ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Monday, August 3, 2020
4:30 – 5:30 p.m. ET / 3:30 – 4:30 p.m. CT / 2:30 – 3:30 p.m. MT / 1:30 – 2:30 p.m. PT

ROLL CALL

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

NAIC Support Staff: Robin Marcotte

AGENDA

1. Consider Adoption of its July 22, June 22 and 2019 Fall National Meeting Minutes—
   Jamie Walker (TX) — Attachment One

2. Consider Adoption of its 2021 Proposed Charges—Jamie Walker (TX) — Attachment Two

3. Consider Adoption of the Statutory Accounting Principles (E) Working Group Report
   —Dale Bruggeman (OH) — Attachment Three

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

5. Adjournment
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Draft: 7/28/20

Accounting Practices and Procedures (E) Task Force
Conference Call
July 22, 2020

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 Heaps (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 Godfread 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 DiMemmo (PA); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Larry D. Deiter represented by JohannaNickelson (SD); Hodgen Mainda represented by Trey Hancock (TN); Todd E. Kiser represented by Jake Garn (UT); Scott A. White represented by Doug Stottle and David Smith (VA); Michael S. Pieciak represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); Mark A. Malm 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:
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 One). 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.

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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 (Attachment Two). 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.
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 Rylympn 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 Beatrice 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 DiMmem (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).

      2. Adopted its 2019 Fall National Meeting minutes.

   b. Adopted the following substantive revisions to statutory accounting guidance:


   c. Adopted the following nonsubstantive revisions to statutory accounting guidance:

      1. **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)

      2. SSAP No. 2R: Revisions reflect that certain cash pools meeting defined criteria shall be reported as cash equivalents. (Ref #2019-42)
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. 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.

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 uncollateralized 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 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).

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

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 adjustments to unearned premium, as applicable. Liability recognition is required in accordance with SSAP No. 5R. It also

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 perusing 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 [true] 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 of 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 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 (Attachment One-XX). 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.
The Accounting Practices and Procedures (E) Task Force
Austin, Texas
December 8, 2019

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

1. Adopted its Minutes

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

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


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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


d. Revisions reject ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities, not equity.
e. Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the equity value. With the revisions, the equity value of an SCA would not go negative, and guarantee liabilities would be reported to the extent that there is a financial guarantee or commitment. The “Illustration of the Application of INT 00-24” will be inserted into SSAP No. 97 as Exhibit F.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

v. Revisions reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities.
w. Exposed the following editorial revisions to statutory accounting:

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

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

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

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

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

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


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

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

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

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


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

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

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

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

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


c. Exposed its revised procedures.

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

e. Adopted the editorial listing.

f. Approved the State Filing Checklist templates.

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

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

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
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 Statutory Accounting Principles (E) Working Group met July 30, 2020. During this meeting, the Working Group:

1. Adopted the minutes for the following conference calls and e-votes: July 15, June 15, May 20, May 5, April 17, April 15, March 26 and March 18.

2. 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)

3. 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 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. *SSAP No. 106—Affordable Care Act Section 9010 Assessment:* Revisions supersede SSAP No. 106 and nullify *Interpretation (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)
   h. *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.

4. 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 to clarify 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 include an update to 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, 2020; 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:

1. INT 20-02: Extension of the Ninety-Day Rule for the Impact of COVID-19
2. INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19
3. INT 20-05: Investment Income Due and Accrued

k. Appendix B—Interpretations of Statutory Accounting Principles: 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.

1. INT 20-03: Troubled Debt Restructuring Due to COVID-19
2. INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19

l. 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)

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

   a. SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets: Removed redundant paragraph references.

   b. SSAP No. 62R—Property and Casualty Reinsurance: Added a table that lists the questions addressed in Exhibit A - Implementation Questions and Answers.

6. 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)

7. Received an update on the following projects and referrals:

   a. Ref#2019-21: 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.

   b. Deferred discussion of the following agenda items for a subsequent call or meeting:
1. Ref #2018-07: Surplus Note Accounting – Referral from the Reinsurance (E) Task Force
2. Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting
3. Ref #2019-49: Retroactive Reinsurance Exception

c. Received an update on two referrals.

1. 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.

2. 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.

d. Received an update on current U.S. GAAP Exposures / Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.

8. 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.