NAIC National Association of Insurance Commissioners

2020 Summer National Meeting
Virtual Meeting

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

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met Aug. 3, 2020. During this meeting, the Task Force:

1. Adopted its July 22, June 22, and 2019 Fall National Meeting minutes, which included the following action:

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

   b. During its June 22 meeting, the Task Force took the following action:
      1. Adopted the report of the Statutory Accounting Principles (E) Working Group for its actions on June 15, May 20, April 15 and March 18.

      2. Adopted INT 20-08 as adopted by the Statutory Accounting Principles (E) Working Group on June 15. This was adopted by a separate vote of the Task Force.

      3. Adopted the May 28 report of the Blanks (E) Working Group.

2. Adopted its 2021 proposed charges, which include one change to the charges for each Working Group.

   a. For the Blanks (E) Working Group, a charge regarding changes to the investment schedules was updated to reference that Capital Adequacy (E) Task Force and all of its working groups instead of a single working group.

   b. For the Statutory Accounting Principles (E) Working Group, a charge to update accounting and reporting to reflect the changes to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) is complete and was deleted.

3. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met July 30 and took the following action:

   a. Adopted its 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

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

      1. Adopted revised *Statement of Statutory Accounting Principles (SSAP) No. 32R—Preferred Stock*: 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 effective Jan. 1, 2021.

      2. Revisions supersede *SSAP No. 106—Affordable Care Act Section 9010 Assessment* and nullify *Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums*. These revisions address the federal repeal of this assessment in 2021.With this adoption, a blanks proposal will be sponsored to incorporate reporting changes for 2021 reporting and recommend guidance for 2020 year-end reporting.

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

      1. Revisions update the reporting line for qualifying cash pools and make clarifying edits.

2. Revisions eliminate references to the NAIC Bond Fund List (Bond List) in *SSAP No. 26R—Bonds* and add reference to the "NAIC Fixed Income-Like SEC Registered Funds List" in *SSAP No. 30R—Unaffiliated Common Stock*.

3. Revisions clarify that the accounting and reporting of investment income and capital gain/loss, due to 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.

4. 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.

5. 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.

6. 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 revisions are effective of Jan. 1, 2021.

7. *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.

d. Exposed the following nonsubstantive revisions to statutory accounting guidance:

1. 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.

2. 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).

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

4. 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.

5. 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 to communicate with the borrower.

6. Revisions reflect the updated NAIC designation category guidance for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) recently adopted to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).

7. 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.

8. Exposed agenda item to solicit comments on the development of more explicit guidance for policyholder refunds and other premium adjustments. Assistance from industry was requested in developing principles-based guidance, particularly for the varieties of data-telematics policies.

9. Exposed revisions clarify existing levelized commissions guidance *in SSAP No. 71—Policy Acquisition Costs and Commissions*, 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.

10. Revisions update the subsidiary, controlled and affiliated entities (SCA) review process descriptive language and the procedures for availability and delivery of completed SCA reviews.

11. 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.

12. 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:

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

13. The following U.S. GAAP standards were rejected as not applicable to statutory accounting:

    i. *ASU 2015-10, Technical Corrections and Improvements*.
    ii. *ASU 2019-09, Financial Services–Insurance (Topic 944): Effective Date.*
    iii. *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*.
    iv. *ASU 2020-05—Effective Dates for Certain Entities.*

14. Exposed the following editorial revisions to statutory accounting:

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

e. Rejected agenda item 2020-13: Health Industry Request on 2020 Health Insurance Assessment without statutory revisions. (Note that the sponsor requested withdrawal)

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

    1. 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.

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

    2. 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.

3. Deferred discussion of the following agenda items for a subsequent call or meeting:

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

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

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

6. 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.

g. The comment deadline for new and exposed agenda items is Sept. 18, except for INT 20-02, INT 20-04 and INT 20-05, which have a comment deadline of Aug. 14.

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