>4699999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>4799999</td>
</tr>
<tr>
<td>Other</td>
<td>4899999</td>
</tr>
<tr>
<td>Total</td>
<td>4999999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction – Affiliates</td>
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Total Authorized, Reciprocal Jurisdiction, Unauthorized and Certified Excluding Protected Cells (Sum of 1499999, 2899999, 4299999 and 4299999569999) ........................................................................................................... 43999995799999
Total Protected Cells (Sum of 1399999, 2799999, 4199999 and 41999995599999) ........................................................................................................... 44999995899999
Totals (Sum of 43999995799999 and 44999995899999) ................................................................................................................................................ 9999999

Columns 73 & 74 – Provisions for Overdue Authorized Reinsurance

Amounts reported in the detail lines cannot be less than 0. If the calculated amounts are less than 0, then enter 0.

Columns 75 through 78 – Total Provisions for Reinsurance

Amounts reported in the detail lines cannot be less than 0. If the calculated amounts are less than 0, then enter 0.
### SUPPLEMENTAL SCHEDULE FOR REINSURANCE COUNTERPARTY REPORTING EXCEPTION – ASBESTOS AND POLLUTION CONTRACTS

#### DETAIL OF ORIGINAL REINSURERS AGGREGATED ON SCHEDULE F

**AS OF DECEMBER 31, CURRENT YEAR**

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© 2020 National Association of Insurance Commissioners
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<tr>
<td>Voluntary Pools*@</td>
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<td>5599999)</td>
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<tr>
<td>Totals (Sum of 4399999, 5799999 and 4499999)</td>
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</table>

* – Pools and Associations consisting of affiliated companies should be listed by individual company names.

@ – Include in Mandatory Pools all U.S. Government programs (e.g., National Flood Insurance, National Crop Insurance Corporation), all state residual market mechanisms, the Workers Compensation Reinsurance Pool, and the National Council on Compensation Insurance.

% – Include in Voluntary Pools all pool participation that is voluntary on the part of the reporting entity. Include participation in any state program for which participation is not mandatory.

# – Alien Pools and Associations should be reported on Schedule F under the category “Other Non-U.S. Insurers.”

Column 1 – ID Number (Original Reinsurer)

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Detail Eliminated to Conserve Space

Column 5 – ID Number (Retroactive Reinsurer)

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Detail Eliminated to Conserve Space
ANNUAL STATEMENT INSTRUCTIONS – TITLE

SCHEDULE F – REINSURANCE

Index to Schedule F

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<th>Part</th>
<th>Description</th>
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<tbody>
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<td>Assumed Reinsurance</td>
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<td>Ceded Reinsurance</td>
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<tr>
<td>3</td>
<td>Provision for Unauthorized Reinsurance</td>
</tr>
<tr>
<td>4</td>
<td>Provision for Reinsurance Ceded to Certified Reinsurers</td>
</tr>
</tbody>
</table>

NOTE: Certified reinsurer status applies on a prospective basis and is determined by the state of domicile of the ceding insurer. Reciprocal jurisdiction reinsurer status applies on a prospective basis and is for reinsurance agreements entered into, amended, or renewed on or after the effective date of the domiciliary state of the ceding entity enacting the 2019 revisions to the Credit for Reinsurance Models, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal. As such, it is possible that a ceding insurer will report reinsurance balances applicable to a single assuming insurer under multiple classifications within Schedule F. For example, with respect to a certified reinsurer that was considered unauthorized prior to certification, balances attributable to contracts entered into prior to the assuming insurer’s certification would be reported in the unauthorized classification, while balances attributable to contracts entered into or renewed on or after the assuming insurer’s certification would be reported in the certified classification. This will also be the case for reciprocal jurisdiction reinsurance, which may have been classified as certified reinsurance prior to the enactment of the 2019 revisions to the Credit for Reinsurance Models by the domiciliary state of the ceding entity. Proper classification of such balances is essential to ensure accurate reporting of collateral requirements applicable to specific balances and the corresponding calculation of the liability for unauthorized and/or certified reinsurance.

Due Date

All parts of Schedule F are to be filed with the annual statement.

Please note that Parts 1, 2, 3 and 4 of this schedule are reported with thousands omitted.

ID Number

Schedule F require that the “ID Number” be reported for assuming or ceding entities.

Reinsurance intermediaries should not be listed, because Schedule F is intended to identify only risk-bearing entities.

A ceding insurer can have unauthorized reinsurance, certified reinsurance and reciprocal jurisdiction reinsurance with the same reinsurer, based on when the contract became effective. It is important that the ceding insurer report all types correctly. The same reinsurer may be listed on the same Schedule S by the ceding insurer with an AIIN for unauthorized reinsurance, a CRIN for certified reinsurance, and a RJIN for reciprocal jurisdiction reinsurance.

Use of Federal Employer Identification Number

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “ID Number” for other alien insurers even if the federal government has issued such a number.
Alien Insurer Identification Number (AIIN)

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule F instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information for on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Pool and Association Numbers

In order to report transactions involving non-risk bearing pools or associations consisting of non-affiliated companies correctly, the company must include on Schedule F the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC Listing of Companies. The Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Alien pools and associations should be reported on Schedule F under the category “Other Non-U.S. Insurers” rather than under “Pools, Associations and Similar Facilities.” Pools and associations consisting of affiliated companies should be listed by individual company names rather than by pool or association identification.

Certified Reinsurer Identification Number (CRIN)

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule F instead of the FEIN, Alien Insurer Identification Number (AIIN) or Reciprocal Jurisdiction Reinsurer Identification Number (RJIN). The CRIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)

In order to report transactions involving alien companies correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule F instead of the FEIN, Alien Insurer Identification Number (AIIN) or Certified Reinsurer Identification Number (CRIN). The RJIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.
For 2020 Reporting Only

Reinsurers that have met the requirements for reciprocal jurisdiction reinsurer status in your state of domicile should be reported in the appropriate reciprocal jurisdiction reinsurer category if the reporting entity has implemented the necessary system and reporting changes for 2020 annual reporting to identify and report those reinsurance transactions in the appropriate reciprocal jurisdiction reinsurer category.

If the reporting entity has not been able to make the necessary system and reporting changes for 2020 annual reporting, the reporting entity may report those reinsurance transactions using the authorized reinsurer lines. Any crosschecks the reporting entity fails as a result of reporting reciprocal jurisdiction reinsurers on the authorized reinsurer lines should be explained.

NAIC Company Code

Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero-filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the “Pool and Association Numbers” section above for details on assignment of Pool/Association Identification Numbers. Risk-bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk-bearing entity (e.g., risk-bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Determination of Authorized Status

The determination of the authorized_reciprocal jurisdiction, unauthorized or certified status of an insurer or reinsurer listed in any part of Schedule F shall be based on the status of that insurer or reinsurer in the reporting entity’s state of domicile.
SCHEDULE F – PART 1

ASSUMED REINSURANCE AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal of the corresponding group, category, or subcategory, with the specified subtotal line appearing in the same manner and location as the pre-printed total or grand total line and number:

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<td>Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)</td>
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<td></td>
<td>Certified Reinsurer Identification Number (CRIN)</td>
</tr>
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<td></td>
<td>Pool/Association Identification Number</td>
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SCHEDULE F – PART 2

CEDED REINSURANCE AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

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</tr>
<tr>
<td>Captive</td>
<td>4499999</td>
</tr>
<tr>
<td>Other</td>
<td>4599999</td>
</tr>
<tr>
<td>Total</td>
<td>4699999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction – Affiliates</td>
<td>4799999</td>
</tr>
</tbody>
</table>

### Other U.S. Unaffiliated Insurers

<table>
<thead>
<tr>
<th>Category</th>
<th>ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pools</td>
<td></td>
</tr>
<tr>
<td>Mandatory Pools*®</td>
<td>4999999</td>
</tr>
<tr>
<td>Voluntary Pools*®</td>
<td>5099999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>5199999</td>
</tr>
<tr>
<td>Total Reciprocal Jurisdiction</td>
<td>5299999</td>
</tr>
<tr>
<td>Totals</td>
<td>9999999</td>
</tr>
</tbody>
</table>

* Pools and Associations consisting of affiliated companies should be listed by individual company names.

# Alien Pools and Associations should be reported on Schedule F under the category “Other Non-U.S. Insurers.”

### NOTE:

Disclosure of the five largest provisional commission rates should exclude mandatory pools and joint underwriting associations.

### Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers:

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

---

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SCHEDULE F – PART 3

PROVISION FOR UNAUTHORIZED REINSURANCE AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Detail Eliminated to Conserve Space

Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Detail Eliminated to Conserve Space

SCHEDULE F – PART 4

PROVISION FOR REINSURANCE Ceded TO CERTIFIED REINSURERS
AS OF DECEMBER 31, CURRENT YEAR

NOTE: This schedule is to be completed by those reporting entities whose domiciliary state has enacted the Credit for Reinsurance Model Law (#785) and/or Credit for Reinsurance Model Regulation (#786) with the defined certified reinsurer provisions.

Detail Eliminated to Conserve Space

Column 1 – ID Number

Enter one of the following as appropriate CRIN for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number
OPERATIONS AND INVESTMENT EXHIBIT

PART 2B – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

This schedule reports unpaid loss and loss adjustment expenses on direct and agency operations. Affiliated agencies are those that meet the affiliation standards defined by SSAP No. 25—Affiliates and Other Related Parties. Refer to SSAP No. 57—Title Insurance, paragraphs 8–13, for accounting guidance.

Line 2 – Reinsurance Recoverable from Authorized, Unauthorized and Certified Companies

The amounts shown on this line represent reinsurance ceded recoverables (from authorized, unauthorized, and certified companies) on unpaid losses of which notice has been received. This can be done through reinsurance ceded treaties, facultative reinsurance assumed agreements, or under transfer and assumption agreements.

The amounts shown on this line should reconcile to amounts reported in Schedule F, Part 2, Column 9, Total.

The amount shown in Column 1 should agree to Schedule P, Part 1A, Column 19, Line 12.

The amount shown in Column 2 plus the amount shown in Column 3 should as agree to Schedule P, Part 1B, Column 19, Line 12.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

WORKERS’ COMPENSATION CARVE-OUT SUPPLEMENT

The Workers’ Compensation Carve-out Supplement shall be completed by those reporting entities that assume or cede workers’ compensation carve-out business.

Workers’ compensation carve-out business is defined as reinsurance (including retrocessional reinsurance) assumed by life and health insurers of medical, wage loss and death benefits of the occupational illness and accident exposures, but not the employer’s liability exposures, of business originally written as workers compensation insurance.

SCHEDULE F – REINSURANCE

NOTE: Certified reinsurer status applies on a prospective basis and is determined by the state of domicile of the ceding insurer. Reciprocal jurisdiction reinsurer status applies on a prospective basis and is for reinsurance agreements entered into, amended, or renewed on or after the effective date of the domiciliary state of the ceding entity enacting the 2019 revisions to the Credit for Reinsurance Models, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal. As such, it is possible that a ceding insurer will report reinsurance balances applicable to a single assuming insurer under multiple classifications within Schedule F. For example, with respect to a certified reinsurer that was considered unauthorized prior to certification, balances attributable to contracts entered into prior to the assuming insurer’s certification would be reported in the unauthorized classification, while balances attributable to contracts entered into or renewed on or after the assuming insurer’s certification would be reported in the certified classification. Proper classification of such balances is essential to ensure accurate reporting of collateral requirements applicable to specific balances and the corresponding calculation of the liability for unauthorized and/or certified reinsurance.

Index to Schedule F

Part 1 – Assumed Reinsurance

Part 2 – Ceded Reinsurance

ID Number

Schedule F requires that the “ID Number” be reported for assuming or ceding entities.

Reinsurance intermediaries should not be listed, because Schedule F is intended to identify only risk-bearing entities.

A ceding insurer can have unauthorized reinsurance, certified reinsurance and reciprocal jurisdiction reinsurance with the same reinsurer, based on when the contract became effective. It is important that the ceding insurer report all types correctly. The same reinsurer may be listed on the same Schedule S by the ceding insurer with an AIIN for unauthorized reinsurance, a CRIN for certified reinsurance, and a RJIN for reciprocal jurisdiction reinsurance.

Use of Federal Employer Identification Number

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “ID Number” for other alien insurers even if the federal government has issued such a number.
**Alien Insurer Identification Number (AIIN)**

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule F instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

**Pools and Association Numbers**

In order to report transactions involving non-risk bearing pools or associations consisting of non-affiliated companies correctly, the company must include on Schedule F the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC Listing of Companies. The NAIC Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Alien pools and associations should be reported on Schedule F under the category “Other Non-U.S. Insurers” rather than under “Pools, Associations and Similar Facilities.” Pools and associations consisting of affiliated companies should be listed by individual company names rather than by pool or association identification.

**Certified Reinsurer Identification Number (CRIN)**

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule F instead of the FEIN, or Alien Insurer Identification Number (AIIN) or Reciprocal Jurisdiction Reinsurer Identification Number (RJIN). The CRIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

**Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)**

In order to report transactions involving alien companies correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule F instead of the FEIN. The RJIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.
For 2020 Reporting Only

Reinsurers that have met the requirements for reciprocal jurisdiction reinsurer status in your state of domicile should be reported in the appropriate reciprocal jurisdiction reinsurer category if the reporting entity has implemented the necessary system and reporting changes for 2020 annual reporting to identify and report those reinsurance transactions in the appropriate reciprocal jurisdiction reinsurer category.

If the reporting entity has not been able to make the necessary system and reporting changes for 2020 annual reporting, the reporting entity may report those reinsurance transactions using the authorized reinsurer lines. Any crosschecks the reporting entity fails as a result of reporting reciprocal jurisdiction reinsurers on the authorized reinsurer lines should be explained.

NAIC Company Code

Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the “Pool and Association Numbers” section above for details on assignment of Pool/Association Identification Numbers. Risk-bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk-bearing entity (e.g., risk-bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Determination of Authorized Status

The determination of the authorized, reciprocal jurisdiction, unauthorized or certified status of an insurer or reinsurer listed in any part of Schedule F shall be based on the status of that insurer or reinsurer in the reporting company’s state of domicile.
ASSUMED REINSURANCE

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal of the corresponding group, category, or subcategory, with the specified subtotal line appearing in the same manner and location as the pre-printed total or grand total line and number.

Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

CEDED REINSURANCE

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number.

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Authorized</td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>Affiliates – U.S. Intercompany Pooling</td>
<td>0199999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0299999</td>
</tr>
<tr>
<td>Other</td>
<td>0399999</td>
</tr>
<tr>
<td>Total</td>
<td>0499999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>0599999</td>
</tr>
<tr>
<td>Other</td>
<td>0699999</td>
</tr>
<tr>
<td>Total</td>
<td>0799999</td>
</tr>
<tr>
<td>Total Authorized – Affiliates</td>
<td>0899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>0999999</td>
</tr>
</tbody>
</table>
## Total Unauthorized

<table>
<thead>
<tr>
<th>Pools</th>
<th>Total Unauthorized Excluding Protected Cells (Sum of 0899999, 0999999, 1099999, 1199999 and 1299999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Pools*</td>
<td>1099999</td>
</tr>
<tr>
<td>Voluntary Pools*</td>
<td>1199999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>1299999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>1399999</td>
</tr>
<tr>
<td>Total Authorized Excluding Protected Cells</td>
<td>1499999</td>
</tr>
</tbody>
</table>

## Total Unauthorized Affiliates

<table>
<thead>
<tr>
<th>Pools</th>
<th>Total Unauthorized – Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>1599999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td>1699999</td>
</tr>
<tr>
<td>Captive</td>
<td>1799999</td>
</tr>
<tr>
<td>Other</td>
<td>1899999</td>
</tr>
<tr>
<td>Total</td>
<td>2199999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td>1999999</td>
</tr>
<tr>
<td>Captive</td>
<td>2099999</td>
</tr>
<tr>
<td>Other</td>
<td>2199999</td>
</tr>
<tr>
<td>Total</td>
<td>2299999</td>
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</tbody>
</table>

## Total Authorized

<table>
<thead>
<tr>
<th>Pools</th>
<th>Total Authorized Excluding Protected Cells (Sum of 2299999, 2399999, 2499999, 2599999 and 2699999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Pools*</td>
<td>2499999</td>
</tr>
<tr>
<td>Voluntary Pools*</td>
<td>2599999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>2699999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>2799999</td>
</tr>
<tr>
<td>Total Authorized</td>
<td>2899999</td>
</tr>
</tbody>
</table>

## Total Authorized Affiliates

<table>
<thead>
<tr>
<th>Pools</th>
<th>Total Authorized – Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>2999999</td>
</tr>
<tr>
<td>U.S. Non-Pool</td>
<td>3099999</td>
</tr>
<tr>
<td>Captive</td>
<td>3199999</td>
</tr>
<tr>
<td>Other</td>
<td>3299999</td>
</tr>
<tr>
<td>Total</td>
<td>3599999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td>3399999</td>
</tr>
<tr>
<td>Captive</td>
<td>3499999</td>
</tr>
<tr>
<td>Other</td>
<td>3599999</td>
</tr>
<tr>
<td>Total</td>
<td>3699999</td>
</tr>
</tbody>
</table>

## Other Unauthorized

<table>
<thead>
<tr>
<th>Pools</th>
<th>Other Unauthorized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Pools*</td>
<td>3499999</td>
</tr>
<tr>
<td>Other (Non-U.S.)</td>
<td>3399999</td>
</tr>
<tr>
<td>Total</td>
<td>3599999</td>
</tr>
</tbody>
</table>

## Total Certified

<table>
<thead>
<tr>
<th>Pools</th>
<th>Total Certified Excluding Protected Cells (Sum of 3699999, 3799999, 3899999, 3999999 and 4099999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Pools*</td>
<td>3899999</td>
</tr>
<tr>
<td>Voluntary Pools*</td>
<td>3999999</td>
</tr>
<tr>
<td>Other Non-U.S. Insurers#</td>
<td>4099999</td>
</tr>
<tr>
<td>Protected Cells</td>
<td>4199999</td>
</tr>
<tr>
<td>Total</td>
<td>4299999</td>
</tr>
</tbody>
</table>
Total Reciprocal Jurisdiction

Affiliates

U.S. Intercompany Pooling ................................................................. 4399999
U.S. Non-Pool
  Captive .......................................................................................... 4499999
  Other ............................................................................................. 4599999
  Total ............................................................................................ 4699999

Other (Non-U.S.)
  Captive .......................................................................................... 4799999
  Other ............................................................................................. 4899999
  Total ............................................................................................ 4999999

Total Reciprocal Jurisdiction – Affiliates ........................................... 5099999

Other U.S. Unaffiliated Insurers ........................................................... 5199999

Pools

Mandatory Pools*……………………………………………………………. 5299999
Voluntary Pools%.............................................................................. 5399999

Other Non-U.S. Insurers#
Protected Cells .................................................................................. 5499999

Total Reciprocal Jurisdiction Excluding Protected Cells (Sum of 5099999, 5199999, 5299999,
5399999 and 5499999) ......................................................................... 5599999

Total Authorized, Reciprocal Jurisdiction, Unauthorized and Certified Excluding Protected Cells (Sum of
1499999, 2899999, 4299999 and 4299999) ............................................ 4399999

Total Protected Cells (Sum of 1399999, 2799999, 4199999 and 4199999) ............................................ 4499999

Totals (Sum of 4399999, 5799999 and 5499999) ........................................ 9999999

* Pools and Associations consisting of affiliated companies should be listed by individual company names.
# Alien Pools and Associations should be reported on Schedule F under the category “Other Non-U.S. Insurers.”

Column 1 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN)
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
Certified Reinsurer Identification Number (CRIN)
Pool/Association Identification Number

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### SUPPLEMENTAL TERM AND UNIVERSAL LIFE INSURANCE REINSURANCE EXHIBIT

**PART 1 – ALL CESSIONS OF TERM AND UNIVERSAL LIFE INSURANCE WITH SECONDARY GUARANTEES**

<table>
<thead>
<tr>
<th>Column 2 – ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter one of the following as appropriate for the assuming insurer reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.</td>
</tr>
<tr>
<td>Federal Employer Identification Number (FEIN)</td>
</tr>
<tr>
<td>Alien Insurer Identification Number (AIIN)</td>
</tr>
<tr>
<td>Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)</td>
</tr>
<tr>
<td>Certified Reinsurer Identification Number (CRIN)</td>
</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**

### SUPPLEMENTAL TERM AND UNIVERSAL LIFE INSURANCE REINSURANCE EXHIBIT

**PART 2A – TRANSACTIONS SUBJECT TO PART 2 DISCLOSURE (GRANDFATHERED OR SPECIAL EXEMPTION)**

<table>
<thead>
<tr>
<th>Column 1 – Cession ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter a unique Cession ID for each line (01 – 99).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 2 – NAIC Company Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide the NAIC code of the assuming insurer.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 3 – ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter one of the following as appropriate for the assuming insurer being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.</td>
</tr>
<tr>
<td>Federal Employer Identification Number (FEIN)</td>
</tr>
<tr>
<td>Alien Insurer Identification Number (AIIN)</td>
</tr>
<tr>
<td>Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)</td>
</tr>
<tr>
<td>Certified Reinsurer Identification Number (CRIN)</td>
</tr>
</tbody>
</table>

**Detail Eliminated to Conserve Space**
### SUPPLEMENTAL TERM AND UNIVERSAL LIFE INSURANCE REINSURANCE EXHIBIT

#### PART 2B – TRANSACTIONS SUBJECT TO PART 2 DISCLOSURE  
**(NON-GRANDFATHERED)**

**Column 1** – Cession ID

Enter a unique Cession ID for each line (01 – 99).

To differentiate between cessions that contain risks subject to the provisions of AG48 and those that contain risks subject to the provisions of a state regulation equivalent to Model #787, append an A or B after the cession ID.

In the event that a cession contains risks subject to both the provisions of AG48 and the provisions of a state regulation equivalent to Model #787, the reporting of the cession shall be bi-furcated accordingly and listed on two distinct lines.

Use “A” for cessions that contain risks subject to the provisions of AG48.

Use “B” for cessions that contain risks subject to the provisions of a state regulation.

**Column 2** – NAIC Company Code

Provide the NAIC code of the assuming insurer.

**Column 3** – ID Number

Enter one of the following as appropriate for the assuming insurer being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)

---

**Detail Eliminated to Conserve Space**
Notes to the Annual Statement are to be filed on March 1.

23. Reinsurance

Instruction:

A. Unsecured Reinsurance Recoverables

If the company has with any individual reinsurers (authorized, reciprocal jurisdiction, unauthorized or certified), an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium that exceeds 3% of the company’s policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer. If the individual reinsurer is part of a group, list the individual reinsurers, each of its related group members having reinsurance with the reporting company, and the total unsecured aggregate recoverables for the entire group.

Include: The NAIC group code number, where appropriate, and the Federal Employer Identification Number for each individual company.

F. Retroactive Reinsurance

(1) Provide the following information for all retroactive reinsurance agreements that transfer liabilities for losses that have already occurred and that will generate special surplus transactions:

f. List the total Paid Loss/LAE amounts recoverable (for authorized, reciprocal jurisdiction, unauthorized and certified reinsurers), any amounts more than 90 days overdue (for authorized, reciprocal jurisdiction, unauthorized and certified reinsurers) and for amounts recoverable the collateral held (for unauthorized and certified reinsurers).

The insurer (assuming or ceding) shall assign a unique number to each retroactive reinsurance agreement and shall utilize this number for as long as the agreement exists. Do not report transactions utilizing deposit accounting in this note.
Illustration:

A. Unsecured Reinsurance Recoverables

The Company does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company’s policyholder surplus.

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**Detail Eliminated to Conserve Space**

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**THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.**

F. Retroactive Reinsurance

(1) Reported Company

---

**Detail Eliminated to Conserve Space**

---

f. Total Paid Loss/LAE amounts recoverable (for authorized, reciprocal jurisdiction, unauthorized and certified reinsurers), any amounts more than 90 days overdue (for authorized, reciprocal jurisdiction, unauthorized and certified reinsurers), and for amounts recoverable the collateral held (for authorized, reciprocal jurisdiction, unauthorized and certified reinsurers) as respects amounts recoverable from authorized, reciprocal jurisdiction, unauthorized and certified reinsurers:

1. Authorized Reinsurers

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Paid/Loss/LAE Recoverable</th>
<th>Amounts Over 90 Days Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ __________________________</td>
<td>$ _____________________</td>
</tr>
<tr>
<td></td>
<td>$ __________________________</td>
<td>$ _____________________</td>
</tr>
<tr>
<td></td>
<td>$ __________________________</td>
<td>$ _____________________</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ __________________________</td>
<td>$ _____________________</td>
</tr>
</tbody>
</table>

2. Unauthorized Reinsurers

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Paid/Loss/LAE Recoverable</th>
<th>Amounts Over 90 Days Overdue</th>
<th>Collateral Held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ __________________________</td>
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<td>$ __________________________</td>
<td>$ _____________________</td>
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<tr>
<td><strong>Total</strong></td>
<td>$ __________________________</td>
<td>$ _____________________</td>
<td>$ ___________________</td>
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3. Certified Reinsurers

<table>
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<th>Company</th>
<th>Total Amounts Paid/Loss/LAE Recoverable</th>
<th>Amounts Over 90 Days Overdue</th>
<th>Collateral Held</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td>$</td>
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<tr>
<td>Total</td>
<td>$</td>
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4. Reciprocal Jurisdiction Reinsurers

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<th>Company</th>
<th>Total Amounts Paid/Loss/LAE Recoverable</th>
<th>Amounts Over 90 Days Overdue</th>
<th>Collateral Held</th>
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</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>Total</td>
<td>$</td>
<td>$</td>
<td>$</td>
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</table>

Detail Eliminated to Conserve Space
SCHEDULE Y

PART 1A – DETAIL OF INSURANCE HOLDING COMPANY SYSTEM

All insurer and reporting entity members of the holding company system shall prepare a schedule for inclusion in each of the individual annual statements that is common for the group with the exception of Column 10, Relationship to Reporting Entity.

Column 4 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN) *
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) *
Certified Reinsurer Identification Number (CRIN) *

* RJIN, AIINs or CRINs are only reported if the entity in Column 8 is a reinsurer that has had an RJIN, AIIN or CRIN number assigned or should have one assigned due to transactions being reported on Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) of another entity regardless of whether the entity in Column 8 is part of reporting entity’s group.

If not applicable for the entity in Column 8, leave blank.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE Y

PART 2 – SUMMARY OF INSURER’S TRANSACTIONS WITH ANY AFFILIATES

This schedule was designed to provide an overview of transactions among insurance holding company system members. It is intended to demonstrate the scope and direction of major fund and/or surplus flows throughout the system. This schedule should be prepared on an accrual basis.

Column 2 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN) *
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) *
Certified Reinsurer Identification Number (CRIN) *

* RJIN, AIIN or CRIN numbers are only reported if the entity in Column 3 is a reinsurer that has had an RJIN, AIIN or CRIN number assigned or should have one assigned due to transactions being reported on Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) of another entity regardless of whether the entity in Column 3 is part of reporting entity’s group or not.

If not applicable for the entity in Column 3, leave blank.
SCHEDULE D – PART 6 – SECTION 1

VALUATION OF SHARES OF SUBSIDIARY, CONTROLLED OR AFFILIATED COMPANIES

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Column 5 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) General Instructions for more information on these identification numbers.

Federal Employer Identification Number (FEIN)
Alien Insurer Identification Number (AIIN) *
Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) *
Certified Reinsurer Identification Number (CRIN) *

* RJIN, AIINs or CRINs are only reported if the entity is a reinsurer that has had a RJIN, AIIN or CRIN number assigned or should have one assigned due to transactions being reported on Schedule F (Property and Title) or Schedule S (Life, Health and Fraternal) of another reporting entity.

If not applicable for the entity, leave blank.
### TRUSTEED SURPLUS STATEMENT

#### Page 3

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Liabilities</td>
<td>Should agree with the amount reported on Page 3, Line 28 of the annual statement.</td>
</tr>
<tr>
<td>4</td>
<td>Amounts Recoverable From Reinsurers</td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Authorized Companies</td>
<td>Include: Any reinsurance recoverable on paid losses from authorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.</td>
</tr>
<tr>
<td>4.2</td>
<td>Unauthorized Companies</td>
<td>Include: Any reinsurance recoverables on paid losses from unauthorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.</td>
</tr>
<tr>
<td>4.3</td>
<td>Certified Companies</td>
<td>Include: Any reinsurance recoverable on paid losses from certified companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.</td>
</tr>
<tr>
<td>4.4</td>
<td>Reciprocal Jurisdiction Companies</td>
<td>Include: Any reinsurance recoverable on paid losses from reciprocal jurisdiction companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.</td>
</tr>
</tbody>
</table>
ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

TRUSTEED SURPLUS STATEMENT

Page 3

Line 1 – Total Liabilities

Should agree with the amount reported on Page 3, Line 28 of the annual statement.

Line 7 – Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses

Line 7.1 – Authorized Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from authorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.

Line 7.2 – Unauthorized Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from unauthorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.

Line 7.3 – Certified Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from certified companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.

Line 7.4 – Reciprocal Jurisdiction Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from reciprocal jurisdiction companies that are included in the asset on Page 2, Line 16.1, Column 3 of the annual statement.
Page 3

Line 1 – Total Liabilities

Should agree with the amount reported on Page 3, Line 28 of the quarterly statement.

Line 4 – Amounts Recoverable From Reinsurers

Line 4.1 – Authorized Companies

Include: Any reinsurance recoverable on paid losses from authorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 4.2 – Unauthorized Companies

Include: Any reinsurance recoverables on paid losses from unauthorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 4.3 – Certified Companies

Include: Any reinsurance recoverable on paid losses from certified companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 4.4 – Reciprocal Jurisdiction Companies

Include: Any reinsurance recoverable on paid losses from reciprocal jurisdiction companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Detail Eliminated to Conserve Space
ANNUAL AND QUARTERLY STATEMENT INSTRUCTIONS – PROPERTY

TRUSTEED SURPLUS STATEMENT

Page 3

Line 1 – Total Liabilities

Should agree with the amount reported on Page 3, Line 28 of the quarterly statement.

Line 7 – Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses

Line 7.1 – Authorized Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from authorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 7.2 – Unauthorized Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from unauthorized companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 7.3 – Certified Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from certified companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.

Line 7.4 – Reciprocal Jurisdiction Companies

Include: Any reinsurance recoverables on paid losses and loss adjustment expenses from reciprocal jurisdiction companies that are included in the asset on Page 2, Line 16.1, Column 3 of the quarterly statement.
QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL AND HEALTH

SCHEDULE S – CEDED REINSURANCE

SHOWING ALL NEW REINSURANCE TREATIES – CURRENT YEAR TO DATE

Detail Eliminated to Conserve Space

Column 1 – NAIC Company Code

Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero-filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the instruction for Column 2 for details on assignment of Pool/Association Identification Numbers. Risk bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk bearing entity (e.g., risk bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Column 2 – ID Number

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule S General Instructions in the annual statement instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Federal ID Number (FEIN)

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “Federal ID Number” for other alien insurers even if the federal government has issued such a number.

Alien Insurer Identification Number (AIIN)

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule S instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semiannually. The NAIC provides this information to annual statement software vendors for incorporation into the software.
Pool and Association Numbers

In order to report transactions involving non-risk bearing pools or associations consisting of non-affiliated companies correctly, the company must include on Schedule S the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC *Listing of Companies*. The Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC *Listing of Companies*, which are available semiannually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Certified Reinsurer Identification Number (CRIN)

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule S instead of the FEIN, or Alien Insurer Identification Number (AIIN) or Reciprocal Jurisdiction Reinsurer Identification Number (RJIN). The CRIN is assigned by the NAIC and is listed in the NAIC *Listing of Companies*. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC *Listing of Companies*, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)

In order to report transactions involving alien companies correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule S instead of the FEIN. The RJIN number is assigned by the NAIC and is listed in the NAIC *Listing of Companies*. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC *Listing of Companies*, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

<table>
<thead>
<tr>
<th>Column 7</th>
<th>Type of Reinsurer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Detail Eliminated to Conserve Space</td>
</tr>
</tbody>
</table>

The determination of the authorized, certified or unauthorized status of an insurer or reinsurer shall be based on the status of that insurer or reinsurer in the reporting company’s state of domicile.

Enter “Authorized” “Reciprocal Jurisdiction” “Certified” or “Unauthorized” to indicate the type of reinsurer.
Company codes are assigned by the NAIC and are listed in the NAIC Listing of Companies. The NAIC does not assign a company code to insurers domiciled outside of the U.S. or to non-risk bearing pools or associations. The “NAIC Company Code” field should be zero-filled for those organizations. Non-risk bearing pools or associations are assigned a Pool/Association Identification Number. See the instruction for Column 2 for details on assignment of Pool/Association Identification Numbers. Risk bearing pools or associations are assigned a company code. If a reinsurer or reinsured has merged with another entity, report the company code of the surviving entity.

If a risk bearing entity (e.g., risk bearing pools or associations) does not appear in the NAIC Listing of Companies, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned. Newly assigned company codes are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions in the annual statement instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Federal ID Number (FEIN)

The Federal Employer Identification Number (FEIN) must be reported for each U.S.-domiciled insurer and U.S. branch of an alien insurer. The FEIN should not be reported as the “ID Number” for other alien insurers even if the federal government has issued such a number.

Alien Insurer Identification Number (AIIN)

In order to report transactions involving alien companies correctly, the appropriate Alien Insurer Identification Number (AIIN) must be included on Schedule F instead of the FEIN. The AIIN number is assigned by the NAIC and is listed in the Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC provides this information to annual statement software vendors for incorporation into the software.
Pool and Association Numbers

In order to report transactions involving non-risk bearing pools or associations consisting of non-affiliated companies correctly, the company must include on Schedule F the appropriate Pool/Association Identification Number. These numbers are listed in the NAIC Listing of Companies. The Pool/Association Identification Number should be used instead of any FEIN that may have been assigned. If a pool or association does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semiannually. The NAIC provides this information to annual statement software vendors for incorporation into the software.

Certified Reinsurer Identification Number (CRIN)

In order to report transactions involving certified reinsurers correctly, the appropriate Certified Reinsurer Identification Number (CRIN) must be included on Schedule F instead of the FEIN or Alien Insurer Identification Number (AIIN) or Reciprocal Jurisdiction Reinsurer Identification Number (RJIN). The CRIN is assigned by the NAIC and is listed in the NAIC Listing of Companies. If a certified reinsurer does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Reciprocal Jurisdiction Reinsurer Identification Number (RJIN)

In order to report transactions involving alien companies correctly, the appropriate Reciprocal Jurisdiction Reinsurer Identification Number (RJIN) must be included on Schedule S instead of the FEIN. The RJIN number is assigned by the NAIC and is listed in the NAIC Listing of Companies. If an alien company does not appear in that publication, contact the NAIC Financial Systems and Services Department, Company Demographics Analyst at FDRCCREQ@NAIC.ORG for numbers assigned since the last publication or for information on having a number assigned.

Newly assigned numbers are incorporated in revised editions of the NAIC Listing of Companies, which are available semi-annually. The NAIC also provides this information to annual statement software vendors for incorporation into the software.

Detail Eliminated to Conserve Space

Column 5 – Type of Reinsurer

The determination of the authorized, certified or unauthorized status of an insurer or reinsurer shall be based on the status of that insurer or reinsurer in the reporting company’s state of domicile.

Enter “Authorized” “Reciprocal Jurisdiction” “Certified” or “Unauthorized” to indicate the type of reinsurer.
### SCHEDULE F – PART 3 (Continued)

Ceded Reinsurance as of December 31, Current Year ($000 Omitted)

**Total Provision for Reinsurance**

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<th>73</th>
<th>74</th>
<th>75</th>
<th>76</th>
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<th>78</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>20% of Recoverable on Paid Losses &amp; LAE Over 90 Days Past Due &amp; Amounts Not in Dispute (Col. 47 * 20%)</td>
<td>Provision for Unauthorized Reinsurance</td>
<td>Provision for Overdue Authorities and Reinsurance Reimbursable</td>
<td>Provision for Amounts Ceded to Unauthorized Reinsurers Ceded to Unauthorized Reinsurers and Amounts in Dispute</td>
<td>Provision for Amounts Ceded to Unauthorized Reinsurers</td>
<td>Total Provision for Reinsurance</td>
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<td>Provision for Unauthorized Reinsurance</td>
<td>Provision for Overdue Authorities and Reinsurance Reimbursable</td>
<td>Provision for Amounts Ceded to Unauthorized Reinsurers Ceded to Unauthorized Reinsurers and Amounts in Dispute</td>
<td>Provision for Amounts Ceded to Unauthorized Reinsurers</td>
<td>Total Provision for Reinsurance</td>
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8/3/20

86-315

Attachment Four-A5

Accounting Practices and Procedures (E) Task Force

2019-30BWG_Modified.doc
## ANNUAL STATEMENT BLANK – TITLE

### OPERATIONS AND INVESTMENT EXHIBIT

**PART 2B – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

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<th>4</th>
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<td><strong>Loss and allocated LAE reserve for title and other losses of which notice has been received:</strong></td>
<td>Direct Operations</td>
<td>Non-Affiliated Agency Operations</td>
<td>Affiliated Agency Operations</td>
<td>Total Current Year (Cols. 1+2+3)</td>
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<td>1.1 Direct (Schedule P, Part 1, Line 12, Col. 17)</td>
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<tr>
<td>1.2 Reinsurance assumed (Schedule P, Part 1, Line 12, Col. 18)</td>
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<td><strong>Deduct reinsurance recoverable from authorized, unauthorized and certified companies (Schedule P, Part 1, Line 12, Col. 19)</strong></td>
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<td><strong>Known claims reserve net of reinsurance (Line 1.1 plus Line 1.2 minus Line 2)</strong></td>
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<tr>
<td><strong>Incurred But Not Reported:</strong></td>
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<td>4.1 Direct (Schedule P, Part 1, Line 12, Col. 20)</td>
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<td>4.2 Reinsurance assumed (Schedule P, Part 1, Line 12, Col. 21)</td>
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<td>4.3 Reinsurance ceded (Schedule P, Part 1, Line 12, Col. 22)</td>
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<tr>
<td>4.4 Net incurred but not reported (Line 4.1 plus Line 4.2 minus Line 4.3)</td>
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<td><strong>Unallocated LAE reserve (Schedule P, Part 1, Line 12, Col. 23)</strong></td>
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<tr>
<td><strong>Less discount for time value of money, if allowed (Schedule P, Part 1, Line 12, Col. 33)</strong></td>
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<td><strong>Total Schedule P reserves (Lines 3 + 4.4 + 5 - 6) (Schedule P, Part 1, Line 12, Col. 34)</strong></td>
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<td><strong>Statutory premium reserve at year end (Part 1B, Line 2.6)</strong></td>
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<td><strong>Aggregate of other reserves required by law (Page 3, Line 3)</strong></td>
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<td><strong>Supplemental reserve</strong></td>
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(a) If the sum of Lines 3 + 8 + 9 is greater than Line 7, place a ‘0’ in this Line.
ANNUAL AND QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL

TRUSTEED SURPLUS STATEMENT
LIABILITIES AND TRUSTEED SURPLUS

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<th>1. Total Liabilities</th>
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<td>ADDITIONS TO LIABILITIES:</td>
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<tr>
<td>2. Aggregate write-ins for additions to liabilities</td>
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<td>3. Total (Lines 1 + 2)</td>
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<tr>
<td>DEDUCTIONS FROM LIABILITIES:</td>
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<tr>
<td>4. Amounts Recoverable From Reinsurers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 Authorized Companies</td>
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<tr>
<td>4.2 Unauthorized Companies</td>
<td></td>
<td></td>
</tr>
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<td>4.3 Reciprocal Jurisdiction Companies</td>
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<tr>
<td>4.4</td>
<td></td>
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<tr>
<td>5. Special State Deposits, not exceeding net liabilities carried:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1 Special State Deposits (submit schedule)</td>
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</tr>
<tr>
<td>5.2 Accrued interest on special state deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Life insurance premiums and annuity considerations deferred and uncollected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Accident and health premiums due and unpaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Contract loans and premium notes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.1 Contract loans not exceeding reserves carried on such policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.2 Premium notes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.3 Interest due and accrued on contract loans and premium notes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Aggregate write-ins for other deductions from liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Total Deductions (Lines 4 thru 9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Total Adjusted Liabilities (Line 3 minus Line 10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Trusteed Surplus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Total</td>
<td></td>
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</tbody>
</table>

DETAILS OF WRITE-INS

| 0298. Summary of remaining write-ins for Line 2 from overflow page (Line 2 above) |
|-----------------------------------------------|------------------|---------|
| 0299. Totals (Lines 0201 thru 0203 plus 0298) | | |

| 0998. Summary of remaining write-ins for Line 9 from overflow page (Line 9 above) |
|-----------------------------------------------|------------------|---------|
| 0999. Totals (Lines 0901 thru 0903 plus 0998) | | |

INTERROGATORIES:

1.1 Have there been any changes made to any of the trust indentures during the period? Yes [ ] No [ ]

1.2 If yes, has the domiciliary or entry state approved the change? Yes [ ] No [ ]
# Annual and Quarterly Statement Blank – Property

## Trusteed Surplus Statement
### Liabilities and Trusteed Surplus

<p>| | | |</p>
<table>
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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Liabilities</td>
<td>Current Quarter</td>
</tr>
<tr>
<td>2</td>
<td>Ceded Reinsurance Balances Payable</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Agents’ Credit Balances</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Aggregate Write-ins For Other Additions to Liabilities</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Total Additions (Lines 2 + 3 + 4)</td>
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</tr>
<tr>
<td>6</td>
<td>Total (Lines 1 + 5)</td>
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### Deductions from Liabilities:

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<tr>
<td>7</td>
<td>Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Special State Deposits, not exceeding net liabilities carried in this statement on business in each respective state:</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon</td>
<td></td>
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<tr>
<td>10</td>
<td>Unpaid Reinsurance Premiums Receivable, not exceeding losses and loss adjustment expenses due to reinsured:</td>
<td></td>
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<tr>
<td>11</td>
<td>Aggregate write-ins for other deductions from liabilities</td>
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<tr>
<td>12</td>
<td>Total Deductions (Lines 7 thru 11)</td>
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<td>13</td>
<td>Total Adjusted Liabilities (Line 6 minus Line 12)</td>
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</tr>
<tr>
<td>14</td>
<td>Trusteed Surplus</td>
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<td>15</td>
<td>Total</td>
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### Details of Write-ins

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<td>0403</td>
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<td>0498</td>
<td>Summary of remaining write-ins for Line 4 from overflow page</td>
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<td>Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above)</td>
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<td>1103</td>
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<td>1198</td>
<td>Summary of remaining write-ins for Line 11 from overflow page</td>
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<td>1199</td>
<td>Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)</td>
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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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<th>Patricia Gosselin</th>
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<td>EMAIL ADDRESS:</td>
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<tr>
<td>ON BEHALF OF:</td>
<td>New Hampshire Insurance Department</td>
</tr>
<tr>
<td>NAME:</td>
<td>Patricia Gosselin</td>
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<td>TITLE:</td>
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<tr>
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FOR NAIC USE ONLY

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<td>New Reporting Requirement</td>
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REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

| No Impact | [ X ] |
| Modifies Required Disclosure | [ ] |

DISPOSITION

| [ ] | Rejected For Public Comment |
| [ ] | Referred To Another NAIC Group |
| [ ] | Received For Public Comment |
| [ X ] | Adopted Date 05/28/2020 |
| [ ] | Rejected Date |
| [ ] | Deferred Date |
| [ ] | Other (Specify) |

BLANK(S) TO WHICH PROPOSAL APPLIES

- [ X ] ANNUAL STATEMENT
- [ X ] INSTRUCTIONS
- [ X ] CROSSCHECKS
- [ ] QUARTERLY STATEMENT
- [ ] BLANK
- [ ] Life, Accident & Health/Fraternal
- [ ] Separate Accounts
- [ ] Title
- [ ] Property/Casualty
- [ ] Protected Cell
- [ ] Other
- [ X ] Health
- [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Add crosschecks to Lines 13 and 14 of the State Page to Lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Also add crosschecks to Lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, Line 61.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add additional crosschecks between the State Page, Schedule T and Underwriting and Investment Exhibit, Part 1 for the direct written premium for the Health, Life and Property business.

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 – HEALTH

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

Detail Eliminated to Conserve Space

Line 12  – Health Premiums Written
Include: Direct premiums written.

Amount Column 1 should agree with Underwriting and Investment Exhibit, Part 1, Column 1, Line 9.

Line 13  – Life Premiums Direct
Include: Direct premiums and annuity considerations for life contracts excluding reinsurance assumed and without deduction of reinsurance ceded.

Column 1 should equal Underwriting and Investment Exhibit, Part 1, Column 1, Line 10.

Line 14  – Property/Casualty Premiums Written
Include: Direct premiums for property and casualty lines of business excluding reinsurance assumed and without deduction of reinsurance ceded.

Column 1 should equal Underwriting and Investment Exhibit, Part 1, Column 1, Line 11.

Detail Eliminated to Conserve Space
UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS

Detail Eliminated to Conserve Space

Line 8  – Other Health
Include: Other health revenues not included in any other column, including stop loss, disability income and long-term care. Policies providing stand alone Medicare Part D Prescription Drug Coverage.

Exclude: ASO (administrative services only) contracts and ASC (administrative service contracts). Refer to SSAP No. 47—Uninsured Plans for accounting guidance. Policies providing Medicare Part D Prescription Drug Coverage through a Medicare Advantage product.

Line 9  – Health Subtotal

Column 1 should equal Schedule T, Line 61 sum of Columns 2, 3, 4 and 5.

Line 10  – Life
Include: Revenue for life insurance.

Column 1 should equal Schedule T, Line 61, Column 6.

Line 11  – Property/Casualty
Include: Revenue for property/casualty insurance.

Column 1 should equal Schedule T, Line 61, Column 7.

Detail Eliminated to Conserve Space
### NAIC BLANKS (E) WORKING GROUP

**Blanks Agenda Item Submission Form**

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<td>ON BEHALF OF:</td>
</tr>
<tr>
<td>NAME: Dale Bruggeman</td>
</tr>
<tr>
<td>TITLE: Chair SAPWG</td>
</tr>
<tr>
<td>AFFILIATION: Ohio Department of Insurance</td>
</tr>
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#### FOR NAIC USE ONLY

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<td>New Reporting Requirement [ ]</td>
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**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

| No Impact [ X ] |
| Modifies Required Disclosure [ ] |

#### DISPOSITION

- [ ] Rejected For Public Comment
- [ ] Referred To Another NAIC Group
- [ ] Received For Public Comment
- [ X ] Adopted Date 05/28/2020
- [ ] Rejected Date
- [ ] Deferred Date
- [ ] Other (Specify) 

**BLANK(S) TO WHICH PROPOSAL APPLIES**

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<td>PROTECTED CELL [ ]</td>
<td>OTHER ______________</td>
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<td>LIFE, ACCIDENT &amp; HEALTH/FRATERNAL [ X ]</td>
<td>HEALTH [ X ]</td>
<td>HEALTH (LIFE SUPPLEMENT) [ ]</td>
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Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Modify the instruction and illustration for 13(11) to the Notes to Financial Statement. Change the numbering from 1 through 13 to A through M.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to reflect the disclosure addition for SSAP No. 41R—Surplus Notes being adopted by the Statutory Accounting Principles (E) Working Group and correct the instruction.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ____________________________

Other Comments:

Proposal is being exposed concurrently with the changes being considered by the Statutory Accounting Principles (E) Working Group.

** This section must be completed on all forms. Revised 7/18/2018

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

NOTES TO FINANCIAL STATEMENTS

Detail Eliminated to Conserve Space

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

Instruction:

Disclose the following information related to capital and surplus, shareholder’s dividend restrictions and quasi-reorganizations.

(1)A. The number of shares of each class of capital stock authorized, issued and outstanding as of the balance sheet date and the par value or stated value of each class.

(2)B. The dividend rate, liquidation value and redemption schedule (including prices and dates) of any preferred stock issues.

(3)C. Dividend restrictions, if any, and an indication if the dividends are cumulative.

(4)D. The dates and amounts of dividends paid. Note for each payment whether the dividend was ordinary or extraordinary.

(5)E. The portion of the reporting entity’s profits that may be paid as ordinary dividends to stockholders.

(6)F. A description of any restrictions placed on the unassigned funds (surplus), including for whom the surplus is being held.

(7)G. For mutual reciprocals, and similarly organized entities, the total amount of advances to surplus not repaid, if any.

(8)H. The total amount of stock held by the reporting entity, including stock of affiliated entities, for special purposes such as:

   a. Conversion of preferred stock
   b. Employee stock options
   c. Stock purchase warrants

(9)I. A description of the reasons for changes in the balances of any special surplus funds from the prior period.

(10)J. The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses.

(11)K. Surplus Notes

For each surplus debenture or similar obligation, except those surplus notes required or those that are a prerequisite for purchasing an insurance policy and are held by the policyholder, furnish the following information:

   a. Date issued
   b. Description and fair value of the assets received
• e. Holder of the note or, if public, the names of the underwriter and trustee with identification on whether the holder of the surplus note is a related party per SSAP No. 25

• Original issue amount of note
  d. Par Value (Face Amount of Note)
• e. Carrying value of note (current year and prior year)
• f. The rate at which interest accrues
• g. Maturity dates or repayment schedules, if stated
• h. Unapproved interest and/or principal
  i. Interest and/or principal paid in the current year
  j. Total interest and/or principal paid on surplus notes
• Approved interest recognized and principal paid (current year and life-to-date):
  — Approved interest and/or principal recognized as “paid”
  — Amount of approved interest and/or principal remitted to the holder of the surplus note (actual transfer of cash / assets) and
  — The amount of approved interest and/or principal not remitted to the holder of the surplus note (no transfer of cash / assets)
  — Life-to-date:
    — Amount of approved interest and/or principal remitted to the holder of the surplus note (actual transfer of cash / assets)
  — Information regarding a 3rd party liquidity source including:
    — Name
    — Identification if a related party
    — Cost of the liquidity guarantee and
    — Maximum amount available should a triggering event occur.
• Percentage of offset interest payments offset through administrative offsetting (not inclusive of amounts paid to a 3rd party liquidity provider). I.E. if $100 in interest was recognized through the year, $10 of which was remitted to a 3rd party liquidity provider and the reminder $90 was offset, the reporting entity shall report 100% as offset.
• Disclosure of whether the surplus note was issued as part of a transaction with any of the following attributes:
  ❖ Do surplus note/associated asset terms negate or reduce cash flow exchanges, and/or are amounts payable under surplus note and amounts receivable under other agreements contractually linked (For example, the asset provides interest payments only when the surplus note provides interest payments).
  ❖ Are any amounts due under surplus notes and associated assets netted or offset (partially or in full) thus eliminating or reducing the exchange of cash or assets that would normally occur throughout the duration, or at maturity, of the agreement (This may be referred to as administrative offsetting.)
  ❖ Were the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note.
If a reporting entity has ceded business to a surplus note issuer that is a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria above, the ceding entity shall provide a description of the transaction, including whether the criteria above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force.

The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, the following information shall be disclosed regarding the assets received:

- Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation;
- Book/adjusted carrying value of asset as of the current reporting date;
- A description of terms under which liquidity would be provided should a triggering event occur.

- Principal amount value of assets received upon Surplus Note issuance, if applicable;
- Subordination terms
- Liquidation preference to the reporting entity’s common and preferred shareholders
- The repayment conditions and restrictions

Information about any guarantees, support agreements, or related party transactions associated with the surplus note issuance, and whether payments have been made under such agreements.

If a reporting entity has ceded business to a surplus note issuer that is a related party as part of a reinsurance transaction in which the surplus note meets any of the criteria above, the ceding entity shall provide a description of the transaction, including whether the criteria above were met with respect to the surplus note issuance, as long as the reinsurance agreement remains in force.

The ceding entity should provide a description of the risks reinsured, the related party reinsurer, any guarantees or support agreements and the amount of notes outstanding.

- If the proceeds from the issuance of a surplus note used to purchase an asset directly or indirectly from the holder of the surplus note, the following information shall be disclosed regarding the assets received:
  - Identification of asset, including the investment schedule where the asset is reported and reported NAIC designation;
  - Book/adjusted carrying value of asset as of the current reporting date.
  - A description of terms under which liquidity would be provided should a triggering event occur.

- In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

**NOTE:** For the table illustrated for the disclosures above provide an “Item Number” (4 digits) to identify each surplus note being disclosed and should remain the same between years.

(12)L The impact of the restatement in a quasi-reorganization as long as financial statements for the period of the reorganization are presented.

(13)M The effective date of a quasi-reorganization for a period of ten years following the reorganization.
Illustration:

(A) The Company has ________ shares authorized, ________ shares issued and ________ shares outstanding. All shares are Class A shares.

(B) The Company has no preferred stock outstanding.

(C) Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company’s state of incorporation, ________, to $_________, an amount that is based on restrictions relating to statutory surplus.

(D) An ordinary dividend in the amount of $ _________ on _________ was paid by the Company.

(E) Within the limitations of (3) above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.

(F) There were no restrictions placed on the Company’s surplus, including for whom the surplus is being held.

(G) The total amount of advances to surplus not repaid is $__________.

(H) The amounts of stock held by the Company, including stock of affiliated companies, for special purposes are:

   a. For conversion of preferred stock: ________ shares
   b. For employee stock options: __________ shares
   c. For stock purchase warrants: _________ shares

(I) Changes in balances of special surplus funds from the prior year are due to: __________________________________________________________________________________________

(J) The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses is $ _________.

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

(NOTE: THIS DOES NOT INCLUDE THE ENDING NARRATIVE.)

(K) The Company issued the following surplus debentures or similar obligations:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Date Issued</th>
<th>Interest Rate</th>
<th>Original Issue Amount of Note</th>
<th>% Surplus Holders Related Party (Y/N)</th>
<th>Carrying Value of Note Prior Year</th>
<th>Carrying Value of Note Current Year</th>
<th>Unapproved Interest and/or Principal</th>
<th>Current Year Interest Expense Recognized</th>
<th>Life-To-Date Interest Expense Recognized</th>
<th>Current Year Principal Paid</th>
<th>Life-To-Date Principal Paid</th>
<th>Date of Maturity</th>
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* Total should agree with Page 3, Line 32.

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Current Year Interest Expense Recognized</th>
<th>Life-To-Date Interest Expense Recognized</th>
<th>Current Year Interest Expense Percentage (not including amounts paid to a 3rd party liquidity provider)</th>
<th>Current Year Principal Paid</th>
<th>Life-To-Date Principal Paid</th>
<th>Date of Maturity</th>
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<th>Item Number</th>
<th>28</th>
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Note: Total should agree with Page 3, Line 32.
The surplus note in the amount of $______, listed as item _______ in the above table, was issued to _______________________ (parent) in exchange for ___________________________.

The surplus note, in the amount of $_____, listed as item _______ in the above table, was issued pursuant to Rule 144A under the Securities Act of 1933, underwritten by ____________________, and is administered by ____________________ as trustee.

The surplus note has the following repayment conditions and restrictions: (e.g., Each payment of interest on and principal of the surplus notes may be made only with the prior approval of the Commissioner of Insurance of the State and only to the extent the Company has sufficient surplus earnings to make such payment).

The surplus note has the following subordination terms: (e.g., The Notes will rank pari passu with any other future surplus notes of the Parent and with all other similarly subordinated claims).

The liquidation preference to the insurer's common and preferred shareholders are as follows: (e.g., In the event that the Parent is subject to such a proceeding, holders of Indebtedness, Policy Claims and Prior Claims would be afforded a greater priority under the Liquidation Act and the terms of the Notes and, accordingly, would have the right to be paid in full before any payments of interest or principal are made to Note holders).

The surplus debenture in the amount of $____, listed as item _______ in above table, is held by __________________ (an affiliate).

The surplus debenture in the amount of $________________, listed as item ________ in above table, was issued pursuant to Rule 144A under the Securities Act of 1933, and is held by____________________ in the following ownership percentage __________________________ (10% or more).

The _____ (an affiliate) holds $ __________ or ______ ____% of the surplus debenture listed as item ________ in the above table.

The Company has outstanding $________ of __________% debentures due in 20___ issued on__/__/20__. The carrying amount of the debt is $______ with an effective rate of ___ %. The debentures are not redeemable prior to 20__. The Company is required to make annual sinking fund payments of $________ that will provide sufficient funds for the retirement of debentures at maturity. Interest paid during 20__ was $______.
The Company has an outstanding liability for borrowed money in the amount of $_______ due to ________ on __/__/20__. The principal amount is due 20__. At the option of the Company, early repayment may be made. Interest at ___% is required to be paid annually. Interest paid during 20___ was $______. The Company is required to maintain a collateral security deposit with the lender. Assets in such security deposit are required to be maintained in a fair value amount at least equal to the outstanding principal. At December 31, 20__, assets having an admitted value of $__________ and a fair value of $_______ were on deposit with the lender.

**THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.**

**(12)L** The impact of any restatement due to prior quasi-reorganizations is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Gross Paid-in and Contributed Surplus</th>
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</thead>
<tbody>
<tr>
<td>2008</td>
<td>$__________</td>
</tr>
<tr>
<td>2007</td>
<td>$__________</td>
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<td>2006</td>
<td>$__________</td>
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</tbody>
</table>

**(13)M** The effective date(s) of all quasi-reorganizations in the prior 10 years is/are __________.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 01/14/2020

CONTACT PERSON: ________________________________

TELEPHONE: ________________________________

EMAIL ADDRESS: ________________________________

ON BEHALF OF:

NAME: Dale Bruggeman

TITLE: Chair SAPWG

AFFILIATION: Ohio Department of Insurance

ADDRESS: 50W. Town St., 3rd Fl., Ste. 300

Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2020-04BWG

Year 2020

Changes to Existing Reporting [ X ]

New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]

Modifies Required Disclosure [ ]

DISPOSITION

Referred To Another NAIC Group [ ]

Received For Public Comment [ ]

Adopted Date 05/28/2020 [ X ]

Rejected Date [ ]

Deferred Date [ ]

Other (Specify) [ ]

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ ] QUARTERLY STATEMENT
[ X ] INSTRUCTIONS
[ ] CROSSCHECKS
[ ] Life, Accident & Health/Fraternal
[ X ] Property/Casualty
[ ] Health
[ X ] Separate Accounts
[ ] Protected Cell
[ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instruction and illustration for Note 23A – Unsecured Reinsurance Recoverables.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to reflect the disclosure addition for SSAP No. 62R—Property and Casualty Reinsurance being adopted by the Statutory Accounting Principles (E) Working Group.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________________

Other Comments:

Proposal is being exposed concurrently with the changes being considered by the Statutory Accounting Principles (E) Working Group.

** This section must be completed on all forms.
23. Reinsurance

Instruction:

A. Unsecured Reinsurance Recoverables

If the company has with any individual reinsurers (authorized, reciprocal jurisdiction, unauthorized or certified), an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium that exceeds 3% of the company’s policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer. If the individual reinsurer is part of a group, list the individual reinsurers, each of its related group members having reinsurance with the reporting company, and the total unsecured aggregate recoverables for the entire group.

Include: The NAIC group code number, where appropriate, and the Federal Employer Identification Number for each individual company.

Illustration:

A. Unsecured Reinsurance Recoverables

The Company does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company’s policyholder surplus.

DRAFTING NOTE: The tables below will not be data captured

<table>
<thead>
<tr>
<th>Individual Reinsurers with Unsecured Reinsurance Recoverables Exceeding 3% of Policyholder Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual Reinsurers Who Are Not Members of a Group</strong></td>
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<tr>
<td>FEIN</td>
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<th>Individual Reinsurers Who Are Members of a Group</th>
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<tr>
<td>Group Code</td>
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</tbody>
</table>
All Members of the Groups Shown above with Unsecured Reinsurance Recoverables

<table>
<thead>
<tr>
<th>Group Code</th>
<th>FEIN</th>
<th>Reinsurer Name</th>
<th>Unsecured Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>123</td>
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<td>XXX</td>
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<td>Total 789</td>
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</table>

Detail Eliminated to Conserve Space

W:\National Meetings\2020\Summer\TF\App\BlanksWG\minutes\Att Four-A8 2020-04BWG.doc
Blanks Agenda Item Submission Form

DATE: 01/14/2020

CONTACT PERSON: ________________________________
TELEPHONE: ________________________________
EMAIL ADDRESS: ________________________________
ON BEHALF OF: ________________________________
NAME: Dale Bruggeman
TITLE: Chair SAPWG
AFFILIATION: Ohio Department of Insurance
ADDRESS: 50W. Town St., 3rd Fl., Ste. 300
Columbus, OH 43215

FOR NAIC USE ONLY
Agenda Item # 2020-05BWG MOD
Year 2020
Changes to Existing Reporting [ X ]
New Reporting Requirement [ ]
REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT
No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION
Rejected For Public Comment [ ]
Referred To Another NAIC Group [ ]
Received For Public Comment [ ]
Adopted Date 05/28/2020 [ X ]
Rejected Date [ ]
Deferred Date [ ]
Other (Specify) [ ]

BLANK(S) TO WHICH PROPOSAL APPLIES
[ X ] ANNUAL STATEMENT [ X ] INSTRUCTIONS [ ] CROSSCHECKS
[ ] QUARTERLY STATEMENT [ ] BLANK [ ] BLANK
[ X ] Life, Accident & Health/Fraternal [ ] Separate Accounts [ ] Title
[ ] Property/Casualty [ ] Protected Cell [ ] Other _______________________
[ ] Health [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE
Modify the instruction and illustration for Note 2 – Accounting Changes and Correction of Errors.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**
The purpose of this proposal is to reflect the disclosure addition for SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts being adopted by the Statutory Accounting Principles (E) Working Group.

NAIC STAFF COMMENTS
Comment on Effective Reporting Date:__________________________

Other Comments:
Proposal is being exposed concurrently with the changes being considered by the Statutory Accounting Principles (E) Working Group

** This section must be completed on all forms.
2. Accounting Changes and Corrections of Errors

Instruction:

Describe material changes in accounting principles and/or correction of errors. Include:

- A brief description of the change, encompassing a general disclosure of the reason and justification for the change or correction.

- The impact of the change or correction on net income, surplus, total assets and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income).

- The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actual assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounts for items such as uncollectible accounts. However, disclosure is recommended if the effect of a change in the estimate is material.

- Changes in accounting that are changes in reserve valuation basis as described in SSAP No. 51R—Life Contracts which have elected gradephase-in provided for in the Valuation Manual section VM-21 or other optional application features, shall also include in the change in accounting disclosures information regarding the application of any phasegradedin as provided for in SSAP No. 51R.

Reporting entities shall provide disclosure of the following:

- The phasegradedin period being applied, and the remaining time period of the gradephase in.

- Any adjustments to the phasegradedin period.

- Amount of change in valuation basis phasegradedin which has been recognized in unassigned funds.

- The remaining amount to be phasedgradedin (reflected in special surplus if the ungraded in amount represents an increase in reserving).

- When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.
Illustration:

During the current year’s financial statement preparation, the Company discovered an error in the compiling and reporting of investment income from an affiliate for the prior year. In the prior year, common stocks (Assets Page, Line _____) and investment income earned from affiliates (included in Summary of Operation, Line ____ ) were understated by $________. Line _____ on the Assets Page and Line ____ on the Gains and Losses section of the Summary of Operations have been adjusted in the current year to correct for this error.

In 2020, the Company elected a phasegrade-in period of three years of a change in reserve valuation basis as described in SSAP No. 51R—Life Contracts for its variable annuity reserves. This change in valuation basis, which impacts annuities reserves written from 1981 to 2019 is permitted under the revisions to the Commissioner’s Annuity Reserve Valuation Method (CARVM) adopted in Valuation Manual Requirements for Principle-Based Reserves for Variable Annuities (VM-21), and Actuarial Guideline 43 CARVM for variable annuities (AG 43). There have been no adjustments to the phasegrade-in period. The amount of grade phase-in, which has been recognized in unassigned funds is $________ and the remaining amount to be graded phase-in reflected in special surplus is $________.
**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

<table>
<thead>
<tr>
<th>CONTACT PERSON:</th>
<th>Dale Bruggeman</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELEPHONE:</td>
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<td>ON BEHALF OF:</td>
<td>Ohio Department of Insurance</td>
</tr>
<tr>
<td>NAME:</td>
<td>Dale Bruggeman</td>
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<td>Chair SAPWG</td>
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<tr>
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</table>

**FOR NAIC USE ONLY**

- Agenda Item # 2020-07BWG
- Year 2020
- Changes to Existing Reporting [X]
- New Reporting Requirement [ ]

**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

- No Impact [X]
- Modifies Required Disclosure [ ]

**DISPOSITION**

- [ ] Rejected For Public Comment
- [ ] Referred To Another NAIC Group
- [ ] Received For Public Comment
- [X] Adopted Date 05/28/2020
- [ ] Rejected Date
- [ ] Deferred Date
- [ ] Other (Specify)

**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [X] ANNUAL STATEMENT
- [ ] QUARTERLY STATEMENT
- [X] INSTRUCTIONS
- [ ] CROSSCHECKS
- [X] BLANK
- [ ] Life, Accident & Health/Fraternal
- [X] Property/Casualty
- [X] Health
- [ ] Separate Accounts
- [ ] Protected Cell
- [ ] Health (Life Supplement)
- [ ] Title
- [ ] Other

Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Add new disclosure Note 23 – Reinsurance for reinsurance credit (23H – Life/Fraternal, 23E Health and 23K Property).

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to reflect the disclosure additions for SSAP No. 61R—Life, Deposit-Type Contracts and Accident and Health Contracts Reinsurance adopted by the Statutory Accounting Principles (E) Working Group.

**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

NOTES TO FINANCIAL STATEMENTS

23. Reinsurance

Instruction:

H. Reinsurance Credit

(1) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

(2) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer’s assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features.

(3) Disclose if any reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).

- Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

(4) Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- Assumption Reinsurance – new for the reporting period.

- Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.
(5) Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- Accounted for that contract as reinsurance under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or

- Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

(6) If affirmative disclosure is required for Paragraph 23H(5) above, explain why the contract(s) is treated differently for GAAP and SAP.

Illustration:

| Detail Eliminated to Conserve Space |

ANNUAL STATEMENT INSTRUCTIONS –HEALTH

NOTES TO FINANCIAL STATEMENTS

| Detail Eliminated to Conserve Space |

23. Reinsurance

Instruction:

| Detail Eliminated to Conserve Space |

E. Reinsurance Credit

(1) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

(2) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer’s assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features.
(3) Disclose if any reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

- Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).
- Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

(4) Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

- Assumption Reinsurance – new for the reporting period.
- Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.

(5) Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- Accounted for that contract as reinsurance under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or
- Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

(6) If affirmative disclosure is required for Paragraph 23E(5) above, explain why the contract(s) is treated differently for GAAP and SAP.

Illustration:

Detail Eliminated to Conserve Space
ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

NOTES TO FINANCIAL STATEMENTS

23. Reinsurance

Instruction:

K. Reinsurance Credit

The disclosures below apply to reinsurance contracts covering health business.

(1) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer’s assumption of significant risks identified as in A-791. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

(2) Disclose any reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer’s assumption of risk. Examples of risk limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk limiting features.

(3) Disclose if any reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

• Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).

• Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

(4) Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

• Assumption Reinsurance – new for the reporting period.

• Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured event(s) triggering contract coverage has been recognized.
(5) Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- Accounted for that contract as reinsurance under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or
- Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

(6) If affirmative disclosure is required for Paragraph 23K(5) above, explain why the contract(s) is treated differently for GAAP and SAP.

Illustration:

Detail Eliminated to Conserve Space
** NAIC BLANKS (E) WORKING GROUP **

Blanks Agenda Item Submission Form

---

DATE: 01/14/2020

CONTACT PERSON: 

TELEPHONE: 

EMAIL ADDRESS: 

ON BEHALF OF: 

NAME: Dale Bruggeman

TITLE: Chair SAPWG

AFFILIATION: Ohio Department of Insurance

ADDRESS: 50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215

---

FOR NAIC USE ONLY

Agenda Item # 2020-08BWG MOD

Year 2020

Changes to Existing Reporting [ X ]

New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]

Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment

[ ] Referred To Another NAIC Group

[ ] Received For Public Comment

[ X ] Adopted Date 05/28/2020

[ ] Rejected Date

[ ] Deferred Date

[ ] Other (Specify) ____________

---

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT

[ ] QUARTERLY STATEMENT

[ X ] INSTRUCTIONS

[ ] CROSSCHECKS

[ ] BLANK

[ ] Separate Accounts

[ X ] Title

[ ] Protected Cell

[ ] Other ____________

[ X ] Life, Accident & Health/ Fraternal

[ X ] Property/Casualty

[ X ] Health

[ X ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

---

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a disclosure instruction for 10C to the Notes to Financial Statement for related party transactions not captured on Schedule Y. Combine existing 10C into 1B instructions and illustration narrative.

---

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to reflect the disclosure addition for SSAP No. 25—Affiliates and Other Related Parties being adopted by the Statutory Accounting Principles (E) Working Group.

---

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________________

Other Comments:

Proposal is being exposed concurrently with the changes being considered by the Statutory Accounting Principles (E) Working Group.

---

** This section must be completed on all forms. Revised 7/18/2018
10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

Instruction:

The financial statements shall include disclosures of all material related party transactions. In some cases, aggregation of similar transactions that on a stand-alone basis are not material may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary, to the understanding of the relationship, disclose the name of the related party. Transactions shall not be purported to be arm’s-length transactions unless there is demonstrable evidence to support such statement. Note 10 is primarily for SCAs under SSAP No. 97, but the disclosure for 10O should also be completed of SSAP No. 48 entities. The disclosures shall include:

A. The nature of the relationship involved.

B. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions that are less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

- (1) Date of transaction;
- (2) Explanation of transaction;
- (3) Name of reporting entity;
- (4) Name of affiliate;
- (5) Description of assets received by reporting entity;
- (6) Statement value of assets received by reporting entity;
- (7) Description of assets transferred by reporting entity; and
- (8) Statement value of assets transferred by reporting entity.

C. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period.

C. Transactions with related parties who are not reported on Schedule Y

A reference number should be provided for each transaction with the related party to be used in the tables for the disclosures below. In each disclosure the transaction for each related party should be reported contiguously together and not separated by other transactions with other related parties. (Multiple transactions with the same related party shall not be aggregated into a single row.)

Example: Company A has three separate transaction with Related Party B. All of transactions with Related Party B would be reported together on three consecutive rows of the disclosure table before reporting transaction with the next related party.)
(1) Detail of material related party transactions

- Date of transaction
- Name of related party
- Nature of relationship

Options for type of transaction:
- Loan
- Exchange of assets or liabilities (e.g., buys, sells and secured borrowing transactions)
- Management services
- Cost-sharing agreement
- Other transactions involving services
- Guarantee (e.g., guarantees to related parties, on behalf of, and when beneficiary is related party)
- Other

- Type of transaction

Options for type of transaction:
- Loan
- Exchange of assets or liabilities (e.g., buys, sells and secured borrowing transactions)
- Management services
- Cost-sharing agreement
- Other transactions involving services
- Guarantee (e.g., guarantees to related parties, on behalf of, and when beneficiary is related party)
- Other

- Written agreement (Yes/No)
- Due date
- Reporting period date amount due from (to)

(2) Detail of material related party transactions involving services

- Name of related party
- Overview description
- Amount charged
- Amount based on allocation of costs or market rates
- Amount charged modified or waived (Yes/No)
(3) Detail of material related party transactions involving exchange of assets and liabilities

- Name of related party
- Overview description
- Description of assets received
- Description of assets transferred
- Statement value of assets received
- Statement value of assets transferred
- Have terms changed from preceding period? (Yes/No)

(4) Detail of amounts owed to/from a related party

- Name of related party
- Aggregate reporting period amount due from
- Aggregate reporting period amount due to
- Amount offset in financial statement (if qualifying)
- Net amount recoverable/(payable) by related party
- Admitted recoverable

D. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

E. Any guarantees or undertakings, written or otherwise, shall be disclosed in Note 14, Liabilities, Contingencies and Assessments, in accordance with the requirements of SSAP No. SR—Liabilities, Contingencies and Impairments of Assets. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed.

F. A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party. This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts that remove assets that may otherwise be recorded (and potentially nonadmitted) on the reporting entity’s financial statements.

F. Any guarantees or undertakings, written or otherwise, shall be disclosed in Note 14, Liabilities, Contingencies and Assessments, in accordance with the requirements of SSAP No. SR—Liabilities, Contingencies and Impairments of Assets. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed.

G. The nature of the control relationship whereby the reporting entity and one or more other enterprises are under common ownership or control and the existence of that control could result in operating results or financial position of the reporting entity being significantly different from those that would have been obtained if the enterprises were autonomous. Disclose the relationship even though there are no transactions between the enterprises.
Illustration:

A. The Company paid common stock dividends to the Parent Company, The ABC Insurance Company, on July 15, 20____, totaling $__________.

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

C. Transactions with related party who are not reported on Schedule Y

(1) Detail of Material Related Party Transactions

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Date of Transaction</th>
<th>Name of Related Party</th>
<th>Nature of Relationship</th>
<th>Type of Transaction</th>
<th>Written Agreement (Yes/No)</th>
<th>Due Date</th>
<th>Reporting Period Date</th>
<th>Amount Due From (To)</th>
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</table>

Options for Type of Transaction:
- Loan
- Exchange of Assets or Liabilities (e.g., buys, sells and secured borrowing transactions)
- Management Services
- Cost-Sharing Agreement
- Other Transactions Involving Services
- Guarantee (e.g., guarantees to related parties, on behalf of, and when beneficiary is related party)
- Other

(2) Detail of Material Related Party Transactions Involving Services

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Name of Related Party</th>
<th>Overview Description</th>
<th>Amount Charged</th>
<th>Amount Based on Allocation of Costs or Market Rates</th>
<th>Amount Charged Modified or Waived (Yes/No)</th>
</tr>
</thead>
</table>

Total

(3) Detail of Material Related Party Transactions Involving Exchange of Assets and Liabilities

a. Description of Transaction

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Name of Related Party</th>
<th>Overview Description</th>
<th>Have Terms Changed from Preceding Period? (Yes/No)</th>
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</table>

b. Assets Received

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Name of Related Party</th>
<th>Description of Assets Received</th>
<th>Statement Value of Assets Received</th>
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Total
c. Assets Transferred

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Name of Related Party</th>
<th>Description of Assets Transferred</th>
<th>Statement Value of Assets Transferred</th>
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</table>
|       |                       |                                   |                                      | Total

(4) Detail of Amounts Owed To/From a Related Party

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<th>Ref #</th>
<th>Name of Related Party</th>
<th>Aggregate Reporting Period Amount Due From</th>
<th>Aggregate Reporting Period (Amount Due To)</th>
<th>Amount Offset in Financial Statement (if qualifying)</th>
<th>Net Amount Recoverable / (Payable) by Related Party</th>
<th>Admitted Recoverable</th>
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</table>

D. At December 31, 20___, the Company reported $_______ as amounts due to the Parent Company, The ABC Insurance Company. The terms of the settlement require that these amounts be settled within 30 days.

E. The Company has given XYZ Inc., an affiliated company, a standing commitment until January 1, 20___, in the form of guarantees in the event of a default of XYZ on various of its debt issues as disclosed in Note 14.

F. The Company has agreed to provide the Parent Company, The ABC Insurance Company, certain actuarial investment services with respect to the administration of certain large group insurance contracts that are subject to group experience rating procedures.

F. The Company has given XYZ Inc., an affiliated company, a standing commitment until January 1, 20___, in the form of guarantees in the event of a default of XYZ on various of its debt issues as disclosed in Note 14. The Parent Company has agreed to provide collection services for certain contracts for the Company.

G. All outstanding shares of The Company are owned by the Parent Company, The ABC Insurance Company, an insurance holding company domiciled in the State of ______________. 

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Detail Eliminated to Conserve Space

W:\National Meetings\2020\Summer\TF\BlanksWG\minutes\Att Four-A11 2020-08BWG_Modified.doc
## Agenda Item Submission Form

**DATE:** 02/07/2020

**CONTACT PERSON:** Eva Yeung  
**TELEPHONE:** 816-783-8407  
**EMAIL ADDRESS:** eyeung@naic.org  
**ON BEHALF OF:** P/C RBC WG  
**NAME:** Tom Botsko  
**TITLE:** Chair  
**AFFILIATION:** Ohio Department of Insurance  
**ADDRESS:** 50 W. Town Street, Third Floor – Suite 300  
Columbus, OH 43215

### FOR NAIC USE ONLY

**Agenda Item # 2020-09BWG**  
**Year** 2020  
**Changes to Existing Reporting** [X]  
**New Reporting Requirement** [ ]

### REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

**No Impact** [X]  
**Modifies Required Disclosure** [ ]

### DISPOSITION

- [ ] Rejected For Public Comment  
- [ ] Referred To Another NAIC Group  
- [ ] Received For Public Comment  
- [X] Adopted Date 05/28/2020  
- [ ] Rejected Date  
- [ ] Deferred Date  
- [ ] Other (Specify) 

### BLANK(S) TO WHICH PROPOSAL APPLIES

- [X] ANNUAL STATEMENT  
- [X] INSTRUCTIONS  
- [X] CROSSCHECKS  
- [ ] QUARTERLY STATEMENT  
- [ ] BLANK  
- [ ] Life, Accident & Health/Fraternal  
- [ ] Separate Accounts  
- [ ] Title  
- [ ] Property/Casualty  
- [ ] Protected Cell  
- [ ] Other  
- [ ] Health  
- [ ] Health (Life Supplement)  

**Anticipated Effective Date:** Annual 2020

### IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the Annual Statement Instructions for Schedule F, Part 3 to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurers.

### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated by PCRBC WG to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.

2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

### 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 – PROPERTY

SCHEDULE F – PART 3

CEDED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

Detail Eliminated to Conserve Space

Column 34 – Reinsurer Designation Equivalent

Following is a listing of the valid codes.

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<th>Code</th>
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<td>Secure 1</td>
<td>Secure 2</td>
<td>Secure 3</td>
<td>Secure 4</td>
<td>Secure 5</td>
<td>Vulnerable 6 or Unrated Unauthorized Reinsurers</td>
<td>Unrated Authorized Reinsurers</td>
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<td>Best</td>
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<td>A+</td>
<td>A</td>
<td>A-</td>
<td>B++, B+</td>
<td>B, B-, C++, C+, C-, D, E, F</td>
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<td>Aa1, Aa2, Aa3</td>
<td>A1, A2</td>
<td>A3</td>
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<td>Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C</td>
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</table>
Column 35 – Credit Risk on Collateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

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<thead>
<tr>
<th>Code</th>
<th>1</th>
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<tr>
<td>Factor</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>5.0%</td>
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</tbody>
</table>

Column 36 – Credit Risk on Uncollateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

<table>
<thead>
<tr>
<th>Code</th>
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<th>3</th>
<th>4</th>
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<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>5.3%</td>
<td>7.1%</td>
<td>14.0%</td>
<td>14.0%</td>
<td>10.0%</td>
</tr>
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</table>

Detail Eliminated to Conserve Space
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 02/21/2020

CONTACT PERSON:  Pat Allison

TELEPHONE:  816-783-8528

EMAIL ADDRESS:  pallison@naic.org

ON BEHALF OF:  LATF

NAME:  Mike Boerner, Chair

TITLE:  

AFFILIATION:  

ADDRESS:  

FOR NAIC USE ONLY

Agenda Item # 2020-10BWG
Year 2020
Changes to Existing Reporting [ X ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 05/28/2020
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify) 

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT [ X ] INSTRUCTIONS [ ] CROSSCHECKS
[ ] QUARTERLY STATEMENT [ ] BLANK
[ ] Separate Accounts [ ] Title
[ X ] Life, Accident & Health/Fraternal [ ] Protected Cell [ ] Other ________________
[ ] Property/Casualty [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Variable Annuities Supplement Blank:
• Changing the header for Column 10
• Changing Lines 1-3 and adding Line 4

Variable Annuities Supplement Instructions:
• Adjusting the instructions to correspond with changes made to the blanks as well as changes in the 2020 Valuation Manual for the new VA Framework.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The new VA Framework is effective for 2020.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ____________________________

Other Comments:

** This section must be completed on all forms.
This supplement is to be filed on or before April 1.

Complete this supplement for contracts and certificates subject to VM-21 or AG 43. A separate chart shall be prepared for individual contracts and for group contracts with individual certificates.

For variable annuities (VAs) with guaranteed benefits, disclose the type(s) of guaranteed benefit(s), the number of contracts or certificates with those benefits, the amount of the benefit base related to each type of benefit, the net amount at risk for death benefits and the guaranteed annual payout for income and withdrawal benefits, the gross amount of the reserve for the guaranteed benefit(s), the portion of the contract/certificate account value related to contract/certificate funds in the General Account or the Separate Account, and the percent of the guaranteed benefit reinsured.

Column 1 & Column 2  –  Type of Guaranteed Benefit

For purposes of this supplement, a Guaranteed Death Benefit is defined in accordance with the term “Guaranteed Minimum Death Benefit” in VM-21, and a Guaranteed Living Benefit (GLB) is defined in accordance with the term “Variable Annuity Guaranteed Living Benefits” in VM-01.

“Type” shall include a summary description of the type of benefit. Examples are provided in the table illustrated below. Descriptions that may apply when identifying “Type” for Column 2 include, “Guaranteed Minimum Accumulation Benefit” (GMAB), “Guaranteed Minimum Income Benefit” (GMIB), “Hybrid GMIB,” “Traditional GMIB,” “Guaranteed Minimum Withdrawal Benefit” (GMWB), “Lifetime GMWB,” “Non-Lifetime GMWB,” and “Guaranteed Payout Annuity Floor” (GPAF). These terms are defined in VM-01. For those guaranteed benefits that include waiting periods before any benefit can be realized, include the length of the original waiting period in the description.

- A separate line shall be created for each combination of Guaranteed Death Benefit and Guaranteed Living Benefit.
  - See the illustration in the table below for an example.
  - For a category with only one guarantee, show “None” in the other column.
  - For a category with no guaranteed benefit, show “None” in both columns.
- Each contract/certificate shall be included in one and only one line.
  - For a contract with multiple living benefits, determine the most appropriate classification.

A separate chart shall be prepared for individual contracts and for group contracts with individual certificates. In each chart, show the amount of any reinsurance reserve credit being taken separately for treaties with affiliated captive reinsurers and for other reinsurers.

For purposes of this supplement, a Guaranteed Living Benefit (GLB) is defined as a contract/certificate, agreement or rider in which the insurance entity guarantees specified payouts during a defined period, which may include the lifetime of the insured(s). For VAs, these guaranteed payouts are typically made regardless of the performance of the contractual account value that is used to determine cash surrender values and/or withdrawal benefits.

Column 3  –  Number of Individual (Part 1) Contracts or Group (Part 2) Certificates
Column 4 – Benefit Base For Guaranteed Death Benefit (Col 1)

Report the Benefit Base (defined in the contract/certificate) as of the valuation date as the basis for the guaranteed value. If no guarantee exists, enter $0.

Column 5 – Benefit Base For Guaranteed Living Benefit (GLB) (Col 2)

Report the Benefit Base (defined in the contract/certificate) as of the valuation date as the basis for the guaranteed value. If no guarantee exists, enter $0.

Column 6 – Net Amount at Risk For Guaranteed Death Benefit (Col 1)

Death Benefit Net Amount at Risk (NAR) is defined as the greater of a) zero and b) the difference between the Guaranteed Death Benefit and the Account Value as of the valuation date. Report the sum of the NAR for all contracts/certificates.

Column 7 – Guaranteed Annual Income Amount For Guaranteed Living Benefit (GLB) (Col 2)

Report the total annual income/withdrawal benefits available if the income/withdrawal guarantees were elected on the valuation date. If no GLB/GMWB is available on the valuation date for a particular contract/certificate (e.g. due to a waiting period), use $0. Note, for GLB and GMWB previously elected, show the guaranteed amount based on the prior elections. For GMAB, use $0 since this is not an income benefit. Disclosures for GMAB shall be provided in the AG 43 Memorandum.

Column 8 – Account Value – General Account

Column 9 – Account Value – Separate Account

Column 10 – Reserve for Guaranteed Benefits (Total Reserve Less Base Adjusted Reserve) Contract-Level Reserves Less Cash Surrender Value

Total gross reserve for guarantees as defined in AG 43 or VM 21 as applicable in excess of the base contract reserve. Reserves calculated according to AG 43 and VM 21 are allocated to individual contracts or certificates following the guidance of Appendix 6 of AG 43 or Section 8 of VM 21. Report in column 10 the excess of this per policy reserve over the base contract reserve. For base contract reserve, the company may use CSV or Base Adjusted Reserve (defined in Appendix 3, A.3.2D of AG 43 or Section 5, B.4. of VM 21) for that contract or certificate. For each contract/certificate, calculate the excess amount of the pre-reinsurance ceded contract-level reserve, defined in VM-21, over the contract’s cash surrender value. For each “Type” listed under Columns 1 and 2, report the sum of the excess amounts calculated for the associated contracts/certificates. For the Subtotal, report the sum of the excess amounts calculated for all contracts/certificates. The Subtotal should equal the excess of the aggregate reserve over the aggregate cash surrender value.

Column 11 & Column 12 – Percentage of Guaranteed Benefits Reinsured

Show percentage of the Guaranteed Benefit ceded to all reinsurers.

Line 1 – Aggregate Cash Surrender Value

Report the sum of the cash surrender values for all contracts/certificates.
Line 2 – Pre-Reinsurance Ceded Aggregate Reserve (Subtotal for Column 10 plus Line 1)

Report the sum of the pre-reinsurance ceded contract-level reserves for all contracts/certificates. This should equal the Subtotal Line for Column 10 plus Line 1.

Line 3 – Reserve Credit from affiliated captive reinsurance

Line 4 – Reserve Credit from other reinsurance

Line 3-5 – Total Net of Reinsurance Post-Reinsurance Ceded Aggregate Reserve

Line 3 Total Net of Reinsurance should equal the Subtotal Line for Column 10 minus the sum of Line 1 Reserve Credit from Affiliated Captive Reinsurance and Line 2 Reserve Credit from Other Reinsurance. Report the sum of the post-reinsurance ceded contract-level reserves for all contracts/certificates.

Illustration:

<table>
<thead>
<tr>
<th>Type</th>
<th>Benefit Base</th>
<th>6</th>
<th>7</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Guaranteed Death Benefit</td>
<td>Number of Individual Contracts / Group Certificates</td>
<td>Net Amount at Risk For Guaranteed Death Benefit (Col 1)</td>
<td>For Guaranteed Death Benefit (Col 1)</td>
<td>General Account</td>
</tr>
<tr>
<td>2</td>
<td>Guaranteed Living Benefit</td>
<td>For Guaranteed Living Benefit (GLB) (Col 2)</td>
<td>For Guaranteed Living Benefit (GLB) (Col 2)</td>
<td>Separate Account</td>
<td>Reserves Less Base Adjusted Reserve Less Contract-Level Reserves Less Contract-Level Reserve Credit from Affiliated Captive Reinsurance</td>
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<tr>
<td>Max Anniversary Value (MAV)*</td>
<td>GMAB - 110% of premium</td>
<td>$101.4M</td>
<td>$0</td>
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<tr>
<td>3% Roll-up</td>
<td>GMIB prem accum @ 3% w/10 yr waiting period</td>
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<td>Greater of MAV &amp; 5% Roll-up</td>
<td>GMIB ROP, 10 yrs</td>
<td>$40.0M</td>
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1. Reserve Credit from affiliated captive reinsurance Aggregate Cash Surrender Value 160.5M
2. Reserve Credit from other reinsurance Aggregate Cash Surrender Value 165.0M
3. Total Net of Reinsurance Reserve Credit from affiliated captive reinsurance 10.0M
4. Reserve Credit from other reinsurance 10.0M
5. Post-Reinsurance Ceded Aggregate Reserve 15.0M
### PART 1 – INDIVIDUAL

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<tr>
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<td>Guaranteed Living Benefit</td>
<td>Number of Individual Contracts</td>
<td>For Guaranteed Death Benefit (Col 1)</td>
<td>For Guaranteed Living Benefit (GLB) (Col 2)</td>
<td>Net Amount at Risk For Guaranteed Death Benefit (Col 1)</td>
<td>Guaranteed Annual Income Amount For Guaranteed Living Benefit (GLB) (Col 2)</td>
<td>Account Value</td>
<td>General Account</td>
<td>Separate Account</td>
<td>Percentage of Guaranteed Benefits Reinsured</td>
<td>Guaranteed Death Benefit</td>
</tr>
<tr>
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Subtotal

1. Reserve credit from affiliated captive reinsurance
2. Reserve credit from other reinsurance
3. Aggregate Reserve (Subtotal for Column 10 plus Line 1)
4. Total net of reinsurance
5. Post-Reinsurance Ceded Aggregate Reserve

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### VARIABLE ANNUITIES SUPPLEMENT

#### PART 2 – GROUP CONTRACTS WITH INDIVIDUAL CERTIFICATES

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<td>Guaranteed Living Benefit</td>
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<td>Benefit Base</td>
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<tr>
<td>For Guaranteed Death Benefit (Col 1)</td>
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<td>For Guaranteed Living Benefit (GLB) (Col 2)</td>
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<td>Net Amount at Risk For Guaranteed Death Benefit (Col 1)</td>
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<tr>
<td>Percentage of Guaranteed Benefits Reinsured</td>
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<tr>
<td>Reserve Credit from other reinsurance Aggregate Reserve</td>
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<tr>
<td>Reserve Credit from other reinsurance Pre-Reinsurance Ceded Aggregate Reserve (Subtotal for Column 10 plus Line 1)</td>
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<tr>
<td>Total net of reinsurance Reserve credit from affiliated captive reinsurance</td>
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<tr>
<td>Post-Reinsurance Ceded Aggregate Reserve</td>
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Subtotal

XXX XXX

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**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

<table>
<thead>
<tr>
<th>DATE: 02/21/2020</th>
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<tbody>
<tr>
<td>CONTACT PERSON: Pat Allison</td>
</tr>
<tr>
<td>TELEPHONE: 816-783-8528</td>
</tr>
<tr>
<td>EMAIL ADDRESS: <a href="mailto:pallison@naic.org">pallison@naic.org</a></td>
</tr>
<tr>
<td>ON BEHALF OF: LATF</td>
</tr>
<tr>
<td>NAME: Mike Boerner, Chair</td>
</tr>
<tr>
<td>TITLE:</td>
</tr>
<tr>
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<thead>
<tr>
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<tr>
<td>No Impact [ X ]</td>
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<tbody>
<tr>
<td>[ ] Rejected For Public Comment</td>
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<td>[ X ] Adopted Date 05/28/2020</td>
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**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [ X ] ANNUAL STATEMENT
- [ ] QUARTERLY STATEMENT
- [ X ] INSTRUCTIONS
- [ ] CROSSCHECKS
- [ ] Life, Accident & Health/Fraternal
- [ ] Property/Casualty
- [ ] Health
- [ ] Separate Accounts
- [ ] Protected Cell
- [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

See next page for details of changes to the VM-20 Reserves Supplement.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Changing the reporting units for reserves to attain consistency with other annual statement blanks. Clarifying the instructions to attain consistency in company reporting. Changes are based on findings from the 2018 review of company filings.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date:

Other Comments:

**This section must be completed on all forms.** Revised 7/18/2018
IDENTIFICATION OF ITEM(S) TO CHANGE

VM-20 Reserves Supplement Blank:

- Splitting Part 1 into Part 1A and Part 1B.
- For Part 1A:
  - Changing the description header for Column 3 to be “Due and Deferred Premium Asset” so that it matches the instructions.
  - Adding “XXX” in two places to the indicate that a Due and Deferred Premium Asset does not need to be reported in the lines shown for Total Reserves.
  - Changing the reporting units for all columns to be in dollars rather than in thousands.
  - Expanding all columns to allow room for a number as large as 999,999,999,999.
  - Changing the product labels for clarity.
- For Part 1B:
  - Changing the reporting units for the Reserve columns to be in dollars rather than in thousands.
  - Expanding the Reserve columns to allow room for a number as large as 999,999,999,999.
  - Expanding the Face Amount columns to allow room for a number as large as 9,999,999,999.
  - Changing the product labels for clarity.
- Removing Part 2 and re-numbering the remaining Parts.

VM-20 Reserves Supplement Instructions:

- Adjusting the instructions according to the changes made to the blanks.
- Clarifying instructions and adding examples for Parts 1A and 1B.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

VM-20 RESERVES SUPPLEMENT—PART 1

Life Insurance Reserves Valued According to VM-20 by Product Type

($000 Omitted Except for Number of Policies)

This Supplement provides information on the reserves required to be calculated by Section VM-20 of the Valuation Manual. This includes the Net Premium Reserve and, as applicable, the Deterministic Reserve and the Stochastic Reserve. This Supplement also provides information regarding business where VM-20 of the Valuation Manual is not required to be applied. Only business issued on or after Jan. 1, 2017, valued by the requirements of VM-20 should be reported in Part 1A and Part 1B. Part 1A and Part 1B are intended to aid regulators in the analysis of reserves as determined under Section VM-20 of the Valuation Manual for both the prior and current year. Companies that elect the three-year transition for some of their policies should not report those policies in this part.

This Supplement also provides information regarding business where VM-20 of the Valuation Manual is not required to be applied. Companies that elect the three-year transition period for all of their business or are otherwise exempted from the requirements of Section VM-20 are not required to complete Part 1A or Part 1B of this Supplement pursuant to the instructions in Part 2 of this Supplement, but must complete Part 2 or Part 3 as applicable.

VM-20 RESERVES SUPPLEMENT – PART 1A

Life Insurance Reserves Valued According to VM-20 by Product Type

Part 1A of this Supplement breaks out, by product type, the prior year and current year reported reserves on a Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded basis as defined in Section 8.D of Section VM-20 of the Valuation Manual. The Due and Deferred Premium Asset for the current year is also shown. In addition, Part 1 of this Supplement shows, by product type for the current year, the Due and Deferred Premium Asset, the Net Premium Reserve (NPR), the Deterministic Reserve (DR) and the Stochastic Reserve (SR), where the NPR, DR and SR are as defined in Section VM-20 of the Valuation Manual. This Supplement is intended to aid regulators in the analysis of reserves as determined under Section VM-20 of the Valuation Manual for both the prior and current year.

Section VM-20 of the Valuation Manual requires that the Post-Reinsurance-Ceded Reserve be determined by three product groups: Term Insurance, Universal Life with Secondary Guarantees (ULSG) and all other. Term Insurance should be reported on line 1.1. ULSG, including Variable Universal Life with a secondary guarantee, Indexed Life insurance with a secondary guarantee, regular Universal Life with a secondary guarantee, and ULSG policies with a non-material secondary guarantee as defined in Section VM-01 of the Valuation Manual, should be reported on line 1.2. Each of the other products reported in lines 1.3 – 1.8 should be determined as the sum of the policy reserves using the policy reserves determined following the allocation process of VM-20 Section 2. A similar process should be used for each of the pre-reinsurance-ceded reserves.

Section A: Columns 4 through 8 are to be completed if each of the reserves in Columns 4 through 6 (NPR, DR, SR) is calculated according to the requirements of Section VM-20 of the Valuation Manual.

Section B: Columns 9 through 12 are to be completed only if the reserves in Columns 9 and 10 (NPR, DR) are calculated according to the requirements of Section VM-20 of the Valuation Manual.

Section C: Columns 13 through 15 are to be completed only if the reserve in Column 13 (NPR) is calculated according to the requirements of Section VM-20 of the Valuation Manual.
Columns 1 & 2 – Reported Reserve

Provide the reported reserve, in thousand whole dollars, for the prior year and current year for each line item. Post-Reinsurance-Ceded is net of reinsurance ceded, and Pre-Reinsurance-Ceded includes reinsurance assumed and excludes any reinsurance ceded should be prior to any reinsurance ceded and include reinsurance assumed. Sections 2 and 8 in the Valuation Manual further describe the required reserve and treatment of reinsurance. The reported reserve for the current year should reflect all policies in force as of the end of the current year. The reported reserve for the prior year should reflect all policies in force as of the end of the prior year.

Column 3 – Due and Deferred Premium Asset

Provide the due and deferred premium asset amount, in thousand whole dollars, associated with the current year Reported Reserve from Column 2 and calculated in a manner consistent with lines 15.1 and 15.2 of the Annual Statement Assets page.

Example 1:
A company reinsures a ULSG product using YRT reinsurance.
- The ceding company reports their reserve on lines 1.2 and 3.2 for ULSG.
- The assuming company reports their reserve on lines 1.1 and 3.1 for Term.

Example 2:
A company reinsures a Term product using YRT reinsurance.
- The ceding company reports their reserve on lines 1.1 and 3.1 for Term.
- The assuming company reports their reserve on lines 1.1 and 3.1 for Term.
VM-20 RESERVES SUPPLEMENT – PART 1B

Life Insurance Reserves Valued According to VM-20 by Product Type

($000 Omitted for Face Amount)

Part 1B of this Supplement provides details underlying the amounts shown in Part 1A.

Section A: Columns 4-1 through 8-5 are to be completed if each of the reserves in Columns 4-1 through 6-3 (NPR, DR, SR) is calculated according to the requirements of Section VM-20 of the Valuation Manual.

Section B: Columns 9-6 through 12-9 are to be completed only if the reserves in Columns 9-6 and 10-7 (NPR, DR) are calculated according to the requirements of Section VM-20 of the Valuation Manual.

Section C: Columns 13-10 through 15-12 are to be completed only if the reserve in Column 13-10 (NPR) is calculated according to the requirements of Section VM-20 of the Valuation Manual.

Column 4-1, 9-6 & 13-10 – Net Premium Reserve (NPR)

Report the Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded Net Premium Reserve for the each product type, in whole dollars. The Net Premium Reserve is defined in Section 3 in VM-20 of the Valuation Manual.

Column 5-2 & 10-7 – Deterministic Reserve

Report the Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded Deterministic Reserve for each product type, in thousands whole dollars. Report the amount whether it is positive or negative; do not floor the amount at zero if it is negative. The Deterministic Reserve calculation is defined in Section 4 in VM-20 of the Valuation Manual.

Column 6-3 – Stochastic Reserve

Report the Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded Stochastic Reserve for each product type, in thousands whole dollars. Report the amount whether it is positive or negative; do not floor the amount at zero if it is negative. The Stochastic Reserve calculation is defined in Section 5 in VM-20 of the Valuation Manual.

Column 7-4, 11-8 & 14-11 – Number of Policies

Report the number of individual life insurance policies by product type and by the required VM-20 methodology used as described in Section A, Section B and Section C above. The number of policies should be prior to any reinsurance ceded and include reinsurance assumed.

Column 8-5, 12-9 & 15-12 – Face Amount

Report the face amount, in thousands, of individual life insurance by product type and by the required VM-20 methodology used as described in Section A, Section B and Section C above. The face amount should be prior to any reinsurance ceded and include reinsurance assumed.

Example:

A company has Term business subject to VM-20, and there is no reinsurance. The Stochastic Exclusion Test was passed. The Deterministic Reserve at year-end was negative.

- The company completes Section B.
- The Net Premium Reserve is reported in whole dollars in Column 6.
- The negative Deterministic Reserve is reported in whole dollars in Column 7.
- The Number of Policies is reported in Column 8.
- The Face Amount is reported in thousands in Column 9.
VM-20 RESERVES SUPPLEMENT—PART 2

Three Year—Transition Period

($000 Omitted Except for Number of Policies)

This section of the Supplement should be completed when a reporting entity has elected to apply the three year transition provided in Section II, Sub-section C under Life Insurance Products of the Valuation Manual to some or all of its business. This Part 2 should include the values requested for the business for which the three year transition has been elected and should not include values for any policies valued based on VM-20. This Part 2 allows the company to establish minimum reserves according to applicable requirements stated in Appendix A (VM-A) and Appendix C (VM-C), in the Valuation Manual, for business otherwise subject to VM-20 requirements and issued during the first three years following the Operative Date of the Valuation Manual. If a company does not elect this three-year transition, but elects to apply VM-20 to a block of business issued on and after the Operative Date, then such company must continue to apply the requirements of VM-20 to this block of business, as well as future new issues of this type of business.

A company that elects to apply the three year transition for all of its products within the scope of VM-20 does not have to complete Part 1 of the VM-20 Supplement. If a company applies VM-20 to a product or products, then Part 1 of this VM-20 Supplement will need to be completed.

VM-20 RESERVES SUPPLEMENT—PART 3-2

Life PBR Exemption

This section of the Supplement should be completed by a company that has filed and been granted a Life PBR Exemption from its state of domicile.

If a company has been granted a Life PBR Exemption, the company must indicate the source of the Life PBR Exemption, which could be defined in a state statute, a state regulation or in the NAIC-adopted Valuation Manual. If the source of the granted Life PBR Exemption is not the NAIC-adopted Valuation Manual, the company must disclose the criteria of the state’s Life PBR Exemption that the company has met, and the company must disclose the minimum reserve requirements that are required by the state of domicile. If the minimum reserve requirements of the state of domicile are the same as those specified in the NAIC-adopted Valuation Manual, the company may indicate: “Same as NAIC VM”.

Companies whose individual ordinary life business is exempted from the requirements of VM-20 pursuant to a Life PBR Exemption are not required to complete Part 1 of this VM-20 Supplement.

VM-20 RESERVES SUPPLEMENT—PART 4-3

Other Exclusions from Life PBR

Questions 1 and 2 of this section of the Supplement should be completed by a company that has filed and been granted a Single State Exemption from the reserve requirements of VM-20 by its state of domicile pursuant to requirements similar to the optional Section 15 of the NAIC Standard Valuation Law (# 820). The response to question 2 should be “Yes” if the company has any business assumed that relates to issues outside the state of domicile.

Question 3 of this section of the Supplement should be completed by a company if all its life business is excluded from the requirements of VM-20 pursuant to Section II.B of the Valuation Manual.

Companies responding “Yes” to question 1 are not required to complete Part 1 of this VM-20 Supplement if all of their individual ordinary life business was covered under the Single State Exemption. Companies responding “YES” to question 3 are not required to complete Part 1 of this VM-20 Supplement.
### ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

**VM-20 RESERVES SUPPLEMENT – PART 1A**

Life Insurance Reserves Valued According to VM-20 by Product Type

For The Year Ended December 31, 20__

(TO BE FILLED BY MARCH 1)

(§000 OMITTED EXCEPT FOR NUMBER OF POLICIES)

<table>
<thead>
<tr>
<th>NAIC Group Code</th>
<th>NAIC Company Code</th>
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</thead>
</table>

<table>
<thead>
<tr>
<th>Prior Year</th>
<th>Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Post-Reinsurance-Ceded Reserve</td>
<td></td>
</tr>
<tr>
<td>1.1. Term Life Insurance</td>
<td></td>
</tr>
<tr>
<td>1.2. Universal Life With Secondary Guarantee</td>
<td></td>
</tr>
<tr>
<td>1.3. Non-Participating Whole Life</td>
<td></td>
</tr>
<tr>
<td>1.4. Participating Whole Life</td>
<td></td>
</tr>
<tr>
<td>1.5. Universal Life – Without Secondary Guarantee</td>
<td></td>
</tr>
<tr>
<td>1.6. Variable Universal Life</td>
<td></td>
</tr>
<tr>
<td>1.7. Variable Life</td>
<td></td>
</tr>
<tr>
<td>1.8. Indexed Life</td>
<td></td>
</tr>
<tr>
<td>1.9. Appropriate Ways for Other Products</td>
<td></td>
</tr>
</tbody>
</table>

#### SECTION A

| 1.1. Post-Reinsurance-Ceded Reserve |
| 1.1.1. Term Life Insurance |
| 1.1.2. Universal Life With Secondary Guarantee |
| 1.1.3. Non-Participating Whole Life |
| 1.1.4. Participating Whole Life |
| 1.1.5. Universal Life – Without Secondary Guarantee |
| 1.1.6. Variable Universal Life |
| 1.1.7. Variable Life |
| 1.1.8. Indexed Life |
| 1.1.9. Appropriate Ways for Other Products |

#### SECTION B

| 2. Pre-Reinsurance-Ceded Reserve |
| 2.1. Term Life Insurance |
| 2.2. Universal Life With Secondary Guarantee |
| 2.3. Non-Participating Whole Life |
| 2.4. Participating Whole Life |
| 2.5. Universal Life – Without Secondary Guarantee |
| 2.6. Variable Universal Life |
| 2.7. Variable Life |
| 2.8. Indexed Life |
| 2.9. Appropriate Ways for Other Products |

#### SECTION C

| 3. Total Reserves Ceded |
| 3.1. Post-Reinsurance-Ceded Reserve |
| 3.2. Pre-Reinsurance-Ceded Reserve |
| 3.3. Total Reserves Ceded |

#### DETAILS OF WRITING

1.01. Summary of remaining writings for Line 1.01 through 1.100 plus Line 1.100+ above

| 1.01. Summary of remaining writings for Line 1.01 through 1.100 plus Line 1.100+ above |
| 1.02. Summary of remaining writings for Line 1.01 through 1.100 plus Line 1.100+ above |

#### (Sum of Lines 1.1 through 1.9)
<table>
<thead>
<tr>
<th>Prior Year</th>
<th>Current Year</th>
<th>Due and Deferred Premium Asset</th>
</tr>
</thead>
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<tr>
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<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Reported Reserve</td>
<td>Reported Reserve</td>
</tr>
<tr>
<td>1. Post-Reinsurance-Ceded Reserve</td>
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<td></td>
</tr>
<tr>
<td>1.1. Term Life Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2. Universal Life With Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3. Non-Participating Whole Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4. Participating Whole Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5. Universal Life Without Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.6. Variable Universal Life Without Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.7. Variable Life Without Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8. Indexed Life Without Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9. Aggregate Write-Ins for Other Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Total Post-Reinsurance-Ceded Reserve (Sum of Lines 1.1 through 1.9)</td>
<td></td>
<td>XXX</td>
</tr>
<tr>
<td>3. Pre-Reinsurance-Ceded Reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1. Term Life Insurance</td>
<td></td>
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</tr>
<tr>
<td>3.2. Universal Life With Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.3. Non-Participating Whole Life</td>
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</tr>
<tr>
<td>3.4. Participating Whole Life</td>
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<td></td>
</tr>
<tr>
<td>3.5. Universal Life Without Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.6. Variable Universal Life Without Secondary Guarantee</td>
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<tr>
<td>3.7. Variable Life Without Secondary Guarantee</td>
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</tr>
<tr>
<td>3.8. Indexed Life Without Secondary Guarantee</td>
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<td></td>
</tr>
<tr>
<td>3.9. Aggregate Write-Ins for Other Products</td>
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<td></td>
</tr>
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<td>4. Total Pre-Reinsurance-Ceded Reserve (Sum of Lines 3.1 through 3.9)</td>
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<tr>
<td>5. Total Reserves Ceded (Line 4 minus Line 2)</td>
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</table>

**DETAILS OF WRITE-INS**

| 1.901 | | | |
| 1.902 | | | |
| 1.903 | | | |
| 1.903 Summary of remaining write-ins for Line 1.9 from overflow page | | | |
| 1.998 Totals (Lines 1.901 through 1.903 plus 1.998) (Line 1.9 above) | | | |
| 3.901 | | | |
| 3.902 | | | |
| 3.903 | | | |
| 3.998 Summary of remaining write-ins for Line 3.9 from overflow page | | | |
| 3.999 Totals (Lines 3.901 through 3.903 plus 3.998) (Line 3.9 above) | | | |
### VM-20 RESERVES SUPPLEMENT – PART 1B

**Life Insurance Reserves Valued According to VM-20 by Product Type**

*For the Year Ended December 31, 2020*

*(To Be Filed by March 1)*

**($000 Omitted for Face Amount)**

<table>
<thead>
<tr>
<th>SECTION A</th>
<th>SECTION B</th>
<th>SECTION C</th>
<th>SECTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Post-Reinsurance-Ceded Reserve</td>
<td>2. Pre-Reinsurance-Ceded Reserve</td>
<td>3. Aggregate Write-ins by Other Products</td>
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</tr>
<tr>
<td>1.2. Universal Life With Secondary Guarantee</td>
<td>2.2. Universal Life With Secondary Guarantee</td>
<td>3.2. Non-Participating Whole Life</td>
<td></td>
</tr>
<tr>
<td>1.3. Non-Participating Whole Life</td>
<td>2.3. Non-Participating Whole Life</td>
<td>3.3. Universal Life Without Secondary Guarantee</td>
<td></td>
</tr>
<tr>
<td>1.4. Participating Whole Life</td>
<td>2.4. Participating Whole Life</td>
<td>3.4. Universal Life Without Secondary Guarantee</td>
<td></td>
</tr>
</tbody>
</table>

**NET PREMIUMS, RESERVES, AND FACE AMOUNTS**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| **Net Premium Reserve** | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| **Deterministic Reserve** | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| **Stochastic Reserve** | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

**DETAILS OF WRITE-INS**

<table>
<thead>
<tr>
<th>1.901.</th>
<th>1.902.</th>
<th>3.901.</th>
<th>3.902.</th>
<th>3.998.</th>
<th>3.999.</th>
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<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

**SUMMARY OF REMAINING WRITE-INS FOR LINE 1.9 FROM OVERFLOW PAGE**

<table>
<thead>
<tr>
<th>3.998.</th>
<th>5.999.</th>
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</thead>
<tbody>
<tr>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

**SUMMARY OF REMAINING WRITE-INS FOR LINE 3.9 FROM OVERFLOW PAGE**

<table>
<thead>
<tr>
<th>3.998.</th>
<th>5.999.</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
**VM-20 RESERVES SUPPLEMENT – PART 2**
Reserves for Policies Not Based on VM-20 as a Result of the Three-Year Transition Period

For The Year Ended December 31, 20__
(To Be Filed by March 1)

($000 Omitted Except for Number of Policies)

<table>
<thead>
<tr>
<th>Three-Year Transition Period</th>
<th>Prior-Year</th>
<th>Current-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1. Life Insurance Reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1. Term Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2. Universal Life with Secondary Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3. Non-Participating Whole Life</td>
<td></td>
<td></td>
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<tr>
<td>1.4. Participating Whole Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5. Universal Life Without Secondary Guarantee</td>
<td></td>
<td></td>
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<tr>
<td>1.6. Variable Universal Life</td>
<td></td>
<td></td>
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<tr>
<td>1.7. Variable Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8. Indexed Life</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9. Aggregate Write-In for Other Products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| DETAILS OF WRITE-INS | | | | |
|---------------------| | | | |
| 1.901               |            |              |              |              |
| 1.903               |            |              |              |              |
| 1.998               |            |              |              |              |
| 1.999               |            |              |              |              |
| GROSS RESERVE       |            |              |              |              |              |
| NET RESERVE         |            |              |              |              |              |
| 2. Total Life Insurance Reserves (Sum of Lines 1.1 through 1.9) |            |              |              |              |              |

---

**VM-20 RESERVES SUPPLEMENT – PART 3-2**

*Life PBR Exemption*

For The Year Ended December 31, 20__
(To Be Filed by March 1)

<p>| Life PBR Exemption as defined in the NAIC adopted Valuation Manual (VM) | | |
|------------------------------------------------------------------------| | |
| 1. Has the company filed and been granted a Life PBR Exemption from the reserve requirements of VM-20 of the Valuation Manual by their state of domicile? | Yes [ ] No [ ] |
| 2. If the response to Question 1 is &quot;Yes&quot;, then check the source of the granted “Life PBR Exemption” definition? (Check either 2.1, 2.2 or 2.3) | |
| 2.1 NAIC Adopted VM [ ] | |
| 2.2 State Statute (SVL) [ ] Complete items “a” and “b”, as appropriate. | |
| a. Is the criteria in the State Statute (SVL) different from the NAIC adopted VM? | Yes [ ] No [ ] |
| b. If the answer to “a” above is “Yes”, provide the criteria the state has used to grant the Life PBR Exemption (e.g., Group/Legal Entity criteria) and the minimum reserve requirements that are required by the state of domicile (if the minimum reserve requirements are the same as the Adopted VM, write SAME AS NAIC VM): | |
| 2.3 State Regulation [ ] Complete items “a” and “b”, as appropriate. | |
| a. Is the criteria in the State Regulation different from the NAIC adopted VM? | Yes [ ] No [ ] |
| b. If the answer to “a” above is “Yes”, provide the criteria the state has used to grant the Life PBR Exemption (e.g., Group/Legal Entity criteria) and the minimum reserve requirements that are required by the state of domicile (if the minimum reserve requirements are the same as the Adopted VM, write SAME AS NAIC VM): | |</p>
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A. Has the company filed and been granted a Single State Exemption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1B. If the answer to question 1A is &quot;Yes&quot; please discuss any business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2A. If the answer to question 1A is &quot;Yes&quot;, does the company have</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2B. If the answer to question 1A is &quot;Yes&quot; please discuss the risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Is all of the company’s individual ordinary life insurance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 02/21/2020

CONTACT PERSON: Kris DeFrain

TELEPHONE: 816-783-8229

EMAIL ADDRESS: kdefrain@naic.org

ON BEHALF OF: Phil Vigliaturo, Chair, Casualty Actuarial and Statistical (C) Task Force

TITLE: Director, Research and Actuarial Dept.

AFFILIATION: NAIC

ADDRESS: NAIC Central Office

FOR NAIC USE ONLY

Agenda Item # 2020-12BWG

Year 2020

Changes to Existing Reporting [ X ]

New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]

Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment

[ ] Referred To Another NAIC Group

[ ] Received For Public Comment

[ X ] Adopted Date 05/28/2020

[ ] Rejected Date

[ ] Deferred Date

[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT

[ ] QUARTERLY STATEMENT

[ ] Life, Accident & Health/Fraternal

[ X ] Property/Casualty

[ ] Health

[ ] Separate Accounts

[ ] Protected Cell

[ ] Health (Life Supplement)

CROSSCHECKS

[ ] Title

[ ] Other ______________________

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

The proposal will require appointed actuaries to attest to meeting Continuing Education (CE) requirements and participate in the CAS/SOA CE review procedures, if requested. These proposed changes were adopted by the Task Force on Jan. 28, 2020.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

As charged by the Property and Casualty Insurance (C) Committee to ensure continued competence of appointed actuaries, the revisions would implement the CAS and SOA P/C Appointed Actuary Continuing Education Verification Process.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.

Attachment Four-A15
Accounting Practices and Procedures (E) Task Force
8/3/20
ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of the Appointed Actuary, entitled “Statement of Actuarial Opinion” (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the Annual Statement Instructions – Property and Casualty.

Upon initial engagement, the Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

a. Name and title (and, in the case of a consulting actuary, the name of the firm).

b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).

c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

If subject to the U.S. Qualification Standards, the Appointed Actuary shall annually attest to having met the continuing education requirements under Section 3 of the U.S. Qualification Standards for issuing Actuarial Opinions. As agreed with the actuarial organizations, the Casualty Actuarial Society (CAS) and Society of Actuaries (SOA) will determine the process for receiving the attestations for their respective members and make available the attestations to the public. An Appointed Actuary subject to the U.S. Qualification Standards and not a member of the CAS or SOA shall select one of the above organizations to submit their attestation.

In accordance with the CAS and SOA’s continuing education review procedures, an Appointed Actuary who is subject to the U.S. Qualification Standards and selected for review shall submit a log of their continuing education in a form determined by the CAS and SOA. The log shall include categorization of continuing education approved for use by the Casualty Actuarial and Statistical Task Force. As agreed with the actuarial organizations, the CAS and SOA will provide an annual consolidated report to the NAIC identifying the types and subject matter of continuing education being obtained by Appointed Actuaries. An Appointed Actuary subject to the U.S. Qualification Standards and not a member of the CAS or SOA shall follow the review procedures for the organization in which they submitted their attestation.

The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment, and on an annual basis thereafter, directly or through company management. The documentation should include brief biographical information and a description of how the definition of “Qualified Actuary” is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary’s responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document the company’s review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove Line 24.04 from the General Interrogatories, Part 1 and renumber remaining lines for Interrogatory Question 24. Modify Lines 24.05 and 24.06 to require reporting amounts for conforming and non-conforming collateral programs.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Interrogatory Questions 24.05 and 24.06 are completed dependent on the answer to Question 24.04 which works for companies that have either all conforming or all non-conforming collateral programs. When a company has both, only the collateral amount of the conforming programs is captured. This proposal allows the capture of the amount of collateral for both conforming and non-conforming collateral programs when a company has both.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ____________________________

Other Comments: ____________________________

** This section must be completed on all forms.  Revised 7/18/2018

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

INVESTMENT

24. For the purposes of this interrogatory, “exclusive control” means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution thereof. For purposes of this interrogatory, securities in transit and awaiting collection, held by a custodian pursuant to a custody arrangement or securities issued subject to a book entry system are considered to be in actual possession of the company.

If bonds, stocks and other securities owned December 31 of the current year, over which the company has exclusive control are: (1) securities purchased for delayed settlement, or (2) loaned to others, the company should respond “NO” to 24.01 and “YES” to 25.1.

24.03 Describe the company’s securities lending program, including value for collateral and amount of loaned securities, and whether the collateral is held on- or off-balance sheet. Note 17 of Notes to Financial Statement provides a full description of the program.

24.04 A company with a conforming securities lending program as defined in the risk-based capital instructions should respond “YES.”

24.045 Report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions (24.04 answer is “YES”).

24.056 Report amount of collateral for other programs (24.04 answer is “NO”).

24.1091 The fair value amount reported should equal the grand total of Schedule DL, Part 1, Column 5 plus Schedule DL, Part 2, Column 5.

The fair value amount reported amount should also equal the fair value amount reported in Note 5E(5)a1(m).

24.1092 The book adjusted/carrying value amount reported should equal the grand total of Schedule DL, Part 1, Column 6 plus Schedule DL, Part 2, Column 6.

24.1093 The payable for securities lending amount reported should equal current year column for payable for securities lending line on the liability page.
### General Interrogatories

#### Part 1 – Common Interrogatories

**INVESTMENT**

24.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.03)

Yes [ ] No [ ]

24.02 If no, give full and complete information, relating thereto.................................................................

24.03 For securities lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided)

24.04 Does the company’s security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [ ] No [ ] N/A [ ]

$ ___________________

24.05 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?

Yes [ ] No [ ] N/A [ ]

Yes [ ] No [ ] N/A [ ]

Yes [ ] No [ ] N/A [ ]

24.06 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?

24.07 Does the reporting entity or the reporting entity’s securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?

Yes [ ] No [ ] N/A [ ]

Yes [ ] No [ ] N/A [ ]

Yes [ ] No [ ] N/A [ ]

24.08 For the reporting entity’s security securities lending program, state the amount of the following as of December 31 of the current year:

- 24.09 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2
  
  $ ___________________

- 24.10 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2
  
  $ ___________________

- 24.11 Total payable for securities lending reported on the liability page
  
  $ ___________________
### Blanks Agenda Item Submission Form

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<td>CONTACT PERSON:</td>
<td>Eric King</td>
</tr>
<tr>
<td>TELEPHONE:</td>
<td>816-783-8234</td>
</tr>
<tr>
<td>EMAIL ADDRESS:</td>
<td><a href="mailto:eking@naic.org">eking@naic.org</a></td>
</tr>
<tr>
<td>ON BEHALF OF:</td>
<td>Health Actuarial (B) Task Force</td>
</tr>
<tr>
<td>NAME:</td>
<td>Perry Kupferman</td>
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<tr>
<td>TITLE:</td>
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**FOR NAIC USE ONLY**

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**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

| No Impact: | [X] |
| Modifies Required Disclosure: | [ ] |

**DISPOSITION**

| Rejected For Public Comment: | [ ] |
| Referred To Another NAIC Group: | [ ] |
| Received For Public Comment: | [ ] |
| Adopted: | [X] Date 05/28/2020 |
| Rejected: | [ ] Date |
| Deferred: | [ ] Date |
| Other (Specify): | [ ] |

### BLANK(S) TO WHICH PROPOSAL APPLIES

- [X] ANNUAL STATEMENT
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- [X] Life, Accident & Health/Fraternal
- [X] Separate Accounts
- [X] Property/Casualty
- [X] Protected Cell
- [X] Health
- [X] Health (Life Supplement)

Anticipated Effective Date: **Annual 2020**

### IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the columns and rows on the blank pages for the Long-Term Care Experience Reporting Forms 1 through 5 and make appropriate changes to the instructions for those forms.

### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Changes are proposed to provide more accurate and useful information to regulators and their customers, and to facilitate greater consistency among and ease of reporting by insurers.

### NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH AND PROPERTY

LONG-TERM CARE INSURANCE EXPERIENCE REPORTING FORMS 1 THROUGH 5

These reporting forms must be filed with the NAIC by April 1 each year.

The purpose of the Long-Term Care Insurance Experience Reporting Forms is to monitor the amount of such coverage and to provide data specific to this coverage on a nationwide basis. Long-term care expenses may be paid through life policies, annuity contracts, and health contracts. When the long-term benefits portion of the contract is subject to rating rules based on the Long-Term Care Insurance Model Regulation (sections on required disclosure or rating practices to customers, loss ratio and premium rate increases), the adequacy of the pricing and reserve assumptions is critical to meeting the expectation of those sections.

For life or annuity products where no portion is subject to these rating rules, the products are not being included in the reporting in these forms. Companies may use an assumption that long-term care benefits that are “incidental” regardless of the date of issue, may be excluded. Incidental means that the value of long-term care benefits provided is less than ten percent (10%) of the total value of the benefits provided over the life of the policy (measured as of the date of issue). If a policy form has had no policies in force and all claims on the policy form have been settled for more than one year, then the policy form is no longer reported on Forms 1, 2 and 4.

Form 1 gives an overview of the stand-alone LTC business and claims experience for both individual and group policies. Form 2 focuses on the experience of individual policies broken down into three Primary Issue Periods: Prior to 2003, 2003-2010, and 2011 and later. Form 3 focuses on the adequacy of claims reserves by presenting experience based on incurred year over the next several years. Because prior-year values should already be available; this form should be completed for at least the current and past four years. If available, all prior years should be completed. Form 4 focuses on the experience of group business. Form 5 provides a location to report data at the state level and additionally asks for data related to hybrid life or annuity products with LTC extended and/or accelerated benefits.

Form 1 focuses on the critical assumptions of morbidity and persistency while still presenting loss ratio data (without the level of detail in the original forms). As noted in the instructions specific to the form, prior year values will be filled in over time. Only information as of 2009 and subsequent years is required on the forms, unless it was required on the previous Long-Term Care Insurance Experience Reporting Forms. Companies are not required to supply information for spaces on the forms corresponding to any year prior to adoption of the forms, unless that information was previously reported. Form 2 focuses on the developing level of funds from the issue age premium basis and compares this to the active life reserve. As noted in the instructions specific to the form, prior year values will be filled in over time. Form 3 focuses on the adequacy of claims reserves by presenting experience based on incurred year over the next several years. Because prior-year values should already be available; this form should be completed for at least the current and past four years. If available, all prior years should be completed. Form 4 is to include life and annuity products that are not exempt as outlined in the Long-Term Care Insurance Model Regulation. Form 5, which replaces the LTC experience Form C, requires information at the state level. In addition to the considerable changes in the structure and purpose of the forms, the new forms are based on adding additional calendar years of experience to prior results. To more appropriately compare the actual results with expectations, the expected values are based on the exposure at the beginning of that year, not the original assumed sales distribution used when completing the original forms.

Because of the relatively small claim rates and variable length and size of long-term care claims, the statistical credibility of long-term care insurance experience is lower than the amount of credibility assigned to similar amounts of experience on other types of health insurance. This should be taken into account when reviewing experience and assessing the adequacy of reserves and the critical assumptions underlying them.

The Long-Term Care Insurance Experience Reporting Forms 1 through 5 should be filed whenever long-term care insurance has been sold, regardless of which annual statement has been filed. These forms are not only applicable to companies filing the life, accident and health annual statement. The list of the various annual statements is: life/fraternal, accident and health, property/casualty and health.

Include under the Individual portion both Individual policies and Group certificates if the group is approved by the state under statutes similar to Section 4E(4) of the Long-Term Care Insurance Model Act. Include under the Group portion group certificates if the group is approved by the state under statutes similar to Section 4E(1), (2) or (3) of the model act.
Experience for LTC insurance should be reported separately by stand-alone LTC policy form or by rider where experience is to be reported by form. Reporting by rider is applicable only to riders having distinct premiums for LTC coverage that are attached to products other than stand-alone LTC policies. Experience under forms that provide substantially similar coverage and provisions, that are issued to substantially similar risk classes and that are issued under similar underwriting standards, may be combined. If this option is utilized, the forms combined should be identified in the column captioned “Policy Form.”

Claims incurred will need to reflect the loss of future premiums. These will occur because of the waiver of premium provision in the contract, waiver due to spouse’s benefit status or other provisions in the contract that make it paid-up or not subject to collection of additional premiums for some future period. The claim incurred in each year will include the amount of the reserve established to reflect the loss of future expected premiums. The effect in future years will depend on the manner in which premiums from these policies are reported in following periods:

1. If the assumption is that future premiums (gross or net) will be considered as “paid by waiver,” the reserve will include in the reserve the present value of future premiums to be waived and the premium waived will be reported as both earned premium and a portion of the incurred claims.

2. If the assumption is that the policy is paid-up (no future premiums to be collected), the reserve would be the paid-up value and future incurred claims will be only for LTC benefits. If the assumption is that future premiums (gross or net) will be considered as “paid by waiver,” the reserve and experience fund will include in the reserve the present value of future premiums to be waived and the premium waived will be reported as both earned premium and a portion of the incurred claims.

Report using (1) above unless there are system limitations which require data to be entered under assumption (2).

When reporting dollar amounts, report the amount in thousands ($000 omitted). For non-dollar values, do not truncate the amounts.

**Definition of Incurred Claims:**

The amount of developed claims incurred during the calendar year is equal to the present value of all claim payments during the year and any changes in claim reserves. The discount rate is the statutory valuation interest rate for case reserves.

- Paid claims in the year of incurral are discounted one-quarter year.
- Paid claims subsequent to the year of incurral are assumed to be paid mid-year and discounted back to the midpoint of the incurred year.
- Outstanding claim reserves for a given incurred year plus transferred reserves from Part 3 of Form 3 are discounted from the valuation date to the midpoint of the incurred year.

If

\[ iy = \text{Incurred year} \]

\[ T = \text{Report year} - \text{incurred year} \]

\[ v = \text{Discount rate} \]

\[ \text{Paid Claims}_{iy} = \text{Paid claims during current or prior calendar year } t \text{ from claims incurred in year } iy \]

\[ \text{Case Reserve}_{iy} = \text{Case reserve at end of calendar year } t \text{ from claims incurred in } iy \]

\[ \text{Transferred Reserve}_{iy} = \text{Transferred reserve at end of calendar year } t \text{ from claims incurred in } iy \]
$t = iy, iy+1, iy+2, \ldots, iy + T$

then the Present Value of Incurred Claims for incurred year $iy$:

For $T=0$

\[\text{iyPaid Claims}_0 \times v^{\frac{1}{4}} + \text{iyCase Reserve}_0 \times v^{\frac{1}{2}} + \text{iyIBNR}_0 \times v^{\frac{1}{2}} + \text{iyTransferred Reserve}_0 \times v^{\frac{1}{4}}\]

For $T>0$

\[\text{iyPaid Claims}_0 \times v^{\frac{1}{4}} + \text{iy+1Paid Claims}_0 \times v^{\frac{1}{2}} + \ldots + \text{iy+TPaid Claims}_0 \times v^T + \text{iy+TCase Reserve}_0 \times v^{T+\frac{1}{2}} + (\text{iy+TIBNR}_0 \times v^{T+\frac{1}{2}}) + \text{iy+TTransferred Reserve}_0 \times v^{T+\frac{1}{4}}\]

If a portion of the IBNR is held for years other than the current calendar year, the value in the parentheses should be used.

The total case reserves and IBNR equal the portion of the total direct liability attributable to LTC business from Exhibit 8, Part 2, Line 2.1 (life, accident & health and fraternal) plus the portion of the claim liabilities reported on Exhibit 6, Line 14 (life, accident & health & fraternal) attributable to LTC business for life, accident & health and fraternal only.

This amount includes accrued and unaccrued claims liabilities that are incurred but not yet paid, both reported and not reported.
INSTRUCTIONS FOR FORM 1  
Stand-Alone LTC Only ($000 Omitted)

Long-Term Care Insurance Experience Reporting Form 1 is intended to track actual premium, claims, persistency, and reserves on a nationwide basis. Yearly and cumulative comparisons for direct, assumed, and ceded business are exhibited.

OVERVIEW

Long-Term Care Insurance Experience Reporting Form 1 is intended to track actual claims and persistency against expected on a nationwide basis. Certain group business is reported separately from individual and some group business. (See Section 4(E) of the Long-Term Care Insurance Model Act.) Policy forms are grouped into three categories: comprehensive, institutional only or non-institutional. Yearly and cumulative comparisons are exhibited. Even though only policy form groupings are displayed, policy form level information should be kept. It may facilitate rating reviews by the regulators. If a policy form has had no policies in force and all claims on the policy form have been settled for more than one year, then the policy form is no longer reported on this form.

DEFINITIONS AND FORMULAS

Comprehensive

Policy forms that provide a combination of institutional or facility and non-institutional coverage. These include institutional only policies with non-institutional riders.

Institutional Only

Policy forms that provide institutional coverage only.

Non-Institutional Only

Policy forms that provide only non-institutional coverage.

Current

Current calendar year of reporting.

Example: For a specific policy form category, the first year of issue was 2001. This Form 1 is required starting for the year 2009 and the reporting year is 2011. The current year would be 2011.

Prior

The year immediately prior to the year of reporting.

Example: 2010

2nd Prior

Two years prior to the year of reporting.

Example: 2009

3rd Prior

Three years prior to the year of reporting.

Example: Blank, because the first year of reporting is 2009.
**4th Prior**

Four years prior to the year of reporting.

*Example: Blank, because the first year of reporting is 2009.*

**5th Prior**

Five years prior to the year of reporting.

*Example: Blank, because the first year of reporting is 2009.*

**Form Inception-to-Date**

Aggregate experience data since the adoption of this Form 1.

*Example: Data from 2009 through 2011.*

Actual and expected in force counts are sums of counts for all years since adoption of Form 1.

**Total Inception-to-Date**

Aggregate experience data since issuance of policies.

*Example: Data from 2001 through 2011.*

**Assumed/Ceded Rows**

Does not include YRT reinsurance transactions. For columns that are reported as “Number of” (count) rather than an amount, assumed/ceded business is only recorded here if the business is 100% coinsured.

Column 1 – Earned Premiums

Collected Premiums + Change in Due Premiums – Change in Advanced Premiums – Change in Unearned Premium Reserves.

**Life, Accident & Health, Fraternal and Property/Casualty Only**

Total earned premiums should equal direct earned premiums for LTC business from Schedule H, Part 1, Line 2.

Total earned premiums should equal Accident and Health Policy Experience Exhibit Column 1, Line 10.3 for Individual Business section and Line 12 Group Business section.

Column 2 – Incurred Claims

Developed claims incurred during the calendar year. Equal to the present value of all claim payments and any claim reserves. The discount rate is the statutory valuation interest rate for case reserves.

\[
\text{If } iy \quad \text{Then } \\
T = \text{Report year} - \text{incurred year} \\
V = \text{Discount rate} \\
\text{Paid Claims}_{t} = \text{Paid claims during claim duration } t \text{ from claims incurred in year } iy, t = 0, 1, 2, 3, \ldots, T \\
\text{Case Reserve}_{iy} = \text{Case reserve at end of report year from claims incurred in } iy
\]
Incurred claims for incurred year iy:

For T=0

\[ \text{Paid Claims}_{iy} \times v^{rac{1}{2}} + \text{Case Reserve}_{iy} \times v^{rac{3}{2}} + \text{IBNR}_{iy} \times v^{rac{3}{2}}. \]

For T>0

\[ \text{Paid Claims}_{iy} \times v^{rac{T}{2}} + \text{Paid Claims}_{iy} \times v^{rac{T+1}{2}} + \text{Paid Claims}_{iy} \times v^{rac{T+2}{2}} + \ldots + \text{Paid Claims}_{iy} \times v^{rac{T+T}{2}} + \text{Case Reserve}_{iy} \times v^{rac{T+1}{2}} + \text{IBNR}_{iy} \times v^{rac{T+1}{2}}. \]

This is the developed claim amounts for claims incurred during the specific calendar year. For each claim, the incurred claim equals the present values of all claim payments and the present value of any outstanding case reserve. This will be different from the reported financial incurred claims. The financial incurred claims, including the change in claim reserves that contains gain or loss due to reserve estimation different from actual payments for claims incurred in prior years.

For purposes of the present value calculation, assume all payments are made in the middle of the calendar year and the case reserve is at the end of the calendar year. The discount rate is the statutory valuation interest rate for case reserve. For the current calendar year, an Incurred But Not Reported (IBNR) reserve should be assigned. If a portion of the IBNR is held for years other than the current calendar year, the value in the parentheses should be used.

The total case reserves and IBNR equal the portion of the direct liability attributable to long-term care business from Exhibit 8, Part 2, Line 2.1 (life, accident & health and fraternal) plus the portion of the claim liabilities reported on Exhibit 6, Line 14 (life, accident & health) and Line 13 (fraternal) attributable to LTC business for life, accident & health and fraternal only. This amount includes accrued and unaccrued claims liabilities, which are incurred but not yet paid, both reported and not reported.

The incurred claims should be consistent with the claims exhibited on Form 3.

Column 3 – Number of Claims Opened

The number of claims that have at least one benefit payment made during the year after the elimination period but have no payments in previous years. If a claimant has prior claims, he or she should be counted if the current claim is considered as a new claim. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. A claim that has terminated by the end of the year should be included in the count.

Column 4 – Number of Claims Closed

Number of claims that had been opened, which became closed during the year due to recovery, exhaustion of benefits, or death.

Column 5 – Number of Claims Remaining Open

Open claims are all claims that have been opened at any date, but have not been closed as of the end of the year.

Column 6 – Number of Terminations

Total number of policy or certificate holders whose coverage ended during the year for any reason, including death, lapse, or benefit exhaustion.
Column 7 – Number of Policies/Certificates In-force at Year End

Total number of policies or certificates in force at the end of the year.

Column 8 – Number of Lives In-force at Year End

Total number of lives in force at the end of the year. Joint policies are to be counted as two lives.

Column 9 – Active Life Reserves

Total amount of active life reserves held for policyholders, including those in non-forfeiture status. The amount reported in annual statement Exhibit 6, Line 2 for life, accident & health, and fraternal only.

The amount reported in annual statement Underwriting and Investment Exhibit 2D, line 2, less the premium deficiency reserve in footnote (a) of that exhibit.

Column 10 – Claim Reserves

Total amount of reserves held for payment of claims that have been incurred but not yet paid, including claims on policies in non-forfeiture status.

Column 11 – Other Reserves

Total amount of any other reserves associated with long-term care policies, including premium deficiency reserves, unearned premium reserves, and additional actuarial reserves. For the additional actuarial reserve, use the lesser of the aggregate additional reserve and a reserve calculated specifically for LTC business.

A reserve must be carried 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.

Column 3 – Valuation Expected Incurred Claims

The expected claim cost for an individual covered under a policy in force¹ at the beginning of the calendar year based on statutory active life reserve morbidity assumption. This is the interpolation of successive policy year expected claim cost for all coverages in force at the beginning of the year. Simple averaging is acceptable.

An acceptable approximation is the expected claim cost multiplied by an exposure adjustment, where expected claim cost is the sum of claim costs during the year based on the valuation morbidity assumption of each life in force at the beginning of the year. The valuation claim cost during the year is an interpolation of successive claim costs by policy year. Other approximations may also be acceptable. Any changes in method should be disclosed on the form.

The exposure adjustment is:

\[
\frac{\text{Actual Number of Lives In Force at Beginning of Year} - (\text{Expected Deaths} + \text{Expected Lapses})}{2} \div \text{Actual Number of Lives In Force at Beginning of Year},
\]

where Expected Deaths and Expected Lapses are based on valuation assumptions. They can be derived from a single average decrement rate combining deaths and lapses, or specific decrement rates applying to actual exposures. If there is no in force at the beginning of the year, the expected claim cost can be zero.

¹ If active life reserves are not held for claimants, then exclude the claimants.
Column 4 — Actual to Expected Incurred Claims

Actual incurred claims as a percentage of valuation expected incurred claims.

Column 5 — Open Claim Count

Number of claims that have at least one benefit payment made during the year after the elimination period. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. Examples are payments of caregiver training benefits and optional care coordination benefits. For these examples, if the amounts paid are included as benefits under the policy, they should be included in the claim amounts but excluded from the claim counts. A claim should be included in the count, even though it has terminated by the end of the year.

Column 6 — New Claim Count

Number of claims that have at least one benefit payment made during the year after the elimination period but have no payments in previous years. If a claimant has prior claims, he or she should be counted if the current claim is considered as a new claim. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. A new claim should be included in the count even though it has terminated by the end of the year.

Column 7 — Lives In Force End of Year

Actual number of lives in force at the end of the year. Joint policies should be counted by number of lives.

Column 8 — Expected Lives In Force End of Year

Expected number of lives in force at the end of the year:

\[
\text{Expected Number of Lives In Force at Beginning of Year} + \text{New Issue Lives} - \text{Expected Deaths} - \text{Expected Lapses},
\]

where Expected Deaths and Expected Lapses are based on valuation assumptions. They can be derived from a single average decrement rate combining deaths and lapses or specific decrement rates applying to actual exposures. Joint policies should be counted by number of lives.

Column 9 — Actual to Expected Lives In Force

Actual number of lives in force as a percentage of expected number of lives in force at the end of the year.

NOTES

1. Form 1 applies to direct business only.

2. Prior years’ figures, except for incurred claims, should be the same as the figures from prior years’ Form 1.

3. Form Inception-to-Date figures, except for incurred claims, should be the corresponding figures from prior year Form 1 plus the figures for the current year. No interest discounting is required to determine Form Inception-to-Date and Total Inception-to-Date figures.

4. If Incurred But Not Reported reserves must be allocated by policy form, the allocation should be based on paid claims and change in case reserves.
5. Use the valuation assumptions corresponding to the current reserves being held. They are not necessarily the original reserve assumptions if strengthening or release of reserves has been made in the past. The assumptions for each year should be applied to the actual in-force (age, gender, plan distribution), not the distribution originally expected or issued.

6. An insurance company may use more refined methods in determining the required information than those described in the definitions and instructions. Methods must be consistent from report year to report year.
INSTRUCTIONS FOR FORM 2
Direct Individual Experience – Stand-Alone Only ($000 Omitted)

Primary Issue Period Splits

Experience data for each policy should be aggregated in one of the three Primary Issue Year Periods shown on the experience form. It would be permissible for a company to include 100% of a policy form’s experience in just one of the three Primary Issue Year periods (using the issue year period where the majority of the policies were originally issued). It would also be permissible for a company to split a policy form’s experience by issue year into multiple Primary Issue Year periods shown in the form based upon policy issue year.

OVERVIEW

The purpose of Form 2 is to calculate a ratio of an experience reserve to the reported reserve by calendar year on a nationwide basis. Summary data by policy form is to be reported. Data for the current reporting year, as well as that reported in each of the prior two reporting years, is to be shown on Form 2.

The following formulae specify data by calendar duration (t) and calendar year of issue (n). Data at this detail is required for the calculation of the experience reserve, although only totals by policy form are illustrated. Experience data is notated by a superscript E to distinguish from valuation assumptions. The experience reserve reported in column 13 is developed from: 1) the experience reserve at the end of the prior reporting year (t-1); 2) valuation net premiums and interest rates; and 3) experience incurred claims, earned premiums, and actual persistency. The valuation net premiums used are the actual net premiums used for that reporting year. As an example, if a factor file method is used, the valuation net premiums used to calculate the reserve factors would be used for Form 2.

For 2009, the experience reserve (column 13) was calculated using the reported reserve as of the end of 2008 as the prior year’s reserve. Similarly, for acquired business, the experience reserve as of the year-end following acquisition is set equal to the reported reserve as of that date. The experience reserve as of subsequent periods is developed from the first experience reserve reported in this form. If a policy form has had no policies in force and all claims on the policy form have been settled for more than one year, then the policy form is no longer reported on this form.

Experience and valuation data are reported by base policy form. Rider forms will be reported with the base forms to which they are attached.

Only summary data by reporting year is illustrated. The reporting company should have detail by calendar duration available upon request.

DEFINITIONS AND FORMULAS

Current

Current calendar year of reporting.

Total Inception-to-Date

Aggregate experience data since issuance of policies.

Comprehensive

Policies that provide a combination of institutional or facility and non-institutional coverage. These include institutional only policies with non-institutional riders.
Institutional Only

Policies that provide institutional coverage only.

Non-Institutional Only

Policies that provide only non-institutional coverage.

Column 1 – Calendar Year of Peak Issues

Calendar year in which the largest number of policies in the block were sold. When reporting figures for inception-to-date, include all policies ever sold in the block. For the current year, include only those policies that remain in force as of 12/31.

Column 2 – Percent Male Lives Insured

Percentage of males within the block of policyholders. For example, a block consisting of 60% males would be reported as 60. When reporting figures for inception-to-date, include all policies ever sold in the block. For the current year, include only those policyholders that remain insured as of 12/31.

Column 3 – Average Attained Age

Arithmetic mean of the attained ages of all in force policyholders in the block at year end.

Column 4 – Earned Premium

Collected Premiums + Change in Due Premiums – Change in Advanced Premiums – Change in Unearned Premium Reserves.

Total earned premiums should equal Accident and Health Policy Experience Exhibit Column 1, Line 10.3 for Individual Business section and Line 12 Group Business section.

Column 5 – Incurred Claims

Developed claims incurred during the calendar year. Equal to the present value of all claim payments and any claim reserves. The discount rate is the statutory valuation interest rate for case reserves.

Column 6 – Number of Lives In-force Year End

Total number of lives in force at the end of the year. Joint policies are to be counted as two lives.

Column 7 – Number of Terminations

Total number of policyholders whose coverage ended during the year for any reason including death, lapse, or benefit exhaustion.

Column 8 – Number of New Lives Insured

Total number of new lives issued LTC policies during the year. Values in rows that are labeled “inception-to-date” should be the sum of all new lives insured in each year during which the form was sold.
Column 3 — Last Year Issue

For closed blocks of business, report the last year a policy was issued for the policy form. For open blocks of business, leave blank.

Column 4 — Earned Premiums

\[ tEP_n = \text{The direct earned premium in calendar duration } t \text{ for all business of Calendar Year of Issue (CYI) } n. \text{ Include earned premiums only for the reporting year. Total direct earned premiums should equal direct earned premiums for LTC business from Schedule H, Part 1, Line 2 for life, accident & health, fraternal and property/casualty only.} \]

Column 5 — Incurred Claims

\[ tICEn = \text{The experience incurred claims of all business of CYI } n \text{ in calendar duration } t \text{ for the reporting year.} \]

\[ tICEn = \left( (\text{Paid Claims})_n \right) + \left( t\text{CLiab}_n \times (1 + i_n)^{t-1} - (t-1\text{CLiab}_n) \times (1 + i_n)^{t} \right) \]

Where:

\( (\text{Paid Claims})_n \) — The paid claims of all business of CYI \( n \) in calendar duration \( t \) for the reporting year. Paid claims is the total direct paid claims for LTC business from Exhibit 8, Part 2, Line 1.1 for life, accident & health and fraternal only.

\( i_n \) — The valuation interest rate for CYI \( n \).

\( t\text{CLiab}_n \) — The claim liability of all business of CYI \( n \) in calendar duration \( t \) for the reporting year. \( t\text{CLiab}_n \) is the portion of the total direct claim liability attributable to LTC business from Exhibit 8, Part 2, Line 2.1 (life, accident & health and fraternal) plus the portion of the claim liabilities reported on Exhibit 6, Line 14 (life, accident & health) and Line 13 (fraternal) attributable to LTC business for life, accident & health and fraternal only. This amount includes accrued and unaccrued claims liabilities, which are incurred but not yet paid, both reported and not reported.

\( (t-1\text{CLiab}_n) \) — The claim liability of all business of CYI \( n \) in calendar duration \( t-1 \) for the prior reporting year. \( (t-1\text{CLiab}_n \) is the total direct claim liability for LTC business from Exhibit 8, Part 2, Line 4.1 (life, accident & health and fraternal) of the current year’s annual statement plus the portion of the claim liabilities reported on Exhibit 6, Line 14 (life, accident & health) and Line 13 (fraternal) attributable to LTC business on the prior year’s annual statement for life, accident & health and fraternal only. This amount includes accrued and unaccrued claims liabilities that were incurred but not paid at the prior year end, both reported and not reported.

Column 6 — Loss Ratio

\[ tLR_n = \text{The incurred claims loss ratio in calendar duration } t \text{ for all business of CYI } n. \]

\[ tLR_n = tICEn / tEP_n \]

\[ \text{Column 6 = Column 5 / Column 4 x 100} \]
Column 7 — Annual Net Premium/Annual Gross Premium

The ratio of annual net premium to annualized gross premium.

\[ \text{Annual Net Premium} = \sum (\text{annual valuation net premiums for policies issued in calendar year } n \text{ at the start of calendar duration } t). \]

Companies may report zero (0) for the net premiums during the Preliminary Term period.

\[ \text{Annual Gross Premium} = \sum (\text{Annualized Premium In Force, including mode loadings for policies issued in calendar year } n \text{ at the start of calendar duration } t). \]

For calendar duration 0, the net premiums and gross premiums at issue should be used.

Column 8 — Current Year Net Premiums

\[ tP_n = \sum (\text{annual valuation net premiums for policies issued in calendar year } n \text{ at the start of calendar duration } t)/\sum (\text{Annualized Premium In Force for policies issued in calendar year } n \text{ at the start of calendar duration } t). \]

At the detail level of CYI n and calendar duration t, Column 8 = Column 4 x Column 7.

Column 9 — In Force Count Beginning of Year

\[ IF_{n-1} = \text{The in force count in calendar duration } t-1 \text{ for all business of CYI } n \text{ at the end of the calendar year preceding the reporting year. In force Count Beginning of Years should equal in force end of prior year from the Exhibit of Number of Policies (Accident and Health Insurance, Line 1) for LTC business for life, accident & health and fraternal only.} \]

Column 10 — New Issues Current Year

The new issues count during the reporting year. New Issues Current Year should equal issued during year from the Exhibit of Number of Policies (Accident and Health Insurance, Line 2) for LTC business for life, accident & health and fraternal only.

Column 11 — In Force Count End of Year

\[ IF_n = \text{The in force count in calendar duration } t \text{ for all business of CYI } n \text{ at the end of the reporting year. In Force Count End of Years should equal in force end of year from the Exhibit of Number of Policies (Accident and Health Insurance, Line 9) for LTC business for life, accident & health and fraternal only.} \]

Column 12 — Persistency Rate

\[ \frac{(\text{Column } 11 - .5 \times \text{Column } 10)}{(\text{Column } 9 + .5 \times \text{Column } 10)} \]
Column 13 — Experience Policy Reserves

\[ t\mathcal{E}_n = \frac{t\mathcal{E}_{n-1} + tP_n}{1 + in} \times (1 + in) - tIC_n \times (1 + in)^{1/2} \]

Where:

- \( t\mathcal{E}_n \) = The experience reserve as of the end of the reporting year for calendar duration \( t \), and CYI \( n \).
- \( t\mathcal{E}_{n-1} \) = The experience reserve as of the end of the prior reporting year for calendar duration \( t-1 \), and CYI \( n \). For the first filing of this form, the experience reserve as of the second prior year is set equal to the reported reserve as of that date.
- \( tP_n \) = The annual valuation net premium for all business of CYI \( n \) in calendar duration \( t \). The total for the reporting year is the amount reported in Column (8).
- \( in \) = The valuation interest rate for CYI \( n \).
- \( tIC_n \) = The experience incurred claims for all business of CYI \( n \) in calendar duration \( t \). The total amount for the reporting year is reported in Column (5).

Column 14 — Reported Policy Reserves

The amount reported in annual statement Exhibit 6, Line 2 for life, accident & health and fraternal only.

Column 15 — Experience: Reported Ratio

\[ \text{Column } 15 = \frac{\text{Column } 13}{\text{Column } 14} \times 100 \]

Section C — Summary

- Line 1 — Total Current — Individual = Sum of each Section A, Line 1 (all policy forms)
- Line 2 — Total Prior — Individual = Sum of each Section A, Line 2 (all policy forms)
- Line 3 — Total 2nd Prior — Individual = Sum of each Section A, Line 3 (all policy forms)
- Line 4 — Total Current — Group = Sum of each Section B, Line 1 (all policy forms)
- Line 5 — Total Prior — Group = Sum of each Section B, Line 2 (all policy forms)
- Line 6 — Total 2nd Prior — Group = Sum of each Section B, Line 3 (all policy forms)
- Line 7 — Current Year Total = Section C, Line 1 + Section C, Line 4
INSTRUCTIONS FOR FORM 3
LTC Experience Development ($000 Omitted)

The purpose of this form is to test the adequacy of claim reserves held on long-term care policies. This form allows for the development of a seven-year trend of losses incurred by incurred calendar a specific year group of claimants. This form is to be prepared on a nationwide basis.

Report all dollar amounts in thousands ($000 omitted).

Part 1 – Total Amount Paid Policyholders

Show paid claims by year paid and year incurred. Claims are on a direct basis, including transfers before any reinsurance. Claims incurred prior to the year shown on Line 2 should be included in Column 1.

The “Prior” values in these sections will not be directly comparable to prior statements, as the current year’s statement will include an additional incurred year’s values.

Transfer policies are defined as policies that are either purchased or sold, typically through assumption reinsurance. These policies will be recorded in these parts of this exhibit while the company owns them.

Part 2 – Sum of Total Amount Paid Policyholders and Claim Liability and Reserve Outstanding at End of Year

This section provides a claim cost development overview to show the adequacy of claim reserves for a particular incurral year at the end of that year and at the end of subsequent years. The entry in Line X and Column Y is the cumulative claims incurred during year X and paid through the end of year Y for claims incurred in year X, plus the reserve at the end of year Y for claims incurred in year X.

Claims are on a direct basis including transfers before any reinsurance. Claims incurred prior to the year shown on Line 2 should be included in Line 1, Columns 1 through 8.

The “Prior” values in these sections will not be directly comparable to prior statements, as the current year’s statement will include an additional incurred year’s values.

Transfer policies are defined as policies that are either purchased or sold, typically through assumption reinsurance. These policies will be recorded in these parts of this exhibit while the company owns them.

Part 3 – Transferred Reserves

Claim reserves for transfer claims (acquired or sold) are shown here, by claim incurred year, starting from the year of transfer. For sold business, the entries are positive. For acquired business, the entries are negative. For years after the transfer year, the reserves are increased with interest.

Claim reserves for the buyer are the reserves initially set by the buyer, not necessarily equal to the reserves for the seller.

Part 4 – Present Value of Incurred Claims (Interest Adjusted Development of Incurred Claims)

Because claim reserves for long-duration claims are generally discounted, the year-to-year comparison in Part 2 is misleading to the extent interest income on claim reserves is material. To show consistent values; paid claims; transferred reserves and claim reserves are discounted to a common point in time (assumed to be July 1 of the incurred year). The discount rate is the statutory valuation interest rate for case reserves.
• Paid claims in the year of incurral are discounted one-quarter year.

• Paid claims subsequent to the year of incurral are assumed to be paid mid-year and discounted back to the midpoint of the incurred year.

• Outstanding claim reserves for a given incurred year plus transferred reserves from Part 3 are discounted from the valuation date to the midpoint of the incurred year.

• Negative results are possible for acquired business only. Negative results indicate downward development of ultimate claims.

\[
\text{If } iy = \text{Incurred year} \\
T = \text{Report year – incurred year} \\
v = \text{Discount rate} \\
\text{Paid Claims}_{iy} = \text{Paid claims during current or prior calendar year } t \text{ from claims incurred in year } iy \\
\text{Case Reserve}_{iy} = \text{Case reserve at end of calendar year } t \text{ from claims incurred in } iy \\
\text{Transferred Reserve}_{iy} = \text{Transferred reserve at end of calendar year } t \text{ from claims incurred in } iy \text{ and } t = iy, iy+1, iy+2, \ldots, iy+T
\]

then the Present Value of Incurred Claims for incurred year \( iy \):

For \( T=0 \)

\[
\text{Paid Claims}_{iy} \times v^{\frac{1}{4}} + \text{Case Reserve}_{iy} \times v^{\frac{1}{2}} + \text{IBNR}_{iy} \times v^{\frac{1}{2}} + \text{Transferred Reserve}_{iy} \times v^{\frac{1}{2}}
\]

For \( T>0 \)

\[
\text{Paid Claims}_{iy} \times v^{\frac{1}{4}} + \text{Paid Claims}_{iy+1} \times v^{1} + \text{Paid Claims}_{iy+2} \times v^{2} + \ldots + \text{Paid Claims}_{iy+T} \times v^{T} \\
+ \text{Case Reserve}_{iy+T} \times v^{T+\frac{1}{2}} + (\text{IBNR}_{iy+T} \times v^{T+\frac{1}{2}}) + \text{Transferred Reserve}_{iy+T} \times v^{T+\frac{1}{2}}
\]

If a portion of the IBNR is held for years other than the current calendar year, the value in the parentheses should be used.

The total case reserves and IBNR equal the portion of the total direct liability attributable to LTC business from Exhibit 8, Part 2, Line 2.1 (life, accident & health and fraternal) plus the portion of the claim liabilities reported on Exhibit 6, Line 14 (life, accident & health) and Line 13 (fraternal) attributable to LTC business for life, accident & health and fraternal only. This amount includes accrued and unaccrued claims liabilities that are incurred but not yet paid, both reported and not reported.
INSTRUCTIONS FOR FORM 4
Direct Group Experience – Stand-Alone Only ($000 Omitted)

OVERVIEW

Long-Term Care Insurance Experience Reporting Form 4 is intended to track life insurance and annuity products that have long-term care benefits provided by acceleration of certain benefits within these products. Include only the products that are not exempt as outlined in the Long-Term Care Insurance Model Regulation (sections on required disclosure or rating practices to customers, loss ratio, and premium rate increases also defined as “incidental” at the beginning of these experience forms instructions). This form is not to include stand-alone LTC products. Individual and group business is separated in this form.

DEFINITIONS AND FORMULAS

Current

Current calendar year of reporting.

Example: For a specific policy form category, the first year of issue was 2001. This Form 4 is required starting for the year 2009 and the reporting year is 2010. The current year would be 2010.

Prior

The year immediately prior to the year of reporting.

Example: 2009

2nd Prior

Two years prior to the year of reporting.

Example: Blank, because the first year of reporting is 2009.

Total Inception-to-Date

Aggregate experience data since issuance of policies/certificates.

Example: Data from 2001 through 2010.

Comprehensive

Certificates that provide a combination of institutional or facility and non-institutional coverage. These include institutional only certificates with non-institutional riders.

Institutional Only

Certificates that provide institutional coverage only.

Non-Institutional Only

Certificates that provide only non-institutional coverage.

Column 1 — Calendar Year of Peak Issues

Calendar year in which the largest number of certificates in the block were distributed. When reporting figures for inception-to-date, include all certificates ever issued in the block. For the current year, include only those certificates that remain in force as of 12/31.
Column 2 – Third Party Funding

Indicate whether premiums are paid in whole or in part by a third party such as an employer.

Example: If the level of third-party funding is 25%, enter “25” in this column.

Calculate this in aggregate as [Third Party Premiums ÷ Total Premiums]

Column 3 – Average Attained Age

Arithmetic mean of the attained ages of all inforce certificate holders in the block at year end.

Column 4 – Earned Premium

Collected Premiums + Change in Due Premiums – Change in Advanced Premiums – Change in Unearned Premium Reserves.

Column 5 – Incurred Claims

Developed claim amounts for claims incurred during the calendar year. Equal to the present value of all claim payments and any claim reserve. The discount rate is the statutory valuation interest rate for case reserve.

Column 6 – Number of Lives In-force Year End

Total number of lives in force at the end of the year. Joint certificates are to be counted as two lives.

Column 7 – Number of Terminations

Total number of certificate holders whose coverage ended during the year for any reason including death, lapse, or benefit exhaustion.

Column 8 – Number of New Lives Insured

Total number of new lives issued LTC certificates during the year. Values in rows that are labeled “inception-to-date” should be the sum of all new lives insured in each year during which the form was sold.

Column 1 – Number of Policies In Force

The total number of policies in force as of end of calendar year.

Column 2 – Number of Certificates

The total number of certificates as of end of calendar year.

Column 3 – Death Claims

The total number of death claims for a calendar year.

Column 4 – Long-Term Care Accelerated Claims

The total number of long-term care accelerated claims for a calendar year. Only the long-term claims that have been triggered due to acceleration should be totaled.

Column 5 – Total Reserves

The total amount of non-claim reserves for these life insurance or annuity products.
INSTRUCTIONS FOR FORM 5
Standalone and Hybrid Products – Direct State Reporting ($000 Omitted)

Form 5 provides LTC sales and claims experience on a state-by-state basis. These are the state’s portion of a number of statistics reported on a nationwide basis elsewhere in these experience forms. Form 5 also includes data on products that include extension of and/or acceleration of LTC benefits on life policies or annuity contracts.

OVERVIEW

For long-term care insurance reported in the Long-Term Care Insurance Experience Reporting Form 1, Form 2 and Form 3, these lines are the state’s portion of the earned premium, incurred claims and number of in-force count of lives at end of the year. A schedule must be prepared for each jurisdiction in which the company has long-term care direct earned premiums and/or has direct incurred claims. In addition, a schedule must be prepared that contains the grand total (GT) for the company.

DEFINITIONS AND FORMULAS

Current

Current calendar year of reporting.

Total Inception-to-Date

Aggregate experience data since issuance of policies.

Stand-alone LTC

An LTC product that is sold by itself, not as a rider on another type of insurance.

Life/LTC Hybrid Accelerated Benefits Riders

Riders attached to life insurance or annuity products that allow for a benefit to be claimed upon the occurrence of a long-term care need at the cost of reduction in the death benefit or annuity payout benefit.

LTC Hybrid Extension of Extended Benefit Riders

Riders attached to life insurance or annuity products that allow for a benefit to be claimed above and beyond the initial benefit amount in the event that all accelerated benefits have been claimed and the insured is still in need of long-term care services.

Column 1 — Number of New Lives Insured

Total number of new lives issued LTC or hybrid policies during the year. Values in rows that are labeled “inception-to-date” should be the sum of all new lives insured in each year during which the form was sold.

Column 2 — Number of Lives In-force Year End

Total number of lives in force at the end of the year. Joint policies are to be counted as two lives.

Column 3 — Earned Premiums

Collected Premiums + Change in Due Premiums – Change in Advanced Premiums – Change in Unearned Premium Reserves.

If necessary, the premium may be derived as the gross premium of the policy with the inclusion of LTC coverage less the gross premium of that policy without LTC coverage.
Column 4 – Incurred LTC Claims

Developed claim amounts for LTC claims incurred during the calendar year including accelerated claims, but not including payments due to extension of benefits. Equal to the present value of all claim payments and any claim reserves. The discount rate is the statutory valuation interest rate for case reserves.

Column 5 – Incurred Extended Benefits Claims

Developed claim amounts for LTC claims incurred during the calendar year due to extension of benefits after exhaustion of accelerated benefits. Equal to the present value of all claim payments and any claim reserves. The discount rate is the statutory valuation interest rate for case reserves.

Column 6 – Number of Claims Remaining Open

Open claims are all claims that have been opened at any date but have not been closed as of the end of the year.

Column 7 – Number of Claims Opened

The number of claims that have at least one LTC benefit payment made during the year after the elimination period but have no payments in previous years. If a claimant has prior claims, he or she should be counted if the current claim is considered as a new claim. For the purpose of including a claim in this count, payments that do not require satisfaction of the elimination period are excluded. A claim that has terminated by the end of the year should be included in the count.

Column 8 – Number of New Extended Benefits Claims

The number of claims that have at least one benefit payment made during the year resulting from extension of benefits but have no extension of benefits payments in previous years. If a claimant has prior claims, he or she should be counted if the current claim is considered as a new claim. A claim that has terminated by the end of the year should be included in the count.

Column 9 – Accelerated Benefits Available

Maximum amount of death benefits available to be paid on an accelerated basis due to LTC Acceleration of Benefits riders on in force business.

Column 10 – Extended Benefits Available

Maximum amount of extended benefits available to policyholders with extension of benefit riders on in force business.

Policy forms should be grouped by individual and group and reported on Lines 1 and 2, respectively. The subtotals for these two classes (i.e., individual and group) must be provided. Line 3 is the sum of Lines 1 and 2.

Column 1 – Earned Premiums

Earned premiums reported should be the state amount that is included in the current year of Form 2, Part C, Column 4.

Grand Total Page:

Line 1 should equal the amount in Form 2, Part C, Column 4, Line 1.

Line 2 should equal the amount in Form 2, Part C, Column 4, Line 4.
Line 3 should equal the amount in Form 2, Part C, Column 4, Line 7.

For Line 4 “Actual total reported experience through prior year”, the amount will be Line 5 from the previous year’s report.

For Line 5 “Actual total reported experience through statement year”, should be the state’s allocated earned premium for the current year (as reported on Line 3) added to the state’s cumulative experience through prior year (as reported on Line 4).

Column 2 — Incurred Claims

Incurred claims reported should be the state amount that is included in the current year of Form 2, Part C, Column 5. Incurred claims should be paid claims in the state plus a reasonable allocation of claim reserves less the reported allocated portion of the prior year’s claim reserve. The allocation method should be consistent from year to year when estimating reserves for each state.

Grand Total Page:

Line 1 should equal the amount in Form 2, Part C, Column 5, Line 1.

Line 2 should equal the amount in Form 2, Part C, Column 5, Line 4.

Line 3 should equal the amount in Form 2, Part C, Column 5, Line 7.

For Line 4 “Actual total reported experience through prior year”, the amount will be Line 5 from the previous year’s form.

For Line 5 “Actual total reported experience through statement year”: This should be the state’s allocated incurred claims for the current year (as reported on Line 3) added to the state’s cumulative experience through prior year (as reported on Line 4).

Column 3 — In Force Count End of Year

The In Force Count End of Year should be the state total used in calculating the In Force Count End of Year in Form 2, Part C, Column 11.

Grand Total Page:

Line 1 should equal the amount in Form 2, Part C, Column 11, Line 1.

Line 2 should equal the amount in Form 2, Part C, Column 11, Line 4.

Line 3 should equal the amount in Form 2, Part C, Column 11, Line 7.

Column 4 — Lives In-force End of Year

Actual number of lives in-force at the end of the year. Joint policies should be counted by number of lives. Once the state forms are completed, the Lives In-force End of Year for all states (Grand Total State Page) LTC Form 5, Column 4, Line 01 should equal LTC Form 1, Column 7, Line A01 + A09 + A17 and Form 5, Line 02 should equal Form 1, Line B01 + B09 + B17. The number of lives for each state for individual policies should be based on the policies that were issued in that state. The number of lives for each state in group policies should be based on the certificates that were issued in that state.
### Long-Term Care Experience Reporting Form 1

**Stand-Alone LTC Only ($000 Omitted)**

**Actual vs. Expected Claims and Persistency**

**Reporting Year 20__**

(To Be Filed By April 1)

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#### Individual

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<th>Number of Claims Closed</th>
<th>Number of Claims Remaining Open</th>
<th>Number of Terminations</th>
<th>Number of Policies In force Year End</th>
<th>Number of Lives In-force Year End</th>
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<th>Claim Reserves</th>
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#### Group

| Earned Premiums | Incurred Claims | Number of Claims Opened | Number of Claims Closed | Number of Claims Remaining Open | Number of Terminations | Number of Policies In force Year End | Number of Lives In-force Year End | Active Life Reserves | Claim Reserves | Other Reserves |
|-----------------|-----------------|-------------------------|-------------------------|-------------------------------|------------------------|------------------------------------|-------------------------------|                     |               |               |
| Direct          |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| 1 Current       |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| 2 Total Inception-to-date |     |                         |                         |                               |                        |                                    |                                |                     |               |               |
| Assumed         |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| 3 Current       |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| Ceded           |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| 4 Current       |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |
| **Net (Direct + Assumed - Ceded)** |     |                         |                         |                               |                        |                                    |                                |                     |               |               |
| 5 Current       |                 |                         |                         |                               |                        |                                    |                                |                     |               |               |

Indicate whether policies on claim that have triggered waiver of premium are considered paid-up or paid by waiver. [ ] Paid by Waiver [ ] Paid Up
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- Column 12: Description
- Column 13: Description
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## EXPERIENCE RESERVE VS. REPORTED RESERVE BY CALENDAR YEAR

### Reporting Year 20__

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<th>Number of Terminations</th>
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<th>Average Attained Age</th>
<th>Earned Premium</th>
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<th>Calendar Year of Peak Issues</th>
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Indicate whether policies are assigned to a Primary Issue Period on a per-policy or per-policy form basis: [ ] Policy

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**Accounting Practices and Procedures (E) Task Force**

**8/3/20**
## LONG-TERM CARE EXPERIENCE REPORTING FORM 3

**LTC EXPERIENCE DEVELOPMENT ($000 OMITTED)**

**REPORTING YEAR 20__**

(To Be Filed By April 1)

### Part 1 – Total (Direct and Transferred) Amount Paid Policyholders

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### Part 2 – Sum of Total Amount Paid Policyholders and Claim Liability and Reserve Outstanding at End of Year

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# Long-Term Care Experience Reporting Form 3 (continued)

## LTC Experience Development ($000 Omitted)

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### PART 2 – Sum of Total Amount Paid Policyholders and Claim Liability and Reserve Outstanding at End of Year

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<td>PART 4 – Present Value of Incurred Claims</td>
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Indicate whether claim reserves and liabilities for prior years are based on historical or current reserving assumptions: [ ] Historical
[ ] Current
LONG-TERM CARE EXPERIENCE REPORTING FORM 4
DIRECT GROUP EXPERIENCE - STAND-ALONE ONLY ($000 OMITTED)
LIFE AND ANNUITY PRODUCTS WITH LTC ACCELERATED BENEFITS
REPORTING YEAR 20__
(To Be Filed By April 1)

<table>
<thead>
<tr>
<th>NAIC Group Code</th>
<th>NAIC Company Code</th>
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<tbody>
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<table>
<thead>
<tr>
<th>Calendar Year of Peak Issues</th>
<th>Third Party Funding (%)</th>
<th>Average Attained Age</th>
<th>Earned Premium</th>
<th>Incurred Claims</th>
<th>Number of Lives In force Year End</th>
<th>Number of Terminations</th>
<th>Number of New Lives Insured</th>
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<td>5. Current (Non-Institutional only)</td>
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<td>6. Total Inception-to-date (Non-Institutional only)</td>
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<td>7. Current (Grand Total)</td>
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<td>8. Total Inception-to-date (Grand Total)</td>
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<table>
<thead>
<tr>
<th>Inception Year</th>
<th>Number of Policies In Force</th>
<th>Number of Certificates</th>
<th>Number of Death Claims</th>
<th>LTC Accelerated Claims</th>
<th>Total Reserves</th>
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<tbody>
<tr>
<td>1. Individual</td>
<td>-</td>
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<td>1. Current</td>
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<td>2. Prior</td>
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<td>3. 2nd Prior</td>
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<td>1. Total Inception to Date</td>
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</table>

Total Reserves are reserves for those particular life products with LTC accelerated benefits.

Insured claims are only the policies that claims have been triggered due to acceleration.
**LONG-TERM CARE EXPERIENCE REPORTING FORM 5**

**EXPERIENCE IN THE STATE OF ___________________**

**STAND-ALONE AND HYBRID PRODUCTS - DIRECT STATE REPORTING ($000 OMITTED)**

**REPORTING YEAR 20**

(To Be Filed By April 1)

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<th>NAIC Group Code</th>
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<table>
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<tr>
<th><strong>Stand-alone LTC</strong></th>
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<td>2. Total Inception-to-date</td>
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<td><strong>Life/LTC Hybrid Policies and Riders</strong></td>
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<td>3. Current (Acceleration only)</td>
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<td>4. Total Inception-to-Date (Acceleration only)</td>
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<tr>
<td>5. Current (Extended Benefits Policies)</td>
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<td>6. Total Inception-to-Date (Extended Benefits)</td>
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| **Individual** |       |       |       |       |
| 1.                      |       |       |       |       |
| 2.                      |       |       |       |       |
| 3.                      |       |       |       |       |
| 4. Actual total reported experience through prior year |       | XXX   | XXX   |
| 5. Actual total reported experience through statement year | XXX   | XXX   |

W:\National Meetings\2020\Summer\TF\App\BlanksWG\minutes\Att Four-A17 2020-14BWG_Modified.doc

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 02/21/2020

CONTACT PERSON: Aaron Brandenburg

TELEPHONE: 816 783 8271

EMAIL ADDRESS: abrandenburg@naic.org

ON BEHALF OF: Property & Casualty Insurance (C) Committee

NAME: 

TITLE: 

AFFILIATION: 

ADDRESS: 

FOR NAIC USE ONLY

Agenda Item # 2020-15BWG MOD Year 2020
Changes to Existing Reporting [ X ]
New Reporting Requirement [ X ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT
No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION
[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 05/28/2020
[ ] Rejected Date ________
[ ] Deferred Date ________
[ ] Other (Specify) ________

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT [ X ] INSTRUCTIONS [ X ] CROSSCHECKS
[ ] QUARTERLY STATEMENT [ X ] BLANK

[ X ] Life, Accident & Health/Fraternal [ ] Separate Accounts [ ] Title
[ X ] Property/Casualty [ ] Protected Cell [ ] Other ______________________
[ ] Health [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

A new Private Flood Insurance Supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The State Page currently collects private flood insurance data but does not split residential from commercial coverages. Regulators, as well as industry and consumers, have a desire to better monitor and assess the growth of the residential private flood insurance market as that market begins to grow. A new Supplement will separate residential from commercial as well as capturing stand-alone/endorsement and first dollar/excess policy information. The revisions to the CIEE will allow for the collection of lender-placed flood coverages in order to get a more complete picture of the private flood insurance market.

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 – PROPERTY

PRIVATE FLOOD INSURANCE SUPPLEMENT

This supplement should be completed by those reporting entities including surplus line insurers and Risk Retention Groups that provide private flood insurance in a stand-alone policy or as part of a package policy. If the reporting entity’s answer to all of the question for Part 1 – Interrogatories would be “NO,” the reporting entity should not complete the supplement. If the reporting entity answers “YES” to any of those questions, the supplement should be completed. The supplement should be reported on a direct basis (before assumed and ceded reinsurance).

If the reporting entity reports any premium, losses or loss adjustment expense for Annual Statement Line 2.5 on the Exhibit of Premiums and Losses (State Page), it should answer “YES” to at least one of the Part 1 – Interrogatories questions and complete this supplement.

Stand-alone Policy: Private flood coverage sold as an individual policy or as a policy bundled with other policies.

Endorsement: Private flood coverage sold as an endorsement to another policy. If a rider, endorsement or floater acts like a separate policy with separate premium, deductible and limit, then it is to be recorded on the same annual statement line as if it were a stand-alone policy regardless of whether it is referred to as a rider, endorsement or floater. If there is no additional premium, separate deductible or limit, the rider, endorsement or floater should be reported on the same annual statement line as the base policy.

Creditor-placed (also known as lender-placed and force-placed insurance) is insurance that is placed by the lender subsequent to the date of the credit transaction, providing coverage against loss, expense or damage to collateralized property as a result of fire, theft, collision or other risks of loss that would either impair a creditor’s interest or adversely affect the value of collateral covered by limited dual-interest insurance. It is purchased by the lender according to the terms of the credit agreement as a result of the borrower’s failure to provide required insurance, with the cost of the coverage being charged to the borrower. It may be either single-interest insurance or limited dual-interest insurance.

Part 1 - Interrogatories

1. Answer “YES” if the reporting entity writes stand-alone first-dollar private flood insurance on residential property. Complete Part 2 if the question is answered “YES.”

2. Answer “YES” if the reporting entity writes stand-alone excess private flood insurance on residential property. Complete Part 3 if the question is answered “YES.”

3. Answer “YES” if the reporting entity writes first-dollar private flood insurance as an endorsement on residential property. Complete Part 4 if the question is answered “YES.”

4. Answer “YES” if the reporting entity writes excess private flood insurance as an endorsement on residential property. Complete Part 5 if the question is answered “YES.”

5. Answer “YES” if the reporting entity writes stand-alone or excess private flood insurance as a stand-alone policy or an endorsement on commercial property. Complete Part 6 if the question is answered “YES.”
GENERAL INSTRUCTIONS – PARTS 2 THROUGH 6

Column 1 – Direct Written Premium

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 1, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 1, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 2 – Direct Premium Earned

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 2, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 2, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 3 – Direct Losses Paid (Deducting Salvage)

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 5, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 5, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 4 – Direct Losses Incurred

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 6, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 6, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 5 – Direct Losses Unpaid

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 7, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 7 should equal Column 6, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 6 – Defense and Cost Containment Expense Paid

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 8, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 8, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.
Column 7 —— Defense and Cost Containment Case Incurred

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 9, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 9, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 8 —— Defense and Cost Containment Case Unpaid

For Lines 1 through 56, the sum of Parts 2 through 6 should equal Column 10, Line 2.5 of the corresponding Exhibit of Premiums and Losses (State Page) for the state.

For Line 57, the sum of Parts 2 through 6 should equal Column 10, Line 2.5 of the Exhibit of Premiums and Losses (State Page) – Grand Total.

Column 19 —— Number of Policies In Force End of the Prior Year

Provide the number of policies in force as of the end of the prior reporting year, Dec. 31.

Column 810 —— Number of Policies In Force End of Current Year

Provide the number of policies in force as of the end of the current reporting year, Dec. 31.

Column 911 —— Number of Claims Open Beginning of the Current Year

Provide the number of claims open at the beginning of the reporting year, Jan. 1.

Column 1012 —— Number of Claims Opened During the Reporting Year

Provide the number of claims opened during the reporting year.

Column 1113 —— Number of Claims Open End of the Current Year

Provide the number of claims open at the end of the reporting year, Dec. 31.

Column 1214 —— Number of Claims Closed with Payment

Provide the number of claims closed with payment for reporting year.
10. Part 4 Coverage Definitions

Creditor-placed (also known as lender-placed and force-placed insurance) is insurance that is placed by the lender subsequent to the date of the credit transaction, providing coverage against loss, expense or damage to collateralized property as a result of fire, theft, collision or other risks of loss that would either impair a creditor’s interest or adversely affect the value of collateral covered by limited dual-interest insurance. It is purchased by the lender according to the terms of the credit agreement as a result of the borrower’s failure to provide required insurance, with the cost of the coverage being charged to the borrower. It may be either single-interest insurance or limited dual-interest insurance. “Creditor Placed Insurance” means insurance that is purchased unilaterally by the creditor, who is the named insured, subsequent to the date of the credit transaction, providing coverage against loss, expense or damage to property as a result of fire, theft, collision or other risks of loss that would either impair a creditor’s interest or adversely affect the value of collateral. “Creditor Placed Home Hazard” means “Creditor Placed Insurance” on homes, mobile homes and other real estate. “Creditor Placed Auto” means insurance on automobiles, boats or other vehicles.

“Single Interest” means insurance that protects only the creditor’s interest in the collateral securing a debtor’s credit transaction.

“Dual Interest” means insurance that protects the creditor’s and the debtor’s interest in the collateral securing the debtor’s credit transaction. “Dual Interest” includes insurance commonly referred to as “Limited Dual Interest.”

“Wind Only” means named-peril coverage for losses due to wind.

“Flood Only” means named-peril coverage for losses due to flood.

“First Dollar” means coverage for first dollar losses, not contingent to alternate coverage (for example, an NFIP policy).

“Excess” means coverage for excess amounts over and above another policy (for example, an NFIP policy).

“Credit Personal Property Insurance” means insurance written in connection with a credit transaction where the collateral is not a motor vehicle, mobile home or real estate and that:

1. Covers perils to the goods purchased through a credit transaction or used as collateral for a credit transaction and that concerns a creditor’s interest in the purchased goods or pledged collateral, either in whole or in part; or

2. Covers perils to goods purchased in connection with an open-end credit transaction.

11. Written Exposures (Line 6 – Part 4 only)

The total number of exposures, in car-years, of all policies issued during a given time period.
12. Earned Exposures (Line 7 – Part 4 only)

The portion of the total amount of exposure (risk) corresponding to the coverage provided during a given time period.

13. Part 5 Coverage Definitions

GAP insures the excess of the outstanding indebtedness over the primary property insurance benefits in the event of a total loss to a collateral asset. Primary property insurance refers to the underlying P&C insurance policy insuring the property, such as automobile physical damage insurance. For reporting experience in the CIEE, “Personal GAP” refers to contributory coverage for which the borrower pays the premium for the insurance and receives a certificate or policy of coverage.

“Credit Family Leave” provides a monthly or lump sum benefit during an unpaid leave of absence from employment resulting from specified causes, such as illness of a close relative, adoption or birth of a child. If the Credit Family Leave benefit is included with the involuntary unemployment benefit without a specific identifiable charge, Credit Family Leave experience may be included with the Involuntary Unemployment Experience in Part 3.

14. Part 6 Coverage Definitions

This exhibit is to be completed on a nationwide basis. The expense definitions follow those used in the Insurance Expense Exhibit.

---

Detail Eliminated to Conserve Space

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ANNUAL STATEMENT BLANK – PROPERTY

PRIVATE FLOOD INSURANCE SUPPLEMENT
For The Year Ended December 31, 2020
(To Be Filed by March 31/April 1)

NAIC Group Code ......................................... NAIC Company Code ..............................................

Company Name  ................................................................................................................. ........................................................................................................

Part 1 - Interrogatories

Private Flood Insurance Coverage:

1. Does the reporting entity write any stand-alone first-dollar residential private flood Yes [ ] No [ ]
   If yes, complete Part 2

2. Does the reporting entity write any stand-alone excess residential private flood? Yes [ ] No [ ]
   If yes, complete Part 3

3. Does the reporting entity write any first-dollar residential private flood provided as an endorsement? Yes [ ] No [ ]
   If yes, complete Part 4

4. Does the reporting entity write any excess residential private flood insurance provided as an endorsement? Yes [ ] No [ ]
   If yes, complete Part 5

5. Does the reporting entity write any commercial private flood insurance provided as either a stand-alone or package policy? (include both first-dollar and excess) Yes [ ] No [ ]
   If yes, complete Part 6
### Part 2 – Stand-alone Residential Private Flood Policies

#### Policy and Claims Data

**First Dollar**

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<th>Status, Day</th>
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<th>Direct Premium</th>
<th>Direct Losses</th>
<th>Direct Loss Expense</th>
<th>Deductible</th>
<th>Cost Containment Expense</th>
<th>Number of Policies at the End of the Year</th>
<th>Number of Policies at the End of the Current Year</th>
<th>Number of Claims Open at the End of the Current Year</th>
<th>Number of Claims Open at the End of Closing Year</th>
<th>Number of Claims Closed during the Reporting Year</th>
<th>Number of Claims Closed at the End of the Current Year</th>
<th>Number of Claims Closed at the End of Closing Year</th>
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### Part 3 – Stand-alone Residential Private Flood Policies
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### Part 4 - Residential Private Flood Policy Endorsements

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Note: The table continues with data for other states.
# Part 6 - Commercial Private Flood Policies

**Policy and Claims Data**

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2020-15BWG.doc
## ANNUAL STATEMENT BLANK – PROPERTY AND LIFE/FRATERNAL

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#### 3. Incurred Compensation

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#### 4. Loss Percentage

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#### 5. Incurred Loss Adjustment Expenses

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#### 6. Written Expenses

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(a) Provide a description of "other" coverages (including their percent of Line 1.6, Column 7):

W:\National Meeting\2020\Summer\TF\App\BlanksWG\minutes\Att Four-A18 2020-15BWG_Modified.doc
**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

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**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [X] ANNUAL STATEMENT
- [X] INSTRUCTIONS
- [ ] CROSSCHECKS
- [ ] QUARTERLY STATEMENT
- [ ] BLANK
- [X] Life, Accident & Health/Fraternal
- [X] Property/Casualty
- [ ] Health
- [ ] Separate Accounts
- [ ] Protected Cell
- [ ] Health (Life Supplement)

Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Modify Questions 3.1 and 3.2 of General Interrogatories Part 2 and provide instructions for the questions.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify capturing whether reporting entities have written participating policies in the current calendar year and reporting amount of premium written for both participating and non-participating policies.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ____________________________

Other Comments:

**This section must be completed on all forms.**

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Revised 7/18/2018

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

PART 2 – PROPERTY AND CASUALTY INTERROGATORIES

Detail Eliminated to Conserve Space

3.1 Answer “YES” if the reporting entity has issued participating policies during the calendar year.

Participating Policies:

An insurance contract where the ultimate policy premium is affected by profitability which could result in a change of premium for the policy period written. The effect on premium could be in the form of a dividend, a refund in premium, experienced based premium or additional premium billable.

3.2 If “Yes”, provide the amount of premium written for participating and/or non-participating policies during the calendar year.

Detail Eliminated to Conserve Space

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

Detail Eliminated to Conserve Space

3.1 Did the reporting entity issue both participating and non-participating policies during the calendar year? Yes [ ] No [ ]

3.2 If yes, state and provide the amount of premium written for participating and/or non-participating policies during the calendar year.

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Attachment Four-A19
Accounting Practices and Procedures (E) Task Force
8/3/20
# NAIC BLANKS (E) WORKING GROUP

**Blanks Agenda Item Submission Form**

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<td>Tom Botsko</td>
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Anticipated Effective Date: Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Adjust the AVR presentation to include separate lines for each of the expanded bond designation categories.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The Blanks Working Group and the Security Valuation Office have adopted the 20 bond designations for 2020 reporting. The reported designations will flow into the RBC but will not include factors. The current factor for designations 1-6 will remain in the RBC until an impact analysis can be done to confirm the new factors for the 20 designations. This proposal applies the same expanded presentation to the AVR as it is used to populate the life RBC formula.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ________________

Other Comments: ________________
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**LONG-TERM BONDS**

1. Exempt Obligations
2. NAIC Designation Category 1: Highest Quality
3. NAIC Designation Category 1: Medium Quality
4. NAIC Designation Category 1: Low Quality
5. NAIC Designation Category 1: In or Near Default
6. NAIC Designation Category 1: Related Party
7. NAIC Designation Category 1: Calculations

**PREFERRED STOCKS**

1. Highest Quality
2. High Quality
3. Medium Quality
4. Low Quality
5. Lower Quality
6. In or Near Default
7. Affiliated Life with AVR

**Total Preferred Stocks (Sum of Lines 10 through 16)**
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<td>NAIC Designation Category 5.B</td>
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<td>Subtotal NAIC 5 (23.1+23.2+23.3+23.4+23.5+23.6)</td>
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<td>Total Short-Term Bonds</td>
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<td></td>
<td>(Sum of Lines 18 through 24)</td>
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<tr>
<td></td>
<td>Lower Quality</td>
<td>XXX</td>
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<tr>
<td></td>
<td>In or Near Default</td>
<td>XXX</td>
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<tr>
<td></td>
<td>Total Derivative Instruments</td>
<td>XXX</td>
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<td>(Line 25 + Lines 27+28+29+30+31)</td>
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ASSET VALUATION RESERVE (Continued)

BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

DEFAULT COMPONENT

<table>
<thead>
<tr>
<th>Line Number</th>
<th>NAIC Designation</th>
<th>Description</th>
<th>1 Adjusted Carrying Value</th>
<th>2 Reclassify Related Party Encumbrances</th>
<th>3 Add Third Party Encumbrances</th>
<th>4 Balance for AVR Reserve Calculations (Cols. 1+2+3)</th>
<th>Basic Contribution Factor (Cols. 4x5)</th>
<th>Reserve Objective Factor (Cols. 4x7)</th>
<th>Maximum Reserve Factor (Cols. 4x9)</th>
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<td>35</td>
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<td>In Good Standing:</td>
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<td>35</td>
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<td>Farm Mortgages – CM1 – Highest Quality</td>
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<td>38</td>
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<td>Farm Mortgages – CM4 – Low Medium Quality</td>
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<td></td>
<td>0.0020</td>
<td>0.0343</td>
<td>0.0428</td>
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<td>0.0003</td>
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<td>Residential Mortgages – All Other</td>
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<td>0.0015</td>
<td>0.0034</td>
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<td>Commercial Mortgages – Insured or Guaranteed</td>
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<td>0.0003</td>
<td>0.0007</td>
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<td>46</td>
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<td>Commercial Mortgages – All Other – CM4 – Low Medium Quality</td>
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<td></td>
<td></td>
<td>0.0020</td>
<td>0.0343</td>
<td>0.0428</td>
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<td>47</td>
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<td>0.0083</td>
<td>0.0486</td>
<td>0.0628</td>
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<td><strong>Overdue, Not in Process:</strong></td>
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<td></td>
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<td></td>
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<td>48</td>
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<td>Farm Mortgages</td>
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<td></td>
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<td>0.0868</td>
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<td>Residential Mortgages – Insured or Guaranteed</td>
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<td></td>
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<td>Residential Mortgages – All Other</td>
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<td>Commercial Mortgages – All Other</td>
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<td>53</td>
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<td>Farm Mortgages</td>
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<td></td>
<td>Residential Mortgages – Insured or Guaranteed</td>
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<td></td>
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<td>0.0046</td>
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<td>55</td>
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<td>Residential Mortgages – All Other</td>
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<td>0.0000</td>
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<td>56</td>
<td></td>
<td>Commercial Mortgages – Insured or Guaranteed</td>
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<td></td>
<td></td>
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<td>0.0000</td>
<td>0.0046</td>
<td>0.0046</td>
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<tr>
<td>57</td>
<td></td>
<td>Commercial Mortgages – All Other</td>
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<td>0.1942</td>
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<tr>
<td>58</td>
<td></td>
<td>Total Schedule B Mortgages (Sum of Lines 35 through 57)</td>
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<td></td>
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<td>59</td>
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<td>Schedule DA Mortgages</td>
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<td>60</td>
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<td>Total Mortgage Loans on Real Estate (Lines 58 + 59)</td>
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<td></td>
<td></td>
<td></td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 02/21/2020

CONTACT PERSON: Charles Therriault

TELEPHONE: 212 386-1920

EMAIL ADDRESS: CTherriault@naic.org

ON BEHALF OF: Kevin Fry, Chair, VOS Task Force

FOR NAIC USE ONLY

Agenda Item # 2020-18BWG MOD
Year 2020
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING
PRACTICES AND PROCEDURES IMPACT
No Impact [X]
Modifies Required Disclosure [ ]

DISPOSITION
[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/28/2020
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] ANNUAL STATEMENT
[X] QUARTERLY STATEMENT

[X] Life, Accident & Health/Fraternal
[X] Property/Casualty
[X] Health

[X] INSTRUCTIONS
[ ] CROSSCHECKS

[X] Separate Accounts
[X] Protected Cell
[X] Health (Life Supplement)

[X] BLANK

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

See next page for details.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify where to find the list of funds that must have NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol provided on Schedule D, Part 2, Section 2 (annual filing) and Schedules D, Parts 3 and 4 (quarterly filing). Modify the reference to the Purposes and Procedures Manual of the NAIC Investment Analysis Office found in other investment instructions due to changes in the manual.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms.

Revised 7/18/2018

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IDENTIFICATION OF ITEM(S) TO CHANGE

Clarify the instructions for what funds reported on Schedule D, Part 2, Section 2 (annual filing) and Schedules D, Part 3 and 4 (quarterly filing) must have NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol.

Modify the reference to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* found in the following investment instructions.

**Annual Statement:**

- Investment Schedules General Instructions
- Summary Investment Schedule
- Schedule D, Part 1, Section 1
- Schedule D, Part 2, Section 2
- Schedule E, Part 2
- Supplemental Investment Interrogatories

**Quarterly Statement:**

- Investment Schedules General Instructions
- Schedule E, Part 2
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE D – PART 2 – SECTION 2

COMMON STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Column 18 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

For securities reported on Line 9499999 (Mutual Funds), Line 9599999 (Unit Investment Trusts) and Line 9699999 (Closed-End Funds), provide the appropriate NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol combination as assigned by the Securities Valuation Office and published in AVS+ per the instructions in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office on the Compilation and Publication of the SVO List of Investment Securities*. A list of these funds can be found on the Securities Valuation Office Web page ([https://www.naic.org/svo.htm](https://www.naic.org/svo.htm)).

NAIC Designation and NAIC Designation Modifier should not be provided for securities reported on these lines that have not been assigned one by the Securities Valuation Office. For all other common stock line categories, the NAIC Designation and NAIC Designation Modifier field should not be left blank.

**NAIC Designation Modifier:**

The NAIC Designation Modifier should only be used for securities reported on Line 9499999 (Mutual Funds), Line 9599999 (Unit Investment Trusts) and Line 9699999 (Closed-End Funds) if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, the field should not be left blank.

The Designation Modifier should not be left blank for securities reported on lines below.

- Industrial and Miscellaneous (Unaffiliated) Publicly Traded Line 9099999
- Industrial and Miscellaneous (Unaffiliated) Other Line 9199999
- Parent, Subsidiaries and Affiliates Publicly Traded Line 9299999
- Parent, Subsidiaries and Affiliates Other Line 9399999
- Unit Investment Trusts Line 9599999
- Closed-End Funds Line 9699999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should not be left blank.

Refer to the P&P Manual for the application of these modifiers.
SCHEDULE D – PART 1

LONG-TERM BONDS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated to Conserve Space

Column 34 – Capital Structure Code

Please identify the capital structure of the security using the following codes consistent with the SVO Notching Guidelines in Part One, Section 3 of the Purposes and Procedures Manual of the NAIC Investment Analysis Office:

Capital structure is sometimes referred to as rank or payment priority and can be found in feeds from the sources listed in the Issue and Issuer column.

As a general rule, a security is senior unsecured debt unless legal terms of the security indicate another position in the capital structure. Securities are senior or subordinated and are secured or unsecured. Municipal bonds, Federal National Mortgage Association securities (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation securities (FHLMC or Freddie Mac) generally are senior debt, though there are examples of subordinated debt issued by Fannie and Freddie. 1st Lien is a type of security interest and not capital structure but could be used to determine which capital structure designation the security should be reported under. The capital structure of “Other” should rarely be used.

Capital structure includes securities subject to SSAP No. 26R—Bonds and SSAP No. 43R—Loan-Backed and Structured Securities.

1. Senior Secured Debt

   Senior secured is paid first in the event of a default and also has a priority above other senior debt with respect to pledged assets.

2. Senior Unsecured Debt

   Senior unsecured securities have priority ahead of subordinated debt for payment in the event of default.

3. Subordinated Debt

   Subordinated is secondary in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt (e.g., for loan-backed and structured securities, this would include mezzanine tranches).

   (Subordinated means noting or designating a debt obligation whose holder is placed in precedence below secured and general unsecured creditors e.g., another debtholder could block payments to that holder or prevent that holder of that subordinated debt from taking any action.)

4. Not Applicable

   Securities where the capital structure 1 through 3 above do not apply (e.g., Line 5899999 Exchange Traded Funds – as Identified by the SVO and Line 5999999 Bond Mutual Funds – as Identified by the SVO).
SUMMARY INVESTMENT SCHEDULE

Line 1.01 – U.S. Governments

Column 1 should equal the Schedule D, Part 1, Line 0599999.

Line 1.05 – U.S. Special Revenue & Special Assessment Obligations, etc. Non-Guaranteed
Include: The value of those U.S. government issues not listed as “Securities That Are Considered “Exempt Obligations” For Purposes of Determining The Asset Valuation Reserve And The Risk-Based Capital Calculation” in Part Six, Section 2(e) of the Purposes and Procedures manual of the NAIC Investment Analysis Office, yet included as “Filing Exemptions for Other U.S. Government Obligations” in Part Two, Section 4(e)(ii). This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds.

Column 1 should equal the Schedule D, Part 1, Line 3199999.

Line 1.09 – SVO Identified Funds
Include: The value of all Bond Mutual Funds included on the “NAIC Bond Mutual Fund List” as listed in Part Six, Section 2(b) of as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office and Exchange Traded Funds (ETF) included on the “SVO-Identified Bond ETF List” as published on the Securities Valuation Office Web page (https://www.naic.org/svo.htm) that the SVO has determined are in scope of SSAP No. 26R - Bonds and can be reported on Schedule D, Part 1 and the SVO assigned a NAIC Designation, NAIC Designation Category and SVO Administrative Symbol published in the NAIC’s AVS+ system per the instructions in the Purposes and Procedures Manual of the NAIC Investment Analysis Office on the Compilation and Publication of the SVO List of Investment Securities listed in Part Six, Section 2(i) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

Column 1 should equal the Schedule D, Part 1, Line 6099999.
Line 2 – Report the single 10 largest exposures to a single issuer/borrower/investment.

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

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

SEC registered investment funds are required by law to disclose holdings within 60 days following the fund’s fiscal quarter end. Insurers who own funds classified as “non-diversified” are to use the last publicly available fund holding disclosure to account for holdings that should be included in their Top 10 holdings.

Exclude: U.S. government Government and U. S. Government Agency securities listed as “Securities That Are Considered “Exempt Obligations” For Purposes of Determining The Asset Valuation Reserve And The Risk-Based Capital Calculation” (Part Six, Section 2(e)), U. S. government agency securities (Part Six, Section 2(e)).


Property occupied by the company;

Policy loans

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

In Column 2, list the categories of securities that are included in the total for each issuer (e.g., bonds, mortgage loans, etc.).
Line 13.02 through 13.11 – Report the amounts and percentages of admitted assets held in the ten largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including Schedule BA equity interests), and excluding money market included on the “NAIC U.S. Direct Obligations/Full Faith and Credit Exemption Money Market Fund List”, exchange traded funds included on the “SVO-Identified Bond ETF List” and bond mutual funds included on the “NAIC Bond Mutual Fund List” as found on the Securities Valuation Office Web page (https://www.naic.org/svo.htm) listed in Part Six, Sections 2(f) and (g) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC 1).

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

Detail Eliminated to Conserve Space
QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE D – PART 3

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE CURRENT QUARTER

Column 10 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at the end of the quarter for each security shown. The list of valid SVO Administrative Symbols is shown below.

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should not be left blank provided.

- Bonds        Lines 0199999 through 8299999
- Preferred Stocks Line 8499999 and 8599999
- Common Stocks  Lines 9499999 through 9699999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should not be left blank provided.

For securities reported on Line 9499999 (Mutual Funds), Line 9599999 (Unit Investment Trusts) and Line 9699999 (Closed-End Funds) provide the appropriate NAIC Designation and NAIC Modifier as assigned by the Securities Valuation Office. NAIC Designation and NAIC Designation Modifier should not be provided for securities reported on these lines that have not been assigned one by the Securities Valuation Office and published in AVS+ per the instructions in the Purposes and Procedures Manual of the NAIC Investment Analysis Office on the Compilation and Publication of the SVO List of Investment Securities. For all other common stock line categories, the NAIC designation and NAIC Modifier should not be provided.

Refer to the P&P Manual for the application of these modifiers.

SVO Administrative Symbol:
Common Stock:

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC Designation (1 through 6) and NAIC Modifier as assigned by the Securities Valuation Office. For all other common stock the NAIC designation, NAIC Modifier and SVO Administrative Symbol field should be left blank.

Following are valid SVO Administrative Symbols for common stock. Refer to the P&P Manual for the application of these symbols.

YE Year-end carry over

SCHEDULE D – PART 4
LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING THE CURRENT QUARTER

Column 22 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at date of disposal for each security shown. The list of valid SVO Administrative Symbols is shown below.

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), otherwise, the field should not be left blank provided.

- Bonds Lines 0199999 through 8299999
- Preferred Stocks Line 8499999 and 8599999
- Common Stocks Lines 9499999 through 9699999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should not be left blank provided.
For securities reported on Line 9499999 (Mutual Funds), Line 9599999 (Unit Investment Trusts) and Line 9699999 (Closed-End Funds) provide the appropriate NAIC Designation and NAIC Modifier as assigned by the Securities Valuation Office. NAIC Designation and NAIC Designation Modifier should not be provided for securities reported on these lines that have not been assigned one by the Securities Valuation Office and published in AVS+ per the instructions in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* on the Compilation and Publication of the SVO List of Investment Securities. For all other common stock line categories, the NAIC designation and NAIC Modifier a should not be provided.

Refer to the P&P Manual for the application of these modifiers.

SVO Administrative Symbol:

Detail Eliminated to Conserve Space

Common Stock:

For securities reported on Line 9499999 (Mutual Funds) provide the appropriate NAIC Designation (1 through 6) and NAIC Modifier as assigned by the Securities Valuation Office. For all other common stock the NAIC designation, NAIC Modifier and SVO Administrative Symbol field should be left blank.

Following are valid SVO Administrative Symbols for common stock. Refer to the P&P Manual for the application of these symbols.

YE Year-end carry over

Detail Eliminated to Conserve Space
A money market fund shall be reported in this schedule as an Exempt Money Market Mutual Fund if such money market fund is identified by the SVO as meeting the required conditions found in Part Six, Section 2(b)(i) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office. A “NAIC U.S. Direct Obligations/Full Faith and Credit Exemption Money Market Fund List” can be found on the Securities Valuation Office Web page (https://www.naic.org/svo.htm). All money market mutual funds that are not identified by the SVO on the U.S. Direct Obligations/Full Faith and Credit Exempt List shall be reported in this schedule as an “all other money market mutual fund.”

<table>
<thead>
<tr>
<th>Column 1</th>
<th>CUSIP Identification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All CUSIP numbers entered in this column must conform to those as published in the Purposes and Procedures Manual of the NAIC Investment Analysis Office, Part Six, Sections 2(f) and (g).</td>
</tr>
<tr>
<td></td>
<td>CUSIP identification is <strong>required and valid only</strong> for Exempt Money Market Mutual Funds – as Identified by SVO (Line 8599999) and All Other Money Market Mutual Funds (Line 8699999).</td>
</tr>
</tbody>
</table>

**Note:**
- Exempt Money Market Mutual Funds – as Identified by SVO (Line 8599999) and All Other Money Market Mutual Funds (Line 8699999).
INVESTMENT SCHEDULES GENERAL INSTRUCTIONS  
(Appplies to all investment schedules)

General Classifications Bonds Only:

Refer to SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities for additional guidance.

U.S. Government:

U.S. Government shall be defined as U.S. Government Obligations as defined per the Purposes and Procedures Manual of the NAIC Investment Analysis Office—Part Two, Section 4:

(i) Filing Exemption for Direct Claims on, or Backed Full Faith and Credit of the United States

“U.S. Government Obligations” means all direct claims (including securities, loans, and leases) on, and the portions of claims that are directly and unconditionally guaranteed by the United States Government or its agencies.

“U.S. Government agency” means an instrumentality of the U.S. Government the debt obligations of which are fully guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. This category includes in addition to direct claims on, and the portions of claims that are directly and unconditionally guaranteed by, the United States Government agencies listed below, claims collateralized by securities issued or guaranteed by the U.S. government agencies listed below for which a positive margin of collateral is maintained on a daily basis, fully taking into account any change in the insurance company’s exposure to the obligor or counterparty under a claim in relation to the market value of the collateral held in support of that claim.

U.S. Special Revenue and Special Assessment Obligations and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions:

Those U.S. government issues not listed as “Securities That Are Considered “Exempt Obligations” For Purposes of Determining The Asset Valuation Reserve And The Risk-Based Capital Calculation” in Part Six, Section 2(c) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office, yet included as “Filing Exemptions for Other U.S. Government Obligations” in Part Two, Section 4(c)(ii). This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds. Also include mortgage reference securities that are within the scope of SSAP No. 43R—Loan-Backed and Structured Securities.

Industrial and Miscellaneous (Unaffiliated):

This category includes all non-governmental issues that do not qualify for some other category in Schedule D, Part 1, including privatized (non-government ownership) utility companies. Include Public Utilities.
SVO Identified Funds:

This category includes all Bond Mutual Funds included on the “List of Bond Mutual Funds Filed with the SVO (Bond Fund List)” as listed in Part Six, Section 2(h) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and Exchange Traded Funds included on the “List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List)” as found on the Securities Valuation Office Web page (https://www.naic.org/svo.htm) listed in Part Six, Section 2(i) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

Detail Eliminated to Conserve Space

General Classifications Preferred Stock Only:

Refer to SSAP No. 32—Preferred Stock and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

Industrial and Miscellaneous (Unaffiliated):

All unaffiliated preferred stocks. Include Public Utilities, Banks, Trusts and Insurance Companies. This category includes Exchange Traded Funds included on the “List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock” as found on the Securities Valuation Office Web page (https://www.naic.org/svo.htm) listed in Part Six, Section 2 of the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

Detail Eliminated to Conserve Space
## NAIC BLANKS (E) WORKING GROUP

**Blanks Agenda Item Submission Form**

<table>
<thead>
<tr>
<th>DATE: 02/21/2020</th>
<th>FOR NAIC USE ONLY</th>
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<td>Agenda Item # 2020-19BWG MOD</td>
</tr>
<tr>
<td>TELEPHONE:</td>
<td>Year 2020</td>
</tr>
<tr>
<td>EMAIL ADDRESS:</td>
<td>Changes to Existing Reporting [ X ]</td>
</tr>
<tr>
<td>ON BEHALF OF:</td>
<td>New Reporting Requirement [ ]</td>
</tr>
<tr>
<td>NAME: Dale Bruggeman</td>
<td>REVIEWED FOR ACCOUNTING</td>
</tr>
<tr>
<td>TITLE: Chair SAPWG</td>
<td>PRACTICES AND PROCEDURES IMPACT</td>
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<tr>
<td>AFFILIATION: Ohio Department of Insurance</td>
<td>No Impact [ X ]</td>
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<tr>
<td>ADDRESS: 50W. Town St., 3rd Fl., Ste. 300</td>
<td>Modifies Required Disclosure [ ]</td>
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<tr>
<td>Columbus, OH 43215</td>
<td>DISPOSITION</td>
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<td>[ ] Rejected For Public Comment</td>
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<td></td>
<td>[ ] Referred To Another NAIC Group</td>
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<tr>
<td></td>
<td>[ ] Received For Public Comment</td>
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<td></td>
<td>[ X ] Adopted Date 05/28/2020</td>
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<td></td>
<td>[ ] Deferred Date</td>
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<td></td>
<td>[ ] Other (Specify)</td>
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### BLANK(S) TO WHICH PROPOSAL APPLIES

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<th>[ X ] ANNUAL STATEMENT</th>
<th>[ X ] INSTRUCTIONS</th>
<th>[ ] CROSSCHECKS</th>
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<td>[ ] Separate Accounts</td>
<td>[ X ] Title</td>
</tr>
<tr>
<td>[ X ] Life, Accident &amp; Health/Fraternal</td>
<td>[ ] Protected Cell</td>
<td>[ ] Other</td>
</tr>
<tr>
<td>[ X ] Property/Casualty</td>
<td>[ ] Health</td>
<td>[ ] Health (Life Supplement)</td>
</tr>
</tbody>
</table>

Anticipated Effective Date: Annual 2020

### IDENTIFICATION OF ITEM(S) TO CHANGE

Add a code of “%” to the code column for all investments which have been reported Schedule DA, Part 1 and Schedule E, Part 2 for more than one consecutive year. Add certification to the General Interrogatories, Part 1 inclusion of these investments on Schedule DA, Part 1 and Schedule E, Part 2.

### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

To identify instances where cash equivalents and/or short-term investments (or substantially similar investments) remain on the applicable investment schedule for more than one reporting period (i.e. reported as a short-term investment for more than one consecutive year due to the investment being re-underwritten and renewed).

### NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** This section must be completed on all forms. Revised 7/18/2018
### Short-Term Investments Owned December 31 of Current Year

<table>
<thead>
<tr>
<th>Column 2</th>
<th>Code</th>
</tr>
</thead>
</table>

Enter “*” in this column for all SVO Identified Funds designated for systematic value.

Enter “@” in this column for all Principal STRIP Bonds or other zero coupon bonds.

Enter “%” in this column for all investments which have been reported on this schedule for more than one consecutive year.

Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If short-term investments are not under the exclusive control of the company as shown in the General Interrogatories, they are to be identified by placing one of the codes (identified in the Investment Schedules General Instructions) in this column.

If the security is an SVO Identified Fund designated for systematic value or Principal STRIP bond or other zero coupon bond and is not under the exclusive control of the company, the “*”, “@” or “%” should appear first, immediately followed by the appropriate code (identified in the Investment Schedules General Instructions).

If the “%” code is used in conjunction with the “*” or “@” codes, the “%” code should appear after the “*” or “@” codes immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).

**Separate Account Filing Only:**

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first and may be used simultaneously with the “*”, “@” or “%” with the “^” preceding the “*”, “@” or “%” depending on the asset being reported, immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).

If the “%” code is used in conjunction with the “*” or “@” codes, the “%” code should appear after the “*” or “@” codes immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).
SCHEDULE E – PART 2 – CASH EQUIVALENTS

Column 3 – Code

Enter “%” in this column for all investments except qualifying cash pooling structures per SSAP No. 2R and money market mutual funds which have been reported on this schedule for more than one consecutive quarter.

Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If a cash equivalent is not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the codes identified in the Investment Schedules General Instructions in this column.

If the “%” code is used, the “%” code should appear first, immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).

Separate Account Filing Only:

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first and may be used simultaneously with the “%” code, immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).
GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

OTHER

3637. The purpose of this General Interrogatory is to capture information about payments to any trade association, service organization, and statistical or rating bureau. A “service organization” is defined as every person, partnership, association or corporation that formulates rules, establishes standards, or assists in the making of rates or standards for the information or benefit of insurers or rating organizations.

3738. The purpose of this General Interrogatory is to capture information about legal expenses paid during the year. These expenses include all fees or retainers for legal services or expenses, including those in connection with matters before administrative or legislative bodies. It excludes salaries and expenses of company personnel, legal expenses in connection with investigation, litigation and settlement of policy claims, and legal fees associated with real estate transactions, including mortgage loans on real estate. Do not include amounts reported in General Interrogatories No. 36-37 and No. 3839.

3839. The purpose of this General Interrogatory is to capture information about expenditures in connection with matters before legislative bodies, officers or departments of government paid during the year. These expenses are related to general legislative lobbying and direct lobbying of pending and proposed statutes or regulations before legislative bodies and/or officers or departments of government. Do not include amounts reported in General Interrogatories No. 36-37 and No. 3738.
QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

**SCHEDULE E – PART 2 – CASH EQUIVALENTS**

**INVESTMENTS OWNED END OF CURRENT QUARTER**

<table>
<thead>
<tr>
<th>Column 3</th>
<th>Code</th>
</tr>
</thead>
</table>

Enter “%” in this column for all investments except qualifying cash pooling structures per SSAP No. 2R and money market mutual funds which have been reported on this schedule for more than one consecutive quarter.

If a cash equivalent is not under the exclusive control of the reporting entity, it is to be identified by placing one of the codes identified in the Investment Schedules General Instructions in this column.

If the “%” code is used, the “%” code should appear first, immediately followed by the appropriate code for not being under the exclusive control of the company (identified in the Investment Schedules General Instructions).
35. By assigning FE to a Schedule BA non-registered private fund, the reporting entity is certifying the following elements of each self-designated FE fund:
   a. The shares were purchased prior to January 1, 2019.
   b. The reporting entity is holding capital commensurate with the NAIC Designation reported for the security.
   c. The security had a public credit rating(s) with annual surveillance assigned by an NAIC CRP in its legal capacity as an NRSRO prior to January 1, 2019.
   d. The fund only or predominantly holds bonds in its portfolio.
   e. The current reported NAIC Designation was derived from the public credit rating(s) with annual surveillance assigned by an NAIC CRP in its legal capacity as an NRSRO.
   f. The public credit rating(s) with annual surveillance assigned by an NAIC CRP has not lapsed.

Has the reporting entity assigned FE to Schedule BA non-registered private funds that complied with the above criteria? Yes [ ] No [ ]

36. By rolling/renewing short-term or cash equivalent investments with continued reporting on Schedule DA, Part 1 or Schedule E Part 2 (identified through a code (%) in those investment schedules), the reporting entity is certifying to the following:
   a. The investment is a liquid asset that can be terminated by the reporting entity on the current maturity date.
   b. If the investment is with a nonrelated party or nonaffiliate and then it reflects an arms-length transaction with renewal completed at the discretion of all involved parties.
   c. If the investment is with a related party or affiliate and then the reporting entity has completed robust re-underwriting of the transaction for which documentation is available for regulator review.
   d. Short-term and cash equivalent investments that have been renewed/rolled from the prior period that do not meet the criteria in 36.a - 36.c are reported as long-term investments.

Has the reporting entity rolled/renewed short-term or cash equivalent investments in accordance with these criteria? Yes [ ] No [ ] N/A [ ]

OTHER

3637.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ ____________________

3637.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations, and statistical or rating bureaus during the period covered by this statement.

<table>
<thead>
<tr>
<th>Name</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
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<tr>
<td></td>
<td>$</td>
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<td></td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

© 2020 National Association of Insurance Commissioners
### GENERAL INTERROGATORIES

#### 3738.1 Amount of payments for legal expenses, if any?

$ ______________

#### 3738.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

<table>
<thead>
<tr>
<th>Name</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

#### 3839.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers, or departments of government, if any?

$ ______________

#### 3839.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers, or departments of government during the period covered by this statement.

<table>
<thead>
<tr>
<th>Name</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>
**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

<table>
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<tr>
<th>CONTACT PERSON:</th>
<th>Dale Bruggeman</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELEPHONE:</td>
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<tr>
<td>EMAIL ADDRESS:</td>
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<tr>
<td>ON BEHALF OF:</td>
<td></td>
</tr>
<tr>
<td>NAME:</td>
<td></td>
</tr>
<tr>
<td>TITLE:</td>
<td>Chair SAPWG</td>
</tr>
<tr>
<td>AFFILIATION:</td>
<td>Ohio Department of Insurance</td>
</tr>
<tr>
<td>ADDRESS:</td>
<td>50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215</td>
</tr>
</tbody>
</table>

**DATE:** 02/21/2020

**FOR NAIC USE ONLY**

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<th>2020-20BWG MOD</th>
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</thead>
<tbody>
<tr>
<td>Year</td>
<td>2020</td>
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</tbody>
</table>

**Changes to Existing Reporting** [X]

**New Reporting Requirement** [ ]

**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

- No Impact [X]
- Modifies Required Disclosure [ ]

**DISPOSITION**

- [ ] Rejected For Public Comment
- [ ] Referred To Another NAIC Group
- [ ] Received For Public Comment
- [X] Adopted Date 05/28/2020
- [ ] Rejected Date
- [ ] Deferred Date
- [ ] Other (Specify)

**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [X] ANNUAL STATEMENT
- [X] INSTRUCTIONS
- [ ] BLANK
- [X] Life, Accident & Health/Fraternal
- [X] Property/Casualty
- [X] Health
- [ ] Separate Accounts
- [ ] Protected Cell
- [ ] Health (Life Supplement)

**Anticipated Effective Date:** Annual 2020

**IDENTIFICATION OF ITEM(S) TO CHANGE**

For Schedule D, Part 1, add code “10” to Column 26 – Collateral Type for ground lease financing. Renumber “Other” code to 11.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

During the 2019 Fall National Meeting, the Valuation of Securities (E) Task Force adopted an amendment to add ground lease financing transactions as a newly defined asset class to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) effective January 1, 2020, and referred such action to the SAPWG for consideration. While an update was not required in the Accounting Procedures and Practices Manual (AP&P Manual), specific identification of such activities is warranted for analysis and reporting purposes.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date:

Other Comments:

**This section must be completed on all forms.**

© 2020 National Association of Insurance Commissioners 2020-20BWG_Modified.doc 1
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE D – PART 1

LONG-TERM BONDS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated to Conserve Space

Column 26 – Collateral Type

Use only for securities included in the following subtotal lines.

Industrial and Miscellaneous (Unaffiliated)

<table>
<thead>
<tr>
<th>Collateral Type</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Mortgage-Backed/ Securities</td>
<td>3399999</td>
</tr>
<tr>
<td>Commercial Mortgage-Backed Securities</td>
<td>3499999</td>
</tr>
<tr>
<td>Other Loan-Backed and Structured Securities</td>
<td>3599999</td>
</tr>
</tbody>
</table>

Enter one of the following codes to indicate collateral type. Pick exactly one collateral type for each reported security. For securities that fit in more than one type, pick the predominant one. Judgment may need to be used when making selections involving prime, Alt-A and subprime, as there are no uniform definitions for these collateral types. In the description field, use abbreviations like ABS, CDO or CLO to disclose the type of the loan-backed/structured security. Note: various investments below require SVO review and approval, please refer to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) for further description.

1  Residential Mortgage Loans/RMBS
   Include all types of residential first lien mortgage loans as collateral (e.g., prime, subprime, Alt-A).

2  Commercial Mortgage Loans/CMBS
   Include all types of commercial mortgage loans as collateral (e.g., conduits, single name, etc.).

3  Home Equity
   Include all home equity loans and/or home equity lines of credit as collateral. These are not first liens and are deemed loans to individuals. Bonds that are collateralized by home equity loans/lines of credit are considered asset-backed securities (ABS) rather than RMBS.

4  Individual Obligations – Credit Card, Auto, Student Loans and Recreational Vehicles
   Include bonds collateralized by individual obligations. Do not include individual obligations that have a real-estate aspect.

5  Corporate/Industrial Obligations – Tax Receivables, Utility Receivables, Trade Receivables, Small Business Loans, Commercial Paper
   Include bonds collateralized by corporate or industrial obligations (sometimes referred to as commercial obligations).
6  Lease Transactions – Aircraft Leases, Equipment Leases and Equipment Trust Certificates
Include bonds collateralized by leases. Equipment leases are loans on heavy equipment. Equipment trust certificates are certificates that entitle the holder to the lease payments on the underlying assets.

7  CLO/CBO/CDO
Include bank loans, which securitize CLOs; investment grade and high-yield corporate bonds, which securitize CBOs; and corporate bonds and structured securities, which securitize CDOs.

8  Manufactured Housing and Mobile Home Loans
Include manufactured housing loans and mobile home loans as collateral. These are not typical residential mortgage loans, and when they securitize bonds, they are considered ABS.

9  Credit Tenant Loans
Real estate loans secured by the obligation of a single (usually investment grade) company to pay debt service by means of rental payments under a lease, where real estate is pledged as collateral also referred to as credit tenant lease, sale-leaseback or CTL.

10  Ground Lease Financing
Real estate loans secured by the obligation to pay debt service by means of rental payments of subleased property, where a long-term ground lease was issued in which the lessee intends significant land development and the subleasing of such property to other long-term tenants.

11  Other
Include other collateral types that do not fit into categories 1 through 910.

For Columns 27 through 29, make whole call information is not required.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

| DATE: 02/21/2020 |
| CONTACT PERSON: |
| TELEPHONE: |
| EMAIL ADDRESS: |
| ON BEHALF OF: |
| NAME: Dale Bruggeman |
| TITLE: Chair SAPWG |
| AFFILIATION: Ohio Department of Insurance |
| ADDRESS: 50W. Town St., 3rd Fl., Ste. 300 Columbus, OH 43215 |

FOR NAIC USE ONLY

Agenda Item # 2020-21BWG MOD

| Year | 2020 |
| Changes to Existing Reporting | [X] |
| New Reporting Requirement | [ ] |

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

| No Impact | [X] |
| Modifies Required Disclosure | [ ] |

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/28/2020
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify) ___________

BLANK(S) TO WHICH PROPOSAL APPLIES

[ ] ANNUAL STATEMENT
[ ] QUARTERLY STATEMENT
[ ] Life, Accident & Health/Fraternal
[ ] Property/Casualty
[ ] Health
[ ] INSTRUCTIONS
[ ] BLANK
[ ] Separate Accounts
[ ] Protected Cell
[ ] Health (Life Supplement)
[ ] CROSSCHECKS
[ ] Title
[ ] Other ___________

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Add new Line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumber existing Line 4.05 to 4.06. Modify the instructions to include a crosscheck for new Line 4.05 back to Schedule B – Verification Between years. Clarify the instructions for 4.01-4.04 to explicitly show crosschecking to Column 8 of Schedule B, Part 1.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this schedule is to address the fact that the amount reported on Schedule B, Part 1, Column 8 excludes the valuation allowance but the total reported for mortgage loans in the Summary Investment Schedule must tie to the asset page which includes the valuation allowance.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _______________________

Other Comments: _______________________

** This section must be completed on all forms. Revised 7/18/2018
Line 4.01 – Mortgage Loans – Farm Mortgages

Include: The value of loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pastureland, whether tillable or not and whether wooded or not. Include loans secured by farmland that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced and collected by any party other than the FmHA or SBA.

Column 1 should equal the sum of Lines 0199999, 0999999, 1799999 and 2599999 on Schedule B, Part 1, Column 8.

Line 4.02 – Mortgage Loans – Residential Mortgages

Include: The value of loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA or conventional) or other liens on nonfarm property containing one to four dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses or the like); mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property; individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units; and housekeeping dwellings with commercial units combined where use is primarily residential and where only one to four family dwelling units are involved.

Column 1 should equal the sum of Lines 0299999, 0399999, 1099999, 1199999, 1899999, 1999999, 2699999 and 2799999 on Schedule B, Part 1, Column 8.

Line 4.03 – Mortgage Loans – Commercial Mortgages

Include: The value of loans secured by real estate as evidenced by mortgages or other liens on business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, "homes" for aged persons and orphans, golf courses, recreational facilities, and similar properties.

Column 1 should equal the sum of Lines 0499999, 0599999, 1299999, 1399999, 2099999, 2199999, 2899999 and 2999999 on Schedule B, Part 1, Column 8.
Line 4.04 – Mortgage Loans – Mezzanine Real Estate Loans

Include: Mezzanine real estate loans as defined in *SSAP No. 83—Mezzanine Real Estate Loans*.

Column 1 should equal the sum of Lines 0699999, 1499999, 2299999 and 3099999 on Schedule B, Part I, Column 8.

Line 4.05 – Total Valuation allowance

Column 1 should equal Schedule B – Verification Between Years Line 12.

Line 4.0506 – Total Mortgage Loans

Sum of Lines 4.01 to 4.0405.

The amount reported in Column 1 should equal the amount reported in Line 3.1 plus Line 3.2, Column 1, Page 2, Assets.

The amount reported in Column 3 should equal the amount reported in Line 3.1 plus Line 3.2, Column 3, Page 2, Assets.

---

Detail Eliminated to Conserve Space

---
### SUMMARY INVESTMENT SCHEDULE

<table>
<thead>
<tr>
<th>Investment Categories</th>
<th>Gross Investment Holdings</th>
<th>Admitted Assets as Reported in the Annual Statement</th>
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<td>Amount</td>
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<td>Mortgage loans (Schedule B):</td>
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<td>4.01 Farm mortgages</td>
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<tr>
<td>4.02 Residential mortgages</td>
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<td></td>
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<tr>
<td>4.03 Commercial mortgages</td>
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<tr>
<td>4.04 Mezzanine real estate loans</td>
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<tr>
<td>4.05 Total valuation allowance</td>
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<td></td>
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<tr>
<td>Real estate (Schedule A):</td>
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<td>5.01 Properties occupied by company</td>
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<tr>
<td>5.02 Properties held for production of income</td>
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<td></td>
</tr>
<tr>
<td>5.03 Properties held for sale</td>
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<td>5.04 Total real estate</td>
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<td>Cash, cash equivalents and short-term investments:</td>
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<td>6.01 Cash (Schedule E, Part 1)</td>
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<tr>
<td>6.02 Cash equivalents (Schedule E, Part 2)</td>
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<td>6.03 Short-term investments (Schedule DA)</td>
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<tr>
<td>6.04 Total cash, cash equivalents and short-term investments</td>
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<td>Contract loans</td>
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<td>Derivatives (Schedule DB)</td>
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<td>Other invested assets (Schedule BA)</td>
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<td>Securities lending (Schedule DL, Part 1)</td>
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<td>Other invested assets (Page 2, Line 11)</td>
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<tr>
<td>Total invested assets</td>
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Detail Eliminated to Conserve Space
# NAIC BLANKS (E) WORKING GROUP

**Blanks Agenda Item Submission Form**

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<tr>
<td>CONTACT PERSON:</td>
<td>Agenda Item # 2020-23BWG MOD</td>
</tr>
<tr>
<td>TELEPHONE:</td>
<td>Year 2020</td>
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<tr>
<td>EMAIL ADDRESS:</td>
<td>Changes to Existing Reporting [X]</td>
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<tr>
<td>ON BEHALF OF:</td>
<td>New Reporting Requirement [ ]</td>
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<tr>
<td>NAME: Dale Bruggeman</td>
<td>REVIEWED FOR ACCOUNTING</td>
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<tr>
<td>TITLE: Chair SAPWG</td>
<td>PRACTICES AND PROCEDURES IMPACT</td>
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<tr>
<td>AFFILIATION: Ohio Department of Insurance</td>
<td>No Impact [X]</td>
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<tr>
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<td>Modifies Required Disclosure [ ]</td>
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<td></td>
<td>[ ] Received For Public Comment</td>
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<td>[ ] Deferred Date</td>
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<td>[ ] Other (Specify)</td>
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**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [X] ANNUAL STATEMENT
- [X] INSTRUCTIONS
- [ ] CROSSCHECKS
- [X] QUARTERLY STATEMENT
- [X] BLANK
- [X] Life, Accident & Health/ Fraternal
- [X] Separate Accounts
- [X] BLANK
- [X] Property/Casualty
- [ ] Protected Cell
- [X] Health (Life Supplement)
- [X] Title
- [X] Other

Anticipated Effective Date: **Annual 2020**

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Add footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 separate accounts.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

While this update did not result in a statutory accounting change, this footnote will disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ____________________________

Other Comments:

Proposal is being exposed concurrently with the changes being considered by the Statutory Accounting Principles (E) Working Group.

** This section must be completed on all forms. Revised 7/18/2018
## EXHIBIT 5 – AGGREGATE RESERVE FOR LIFE CONTRACTS

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<th></th>
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<td>Ordinary</td>
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<td>ANNUITIES (excluding supplementary contracts with life contingencies)</td>
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<td>XXX</td>
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</table>

(a) Included in the above table are amounts of deposit-type contracts that originally contained a mortality risk. Amounts of deposit-type contracts in Column 2 that no longer contain a mortality risk are (Life Insurance $ ________, (Annuitics) $ ________, (Supplementary Contracts with Life Contingencies) $ ________, (Accidental Death Benefits) $ ________, (Disability—Active Lives) $ ________, (Disability—Disabled Lives) $ ________, (Miscellaneous Reserves) $ ________.

(b) Included in the above table are amounts of deposit-type contracts that originally contained a mortality risk. Amounts of deposit-type contracts in Column 2 that no longer contain a mortality risk are (Life Insurance $ ________, (Annuitics) $ ________, (Supplementary Contracts with Life Contingencies) $ ________, (Accidental Death Benefits) $ ________, (Disability—Active Lives) $ ________, (Disability—Disabled Lives) $ ________, (Miscellaneous Reserves) $ ________.

© 2020 National Association of Insurance Commissioners
ANNUAL STATEMENT BLANK – SEPARATE ACCOUNTS

EXHIBIT 3 – AGGREGATE RESERVE FOR LIFE, ANNUITY AND ACCIDENT AND HEALTH CONTRACTS

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<tr>
<th>Description of Valuation Basis</th>
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<th>3 Ordinary</th>
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<td>0199999 Totals</td>
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<td>Annuities (excluding supplementary contracts):</td>
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<td>0599999 Totals</td>
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<td>9999999 Totals (to Page 3, Line 1)</td>
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(a) Included in the above table are amounts of deposit-type contracts that originally contained a mortality risk. Amounts of deposit-type contracts that no longer contain a mortality risk are $ (Life Insurance), $ (Supplementary Contracts with Life Contingencies), $ (Accidental Death Benefits), $ (Disability – Active Lives), $ (Disability – Disabled Lives), $ (Miscellaneous Reserves).

EXHIBIT 3 – INTERROGATORIES

1.1 Has the reporting entity ever issued both participating and non-participating variable life insurance contracts? Yes [ ] No [ ]
1.2 Does the reporting entity at present issue both participating and non-participating variable life insurance contracts? Yes [ ] No [ ]
1.3 If not, state which kind is issued: .................................................................
1.4 Reserve Due to...........................................................................................................

EXHIBIT 3A – CHANGES IN BASES OF VALUATION DURING THE YEAR

(Including supplementary contracts set up on a basis other than that used to determine benefits)

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<thead>
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<th>Description of Valuation Class</th>
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<th>2 Changed From</th>
<th>3 Changed To</th>
<th>4 Increase in Actuarial Reserve Due to Change</th>
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<tr>
<td>99999999 Totals (Page 6, Line 5, Analysis of Increase in Reserves)</td>
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ANNUAL STATEMENT BLANK – LIFE/FRATERNAL AND HEALTH (LIFE SUPPLEMENT)

EXHIBIT 5 – AGGREGATE RESERVES FOR LIFE CONTRACTS

Footnote (a):
Deposit-type contracts such as GICs and supplemental contracts are generally reported in Exhibit 7 – Deposit Type Contracts. However, certain contracts (which have similar characteristics to deposit-type contracts) incorporate mortality risk components which qualify those contracts to be reported in Exhibit 5 – Aggregate Reserve for Life Contracts. A common example is a supplemental contract which provides for a life-contingent payout with a specified certain period. Because the contract was life-contingent at issue, it is reported in Exhibit 5 and remains in Exhibit 5 after the death of the annuitant as remaining guaranteed payments continue to the beneficiary. Additionally, state insurance departments have the discretion to approve or require a contract to be classified as a life insurance contract. This footnote captures the amounts reported on Exhibit 5 for deposit-type contracts that originally contained a mortality risk, but no longer contain that risk.

EXHIBIT 3 – AGGREGATE RESERVE FOR LIFE, ANNUITY AND ACCIDENT AND HEALTH CONTRACTS

Footnote (a):
Deposit-type contracts such as GICs and supplemental contracts are generally reported in Exhibit 4 – Deposit Type Contracts. However, certain contracts (which have similar characteristics to deposit-type contracts) incorporate mortality risk components which qualify those contracts to be reported in Exhibit 3 – Aggregate Reserve for Life, Annuity and Accident and Health Contracts. A common example is a supplemental contract which provides for a life-contingent payout with a specified certain period. Because the contract was life-contingent at issue, it is reported in Exhibit 3 and remains in Exhibit 3 after the death of the annuitant as remaining guaranteed payments continue to the beneficiary. Additionally, state insurance departments have the discretion to approve or require a contract to be classified as a life insurance contract. This footnote captures the amounts reported on Exhibit 3 for deposit-type contracts that originally contained a mortality risk, but no longer contain that risk.
### Effective | Table Name | Description | Statement Type | Filing Type |
|-------------|------------|-------------|----------------|-------------|
| 2020 | Investment Schedules General Instructions | CHANGE TO INSTRUCTION  
Remove reference to Web address as it is no longer valid and new location can’t be found. No alternate is being provided.  

**STOCK EXCHANGE LIST**  
This is not a comprehensive list of stock exchanges. If a stock exchange is not listed, refer to [www.fixprotocol.org/specifications/exchanges.shtml](http://www.fixprotocol.org/specifications/exchanges.shtml). If a stock exchange is not found in the list below one of the sources above, use a description or abbreviation that accurately identifies the exchange. | H, L/F, P/C, T | Annual |
| 2020 | Schedule D, Part 1 | CHANGE TO INSTRUCTION  
Modify the instruction for Column 1 – CUSIP Identification as shown below to better clarify zero filling CUSIP.  
If no valid CUSIP, CINS or PPN number exists, then report the CUSIP field should be zero-filled and a valid ISIN security number should be reported in (Column 27) security number. The CUSIP field should be zero-filled. | H, L/F, P/C, T | Annual |
| 2020 | Schedule D, Part 2, Section 1 | CHANGE TO INSTRUCTION  
Modify the instruction for Column 1 – CUSIP Identification as shown below to better clarify zero filling CUSIP.  
If no valid CUSIP, CINS or PPN number exists, then report the CUSIP field should be zero-filled and a valid ISIN security number should be reported in (Column 27) security number. The CUSIP field should be zero-filled. | H, L/F, P/C, T | Annual |
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<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
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<td>H, L/F, P/C, T</td>
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<td>Annual</td>
<td>2020</td>
<td>Change to Instruction: Modify the instruction for Column 1 – CUSIP Identification as shown below to better clarify zero filling CUSIP. If no valid CUSIP, CINS or PPN number exists, then repeat the CUSIP field should be zero-filled and a valid ISIN security number should be reported in (Column 11) security number. The CUSIP field should be zero-filled.</td>
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<td>Quarterly</td>
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<td>Effective</td>
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<td>Description</td>
<td>Statement Type</td>
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<td>2021</td>
<td>Schedule D, Part 4</td>
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<td>Quarterly</td>
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<td>Quarterly</td>
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<td>Annual</td>
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</tr>
<tr>
<td>2020</td>
<td>Schedule S, Part 1, Section 1</td>
<td>CHANGE TO INSTRUCTION</td>
<td>L/F</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
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<td>Make the edit below for Column 7 to remove “Supplementary Contracts” from the table below because it is no longer reported separately on the Analysis of Operations by Lines of Business.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abbreviations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IL</td>
<td>Industrial Life</td>
<td>FA</td>
<td>Fixed Annuities</td>
<td></td>
</tr>
<tr>
<td>XXXL</td>
<td>XXX Life</td>
<td>IA</td>
<td>Indexed Annuities</td>
<td></td>
</tr>
<tr>
<td>XXXLO</td>
<td>XXX Life Other</td>
<td>VA</td>
<td>Variable Annuities</td>
<td></td>
</tr>
<tr>
<td>AXXX</td>
<td>AXXX Life</td>
<td>OA</td>
<td>Other Annuities</td>
<td></td>
</tr>
<tr>
<td>CL</td>
<td>Credit Life</td>
<td>ADB</td>
<td>Accidental Death Benefits</td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>Supplementary Contracts</td>
<td>DIS</td>
<td>Disability Benefits</td>
<td></td>
</tr>
<tr>
<td>OL</td>
<td>Other Life</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>NOTE: The Type of Business Assumed code should be entered in all uppercase letters.</td>
<td></td>
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</tr>
</tbody>
</table>

<p>| 2020           | Schedule S, Part 3, Section 1 | CHANGE TO INSTRUCTION | L/F | Annual |
|                |            | Make the edit below for Column 7 to remove “Supplementary Contracts” from the table below because it is no longer reported separately on the Analysis of Operations by Lines of Business. | | |
| Abbreviations: | | | | |
| IL | Industrial Life | FA | Fixed Annuities |
| XXXL | XXX Life | IA | Indexed Annuities |
| XXXLO | XXX Life Other | VA | Variable Annuities |
| AXXX | AXXX Life | OA | Other Annuities |
| CL | Credit Life | ADB | Accidental Death Benefits |
| SC | Supplementary Contracts | DIS | Disability Benefits |
| OL | Other Life | | |
| NOTE: The Type of Business Assumed code should be entered in all uppercase letters. | | | |</p>
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule S, Part 1, Section 1 (Life Supplement)</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Make the edit below for Column 7.</td>
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<tr>
<td></td>
<td></td>
<td>All types of business shown above are as reported in the Life State Page – Life Insurance Section of the Life Supplement – Analysis of Operations by Lines of Business and the Analysis of Annuity Operations by Lines of Business except as noted below:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>Schedule S, Part 3, Section 1 (Life Supplement)</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
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<td>Make the edit below for Column 7.</td>
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<tr>
<td></td>
<td></td>
<td>All types of business shown above are as reported in the Life State Page – Life Insurance Section of the Life Supplement – Analysis of Operations by Lines of Business and the Analysis of Annuity Operations by Lines of Business except as noted below:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>Schedule S, Part 1, Section 1 (Life Supplement)</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H</td>
<td>Annual</td>
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<tr>
<td></td>
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<td>Make the edit below for Column 7 to remove “Supplementary Contracts” from the table below for consistency with the table in the Life/Fraternal Analysis of Operations by Lines of Business.</td>
<td></td>
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**Abbreviations:**

<table>
<thead>
<tr>
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<th>Industrial Life</th>
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<th>Fixed Annuities</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXL</td>
<td>XXX Life</td>
<td>IA</td>
<td>Indexed Annuities</td>
</tr>
<tr>
<td>XXXLO</td>
<td>XXX Life Other</td>
<td>VA</td>
<td>Variable Annuities</td>
</tr>
<tr>
<td>AXXX</td>
<td>AXXX Life</td>
<td>OA</td>
<td>Other Annuities</td>
</tr>
<tr>
<td>CL</td>
<td>Credit Life</td>
<td>ADB</td>
<td>Accidental Death Benefits</td>
</tr>
<tr>
<td>SC</td>
<td>Supplementary Contracts</td>
<td>DIS</td>
<td>Disability Benefits</td>
</tr>
<tr>
<td>OL</td>
<td>Other Life</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** The Type of Business Assumed code should be entered in capital letters.
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule S, Part 3, Section 1 (Life Supplement)</td>
<td><strong>CHANGE TO INSTRUCTION</strong>&lt;br&gt;Make the edit below for Column 7 to remove “Supplementary Contracts” from the table below for consistency with the table in the Life/Fraternal instructions because it is no longer reported separately on the Life/Fraternal Analysis of Operations by Lines of Business.</td>
<td>H</td>
<td>Annual</td>
</tr>
</tbody>
</table>

**Abbreviations:**<br>

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>IL</td>
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<td>XXXLO</td>
<td>XXX Life Other</td>
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<td>AXXX</td>
<td>AXXX Life</td>
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<td>CL</td>
<td>Credit Life</td>
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<td>Supplementary Contracts</td>
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<td>FA</td>
<td>Fixed Annuities</td>
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<tr>
<td>VA</td>
<td>Variable Annuities</td>
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<td>OA</td>
<td>Other Annuities</td>
</tr>
<tr>
<td>ADB</td>
<td>Accidental Death Benefits</td>
</tr>
<tr>
<td>DIS</td>
<td>Disability Benefits</td>
</tr>
</tbody>
</table>

**NOTE:** The Type of Business Assumed code should be entered in letters.

<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule DB, Part D, Section 1</td>
<td><strong>CHANGE TO INSTRUCTION</strong>&lt;br&gt;Replace “statement value” reference with “Book/Adjusted Carrying Value” reference. Column 5 – Contracts with Book/Adjusted Carrying Value &gt; 0 (i.e., debit balance on balance sheet) On the first line, show the aggregate sum for exchange traded derivatives that have a positive Book/Adjusted Carrying Value. For futures, this equals the sum of the positive cumulative variation margin for highly effective futures (Part B, Section 1, Column 15), plus the sum of the ending balance of all cash deposits with brokers (Part B, Section 1, Broker Name/Net Cash Deposits Footnote – Ending Cash Balance). On subsequent lines, show the sum of the Book/Adjusted Carrying Values of all derivative instruments with the</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
<tr>
<td>Effective</td>
<td>Table Name</td>
<td>Description</td>
<td>Statement Type</td>
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</tr>
<tr>
<td>2021</td>
<td>Schedule DB, Part D</td>
<td><strong>CHANGE TO INSTRUCTION</strong></td>
<td>H, L/F, P/C, T</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td>Section 1</td>
<td>Replace “statement value” reference with “Book/Adjusted Carrying Value” reference.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Column 5</strong> — Contracts with Book/Adjusted Carrying Value &gt; 0 (i.e., debit balance on balance sheet)</td>
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<tr>
<td></td>
<td></td>
<td>On the first line, show the aggregate sum for exchange traded derivatives that have a positive Book/Adjusted Carrying Value.</td>
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<tr>
<td></td>
<td></td>
<td>For futures, this equals the sum of the positive cumulative variation margin for highly effective futures (Part B, Section 1, Column 15), plus the sum of the ending balance of all cash deposits with brokers (Part B, Section 1, Broker Name/Net Cash Deposits Footnote – Ending Cash Balance).</td>
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<tr>
<td></td>
<td></td>
<td>On subsequent lines, show the sum of the Book/Adjusted Carrying Values of all derivative instruments with the counterparty or central clearinghouse that have a positive Book/Adjusted Carrying Value.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td><strong>Column 6</strong> — Contracts with Book/Adjusted Carrying Value &lt; 0 (i.e., credit balance on balance sheet)</td>
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<tr>
<td></td>
<td></td>
<td>On the first line, show the sum of the Book/Adjusted Carrying Value statement values in parentheses ( ) of all exchange traded derivatives that have a negative Book/Adjusted Carrying Value.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>For futures, this equals the sum of the negative cumulative variation margin for highly effective futures (Part B, Section 1, Column 15).</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>On subsequent lines, show the sum of the Book/Adjusted Carrying Values in parentheses ( ) of all derivative instruments with the counterparty or central clearinghouse that have a negative Book/Adjusted Carrying Value.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective Date</td>
<td>Table Name</td>
<td>Description</td>
<td>Statement Type</td>
<td>Filing Type</td>
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<tr>
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</tr>
<tr>
<td>2020</td>
<td>Equity and Other Invested Asset Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculations</td>
<td><strong>CHANGE TO INSTRUCTION</strong>&lt;br&gt;Update reserve factors as shown below.&lt;br&gt;&lt;br&gt;<strong>Line 1</strong> – Unaffiliated Common Stocks – Public&lt;br&gt;Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds (except money market mutual funds appropriately reported on Schedule E, Part 2) in unaffiliated companies in Columns 1 and 4. Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.&lt;br&gt;&lt;br&gt;The Line 1, Column 7 and 9 reserve factors must be at least 4012.15% but not more than 2024.31%.&lt;br&gt;&lt;br&gt;The reserve factor is equal to 4315.80% times the company’s weighted average portfolio beta. The weighted average portfolio beta is the market value weighted average of four (4) portfolio betas, one from the end of the prior year and the remaining from the first three (3) quarters of the current year. Calculation of this weighted average portfolio beta is illustrated in the following worksheet.</td>
<td>L/F</td>
<td>Annual</td>
</tr>
<tr>
<td>Effective</td>
<td>Table Name</td>
<td>Description</td>
<td>Statement Type</td>
<td>Filing Type</td>
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<tr>
<td>-----------</td>
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<td>-------------</td>
<td>----------------</td>
<td>-------------</td>
</tr>
</tbody>
</table>
| 2020      | Equity and Other Invested Asset Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculations | CHANGE TO INSTRUCTION  
Update reserve factors as shown below.  
Lines 65 through 69 – Other Invested Assets with Underlying Characteristics of Common Stocks  
Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investments are similar to common stock (Lines 1999999 and 2099999) in Columns 1 and 4. Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16. For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 415.80% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 4012.15% but not more than 2024.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. | L/F | Annual |
| 2020      | Notes to Financial Statements | CHANGE TO INSTRUCTION  
The change below was not reflected in proposal 2019-07BWG but was part of the changes adopted by the SAPWG for *SSAP No. 100R—Fair Value*.  
**20. Fair Value Measurements**  
**Instruction:**  
A. The objective of the disclosure requirements is to provide | H, L/F, P/C, T | Annual |
information about assets and liabilities measured at fair value in the financial statements as well as fair value amounts disclosed in the Notes to Financial Statements or reporting schedules. A reporting entity shall disclose information that helps users of the financial statements to assess both of the following:

For assets and liabilities that are measured and reported at fair value or net asset value (NAV) in the statement of financial position after initial recognition, the valuation techniques and the inputs used to develop those measurements.

For fair value measurements in the statement of financial position determined using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period.

**20. Fair Value Measurements**

**Instruction:**

A. The objective of the disclosure requirements is to provide information about assets and liabilities measured at fair value in the financial statements as well as fair value amounts disclosed in the Notes to Financial Statements or reporting schedules. A reporting entity shall disclose information that helps users of the financial statements to assess both of the following:

For assets and liabilities that are measured and reported at fair value or net asset value (NAV) in the statement of financial position after initial recognition, the valuation techniques and the inputs used to develop those measurements.
<table>
<thead>
<tr>
<th>Table Name</th>
<th>Effective</th>
<th>Statement Type</th>
<th>Description</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule BA, Part 1</td>
<td>2020</td>
<td>Annual</td>
<td>For fair value measurements in the statement of financial position determined using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period.</td>
<td>H, L/F, P/C, T</td>
</tr>
<tr>
<td>Schedule D, Part 1</td>
<td>2020</td>
<td>Quarterly</td>
<td>Add the following to the Administrative Symbol List.</td>
<td>H, L/F, P/C, T</td>
</tr>
<tr>
<td>Schedule D, Part 2 &amp; 2</td>
<td>2020</td>
<td>Quarterly</td>
<td>Z* : Regulatory review initiated by either the SVO Director, Financial Condition (E) Committee, Executive (EX) Committee or VOSTF.</td>
<td>H, L/F, P/C, T</td>
</tr>
<tr>
<td>Schedule DB, Part A, Section 1</td>
<td>2021</td>
<td>Change to Instruction</td>
<td>Add the following to the Administrative Symbol List.</td>
<td>H, L/F, P/C, T</td>
</tr>
<tr>
<td>Schedule DB, Part A, Section 1</td>
<td>2021</td>
<td>Change to Instruction</td>
<td>Modify the instruction for Column 32 as shown below to match the annual instructions.</td>
<td>H, L/F, P/C, T</td>
</tr>
<tr>
<td>Schedule DB, Part A, Section 1</td>
<td>2021</td>
<td>Change to Instruction</td>
<td>This column should only be used for the following line numbers: Purchased Options Lines 0089999999 through 0139999999. Written Options Lines 0579999999 through 0629999999.</td>
<td>H, L/F, P/C, T</td>
</tr>
</tbody>
</table>

* Z* : Regulatory review initiated by either the SVO Director, Financial Condition (E) Committee, Executive (EX) Committee or VOSTF.
<table>
<thead>
<tr>
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<th>Filing Type</th>
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<td>Swaps</td>
<td>Lines 1059999999 through 1099999999</td>
<td>L/F</td>
<td>Annual</td>
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<tr>
<td>2020</td>
<td>Forwards</td>
<td>Lines 14249999999 through 14699999999</td>
<td>L/F</td>
<td>Annual</td>
</tr>
<tr>
<td>2020</td>
<td>Supplemental Exhibits and Schedules Interrogatories</td>
<td>CHANGE TO BLANK</td>
<td>Annual</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>Schedule D, Part 2, Section 2</td>
<td>CHANGE TO INSTRUCTION</td>
<td>Annual</td>
<td></td>
</tr>
</tbody>
</table>

**CHANGE TO BLANK**

Add the word “confidential” to Line 50, new lines 51 and 52 and renumbering subsequent lines. Also assign document identifiers for the documents in Lines 51 and 52.

50. Will the confidential Executive Summary of the PBR Actuarial Report be filed with the state of domicile by April 1?
51. Will the confidential Life Summary of the PBR Actuarial Report be filed with the state of domicile by April 1?
52. Will the confidential Variable Annuities Summary of the PBR Actuarial Report be filed with the state of domicile by April 1?

**CHANGE TO INSTRUCTION**

Make the following changes to the instructions for Column 18.

Column 18  —  NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

For securities reported on Line 9499999 (Mutual Funds), provide the appropriate NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol combination as assigned by the Securities Valuation Office. For all other common stock, the NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol – NAIC Designation Modifier field should be left blank.

**CHANGE TO INSTRUCTION**

Make the following changes to the instructions for Column 18.

Column 18  —  NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule D, Part 2, Section 2</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Make the changes below to remove the crosscheck.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>NAIC Designation Category Footnote:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount reported in Column 6.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The sum of the amounts reported for each NAIC Designation Category in the footnote should equal Line 9499999.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>Schedule DA, Part 1</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Modify the instruction for Column 22 as shown below and move to new location within the column instructions to reflect it doesn’t pertain just to the modifier.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Column 22 – NAIC Designation Category</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The NAIC Designation and NAIC Designation Modifier Equivalent should be left blank for the following lines:</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• Parent, Subsidiaries and Affiliates – Mortgage Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective</td>
<td>Table Name</td>
<td>Description</td>
<td>Statement Type</td>
<td>Filing Type</td>
</tr>
<tr>
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<td>-------------------------------------------------------------------------------</td>
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</tbody>
</table>
| 2020      | Schedule E, Part 2 | **CHANGE TO INSTRUCTION**  
Modify the instruction for Column 11 as shown below and move to new location within the column instructions to reflect it doesn’t pertain just to the modifier.  
Column 11 – NAIC Designation Category  
The NAIC Designation and NAIC Designation Modifier Equivalent should be left blank for the following lines:  
- Sweep Accounts  
- Exempt Money Market Mutual Funds – as Identified by the SVO  
- All Other Money Market Mutual Funds  
- Other Cash Equivalents | H, L/F, P/C, T | Annual |
| 2020      | Exhibit of Premium and Losses | **CHANGE TO BLANK**  
Change the description for Column 7 from “Direct Premiums Earned” to “Net Premiums Earned”. The change will make the column consistent with the column on Schedule T and the crosscheck between the schedules. | Title | Annual |
<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Title</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
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</thead>
<tbody>
<tr>
<td>2020</td>
<td>Combined Statement</td>
<td>P/C</td>
<td>Annual</td>
<td></td>
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</tbody>
</table>

**Change to Instruction**

- **2020 Exhibit of Premium and Losses**
  - Change the description for Column 7 from "Direct Premiums Earned" to "Net Direct Premiums Earned". The change will make the column consistent with the column on Schedule T, Column 7, for the appropriate state.

- **Title Annual 2020 Combined Statement**
  - **Change to Instruction**
    - Modify instructions to indicate the footnote for Schedule D, Parts 1 and 2 should not be completed.
    - 6. With the exception of Schedule Z, the format to be used is that of the NAIC Annual Statement blank for property/casualty insurers. The specific pages, exhibits, and schedules to be included are as follows:
      - Title Page (in part)
      - Assets
      - Liabilities, Surplus and Other Funds
      - Statement of Income
      - Cash Flow
      - Underwriting and Investment Exhibit
      - Exhibit of Net Investment Income
      - Exhibit of Capital Gains (Losses)
      - Schedule D, Part IA, Sections 1 and 2
      - Schedule D, Part 1A, Sections 1 and 2, Totals (Line 8399999, 8999999 or 9899999)
      - Note: Do not complete the footnote for Schedule D, Parts 1 and 2. Do not complete the footnote for Schedule D, Parts 1 and 2, Subtotals and Totals only.
      - Schedule D, Parts 1, 2, and 3
      - Schedule E, Parts 1 through 4 only
      - Schedule P except interrogatories
      - Schedule T
      - Schedule Z
      - Insurance Expense Exhibit (Supplemental Filing)
<table>
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<th>Effective Year</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
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</thead>
<tbody>
<tr>
<td>2020</td>
<td>Schedule BA, Part 1</td>
<td>CHANGE TO INSTRUCTION</td>
<td>H, L/F, P/C, T</td>
<td>Annual</td>
</tr>
</tbody>
</table>

Make the changes below to correct line references for Column 7.

Column 7 — NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines 0799999, 0899999, 1599999 and 431699999.

For Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. The list of valid SVO Administrative Symbols is shown below.

*** Detail Eliminated to Conserve Space ***

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, the field should be left blank.

- Underlying Characteristics of Bonds
  - Lines 0799999 through 0899999
- Underlying Characteristics of Preferred Stocks
  - Line 431599999 through 441699999

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.
<table>
<thead>
<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
</tr>
</thead>
</table>
| 2021      | Schedule BA, Part 1 | **CHANGE TO INSTRUCTION**  
Make the changes below to correct line references for Column 6.  
Column 6 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol  
NAIC Designation Modifier:  
The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, the field should be left blank.  
- Underlying Characteristics of Bonds Lines 0799999 through 0899999  
- Underlying Characteristics of Preferred Stocks Line 441599999 through 441699999  
As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank. | H, L/F, P/C, T | Quarterly |
| 2020      | Supplemental Exhibits and Schedules Interrogatories | **CHANGE TO BLANK**  
For 2020 show Lines 29, 30, 31 and 32 as struck through and remove from specs data table. Proposal to formally remove the lines will be made for 2021. | L/F | Annual |
<table>
<thead>
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<th>Effective Date</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
<th>Filing Type</th>
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<td>Notes to Financial</td>
<td><strong>CHANGE TO INSTRUCTION</strong></td>
<td>L/F</td>
<td>Annual</td>
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<tr>
<td></td>
<td>Statements</td>
<td>Make the following changes to Note 32.</td>
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<td></td>
<td><strong>Instructions:</strong></td>
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<tr>
<td></td>
<td></td>
<td>• Amount with current surrender charge of 5% or more included in A(1)b, B(1)b and C(1)b (from the tables illustrated below) in the current year that will have less than a 5% surrender charge (and thus be reported in A(1)e, B(1)e and C(1)e (from the tables illustrated below) for the first time within the year subsequent to the balance sheet year (% column is not required).</td>
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<td></td>
<td></td>
<td><strong>Illustration:</strong></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td><strong>A. INDIVIDUAL ANNUITIES:</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>(1) Subject to discretionary withdrawal:</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>a. With market value adjustment</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>b. At book value less current surrender charge of 5% or more</td>
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<td></td>
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<td></td>
<td></td>
<td>c. At fair value</td>
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<td></td>
<td></td>
<td>d. Total with market value adjustment or at fair value (total of a through c)</td>
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<td></td>
<td></td>
<td>e. At book value without adjustment (minimal or no charge or adjustment)</td>
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<td></td>
<td></td>
<td>(2) Not subject to discretionary withdrawal</td>
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<td></td>
<td></td>
<td>(3) Total (gross: direct + assumed)</td>
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<td></td>
<td></td>
<td>(4) Reinsurance ceded</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>(5) Total (net) (3) – (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(6) Amount included in A(1)b above that will move to A(1)e for the first time within the year after the statement date:</td>
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<td><strong>B. GROUP ANNUITIES:</strong></td>
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<tr>
<td></td>
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<td>(1) Subject to discretionary withdrawal:</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>a. With market value adjustment</td>
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<tr>
<td></td>
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<td>b. At book value less current surrender charge of 5% or more</td>
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<td>c. At fair value</td>
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<td></td>
<td>d. Total with market value adjustment or at fair value (total of a through c)</td>
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<td>e. At book value without adjustment (minimal or no charge or adjustment)</td>
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<td>(2) Not subject to discretionary withdrawal</td>
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<td>(3) Total (gross: direct + assumed)</td>
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<td>(4) Reinsurance ceded</td>
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<td>(5) Total (net) (3) – (4)</td>
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<td>(6) Amount included in B(1)b above that will move to B(1)e for the first time within the year after the statement date:</td>
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<td>C. DEPOSIT-TYPE CONTRACTS</td>
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<td>a. With market value adjustment</td>
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<td>b. At book value less current surrender charge of 5% or more</td>
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<td>c. At fair value</td>
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<td></td>
<td>d. Total with market value adjustment or at fair value (total of a through c)</td>
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<td>e. At book value without adjustment (minimal or no charge or adjustment)</td>
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<tr>
<td></td>
<td>(2) Not subject to discretionary withdrawal</td>
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<td>(3) Total (gross: direct + assumed)</td>
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<td>(4) Reinsurance ceded</td>
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<td>(5) Total (net) (3) – (4)</td>
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