OVERVIEW AGENDA

HEARING AGENDA

1. SAPWG Hearing – Adoption of Minutes—Dale Bruggeman (OH)

2. SAPWG Hearing – Review and Adoption of Non-Contested Positions – SSAP Revisions—Dale Bruggeman (OH)
   - Ref #2019-19: SIRI – Equity Interests
   - Ref #2019-22: Wash Sale Disclosures
   - Ref #2019-23: Going Concern
   - Ref #2019-26: A-785 Updates for Covered Agreement
   - Ref #2019-28: ASU 2019-05, Targeted Transition Relief
   - Ref #2019-29: ASU 2019-06, Extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

3. SAPWG Hearing – Review and Adoption of Non-Contested Positions – Nonapplicable GAAP—Dale Bruggeman (OH)
   - Ref #2019-30: ASU 2019-03, Updating the Definition of Collections
   - Ref #2019-31: ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

   - Ref #2018-26: SCA Loss Tracking – Accounting Guidance
   - Ref #2019-04: SSAP No. 32—Investment Classification Project
   - Ref #2019-08: Reporting Deposit Type Contracts
   - Ref #2019-18: Other Derivatives

5. SAPWG Hearing – Review of Comments on Exposed Items—Dale Bruggeman (OH)
   - Ref #2017-28: Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group
   - Ref #2018-38: Prepaid Providers
   - Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting
   - Ref #2019-14: Attribution of Goodwill
   - Ref #2019-20: Rolling Short-Term Investments
   - Ref # 2019-24: Levelized and Persistency Commission

Comment Letters
OVERVIEW AGENDA

MEETING AGENDA

6. SAPWG Meeting – Maintenance Agenda – Pending List—Dale Bruggeman (OH)
   • Ref #2019-32: Look-Through with Multiple Holding Companies
   • Ref #2019-33: SSAP No. 25 - Disclosures
   • Ref #2019-34: Related Parties, Disclaimer of Affiliation and Variable Interest Entities
   • Ref #2019-35: Update Withdrawal Disclosures
   • Ref #2019-36: Expanded MGA and TPA Disclosures
   • Ref #2019-37: Surplus Notes – Enhanced Disclosures
   • Ref #2019-38: Financing Derivatives
   • Ref #2019-39: Acceptable Collateral for Derivatives
   • Ref #2019-40: Reporting of Installment Fees and Expenses
   • Ref #2019-41: SSAP No. 43R – Financial Modeling
   • Ref #2019-42: Cash Equivalent – Cash & Liquidity Pools
   • Ref #2019-43: ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging
   • Ref #2019-44EP: Editorial Updates
   • Ref #2019-45: ASU 2013-11, Income Taxes – Presentation of Unrecognized Tax Benefits
   • Ref #2019-46: ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities
   • Ref #2019-47: VM21 Grading
   • Ref #2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers
   • Ref #2019-49: Retroactive Reinsurance Exception

7. SAPWG Meeting – Maintenance Agenda – Active List—Dale Bruggeman (OH)
   • Ref #2019-25: WCFI

8. SAPWG Meeting – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)
   • Ref #2019-21: SSAP No. 43R – Equity Interests
   • Ref #2018-07: Surplus Notes
   • Ref #2016-20: Credit Losses
   • AP&P Update – Manual & Electronic Versions
   • Review of GAAP Exposures

Attachment

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Public Hearing Agenda

Statutory Accounting Principles (E) Working Group
Hearing Agenda
December 7, 2019

ROLL CALL

Dale Bruggeman, Chair
Jim Armstrong / Carrie Mears, Vice Chairs
Richard Ford
Kim Hudson
Kathy Belfi
Dave Lonchar
Eric Moser
Caroline Brock / Stewart Guerin
Ohio
Iowa
Alabama
California
Connecticut
Delaware
Illinois
Louisiana
Judy Weaver
Doug Bartlett
Tom Dudek
Joe DiMemmo
Doug Slape / Jamie Walker
Doug Stolte / David Smith
Amy Malm
Michigan
New Hampshire
New York
Pennsylvania
Texas
Virginia
Wisconsin

NAIC Support Staff: Julie Gann, Robin Marcotte, Jim Pinegar, Fatima Sediqzad, Jake Stultz

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting Minutes - (Attachment 1)
2. Sept. 9, 2019 Conference Call Minutes - (Attachment 2)

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS – SSAP REVISIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2019-19: SIRI – Equity Interests
2. Ref #2019-22: Wash Sale Disclosures
3. Ref #2019-23: Going Concern
4. Ref #2019-26: A-785 Updates for Covered Agreement
7. Ref #2019-29: ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

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<td>SIRI – Equity Interests</td>
<td>3 Agenda Item</td>
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Summary:
During the Summer National Meeting, the Working Group exposed revisions that clarify what should be captured in SIRI Line 13: 10 Largest Equity Interests, noting that a look-through should only occur for non-diversified funds. The revisions also exclude Securities Valuation Office (SVO)-Identified Bond Exchange-Traded Funds (ETFs) and SVO-Identified investments with underlying characteristics of fixed-income investments from this equity interrogatory. With exposure, a referral was directed to the Capital Adequacy (E) Task Force with a request for clarification on the impact, if any, these changes may have to risk-based capital.

Pursuant to the proposed guidance, equity interests in all funds that are diversified in accordance with the Investment Company Act of 1940 do not need to be individually assessed and aggregated to determine the ten largest equity interests. For funds that are not diversified within the meaning of the Investment Company Act of...
1940, insurance reporting entities are required to identify underlying equity interests within the fund and aggregate those equity interests to determine their ten largest equity interests.

The agenda item further concludes that certain funds such as SVO-Identified U.S. Direct Obligations / Full Faith And Credit Exempt List of Money Market Mutual Funds, SVO-Identified Bond ETFs, SVO-Identified Bond Mutual Funds and SVO Identified fund investments with underlying characteristics of fixed-income instruments, that are outlined within the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* shall be excluded from the aggregation of equity interests.

*Interested Parties’ Comments:*  
Interested parties have no comment on this item.

**Recommended Action:**  
NAIC Staff recommends that the Working Group adopt the exposed item to clarify what should be captured in the Supplemental Investment Risk Interrogatory Line 13: 10 Largest Equity Interests and sponsor a Blanks (E) Working Group proposal to incorporate the guidance for 2020 year-end application. The adoption of this agenda item will not result with any actual statutory accounting revisions.

Note: The Casualty Actuarial (E) Task Force exposed the referral on this item with comments due Nov. 8th. No comments were received by the Task Force on the exposure.

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**Summary:**  
During the Summer National Meeting, the Working Group exposed revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to clarify the investments subject to the wash sale disclosure. The exposed revisions clarify that only investments which are sold prior to a reporting period end and repurchased after that reporting date would be subject to the wash sale disclosure. This clarification will eliminate the need to report transactions that meet the wash sale criteria that are sold and repurchased within the same reporting period.

*Interested Parties’ Comments:*  
Interested parties support the proposed revisions.

**Recommended Action:**  
NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as final. With these revisions, only wash sales that cross reporting period end-dates would be subject to the wash sale disclosure.
Summary:
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to expand language regarding the inadmissibility of an SCA in the event an unalleviated substantial doubt about the investee’s ability to continue as a going concern is noted anywhere in the audit report or audited financials. Current statutory language refers to the identification of unalleviated going concern in the audit opinion but does not specify nonadmittance if the going concern is identified in any other part of the audit report.

Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities as final. With these revisions, nonadmittance will be required when there is unalleviated substantial doubt about SCA’s ability to continue as a going concern identified in any part of the audit report, accompanying financial statements or notes to financial statements.

Summary:
During the Summer National Meeting, the Working Group exposed revisions to Appendix A—Excerpts of NAIC Model Laws to adopt the changes to incorporate the covered agreements into Appendix A-785. The NAIC EX and Plenary adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to incorporate the covered agreements with the EU and UK. This agenda item incorporates those new provisions into Appendix A-785.

Interested Parties’ Comments:
Interested parties note that on page 17 of the exposure, paragraph 13.b refers to “paragraph 12.g” and should be “paragraph 13.g”

Recommended Action:
NAIC staff recommends adopting the exposed revisions to Appendix A—Excerpts of NAIC Model Laws with the minor paragraph change recommended by interested parties to incorporate the covered agreements into Appendix A-785 as final. (As detailed, the paragraph reference will change from 12.g. to 13.g.)
Summary:
During the Summer National Meeting, the Working Group exposed editorial updates as follows:

- **SSAP No. 62R - Property and Casualty Reinsurance**
  A wording clarification to eliminate redundant phrases and improve the readability of paragraph 116.

- **SSAP No. 86 - Derivatives**
  Update to the definition of a structured note in SSAP No. 86 by referencing the definition as described in SSAP No. 26R. This update will eliminate the duplication of definitions in both the aforementioned SSAPs and will now solely reference ‘structured notes’ as defined in SSAP No. 26R.

- **SSAP No. 97 - Investments in Subsidiary, Controlled and Affiliated Entities**
  Update to add two new suffixes for SVO filings that have been carried over from the prior year.

Interested Parties’ Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends adopting the exposed editorial changes as final.

Summary:
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 100R - Fair Value to reject ASU 2019-05 for statutory accounting. This ASU provides an alternative accounting treatment for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. Pursuant to statutory accounting, assets are required to be reported at the measurement method stipulated under the applicable SSAP. An election to utilize fair value in lieu of the stipulated measurement method (e.g., amortized cost) is not allowed under statutory accounting.

Interested Parties’ Comments:
Interested parties support the conclusion reached.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to reject ASU 2019-05, Targeted Transition Relief in SSAP No. 100R as final. As detailed, this ASU is proposed to be rejected as elections to utilize a fair value measurement method in lieu of the measurement method identified in the applicable SSAP is not permitted under statutory accounting.
Summary:
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 68—*Business Combinations and Goodwill* and SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities* to reject ASU 2019-06 for statutory accounting. This ASU provides alternative accounting treatments for the goodwill reported by not-for-profit Entities. The ASU allows not-for-profit entities the option to amortize goodwill over 10 years (or a lower deemed economic life) or continue with the current “testing for impairment” method. Current statutory guidance does not allow optionality, however SSAP guidance is similar in that goodwill shall be amortized over the period in which an acquiring entity benefits, not to exceed 10 years.

Interested Parties’ Comments:
Interested parties support the proposed revisions.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to reject ASU 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* in SSAP No. 68 and SSAP No. 97 as final. As detailed, this ASU is proposed to be rejected as the “alternative” goodwill accounting option permitted for not-for-profit entities in the ASU is similar to the existing guidance required for all statutory filers in SSAP No. 68.
REVIEW AND ADOPTION of NON-CONTESTED POSITIONS – NONAPPLICABLE GAAP

The Working Group may elect to discuss the following items, or may consider adoption in a single motion:

1. Ref #2019-30: ASU 2019-03, Updating the Definition of Collections
2. Ref #2019-31: ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

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Summary:
During the Summer National Meeting, the Working Group exposed revisions to reject ASU 2019-03, Updating the Definitions of Collections as not applicable to statutory accounting. This ASU was issued to more fully align the FASB Master Glossary of the term “collections” as it relates to works of art, historical treasures, or similar assets that meet certain criteria. This update was to improve the definition of collections by realigning it with the definition as used by the American Alliance of Museums.

Interested Parties’ Comments: Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2019-03, Updating the Definition of Collections as not applicable to statutory accounting.

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Summary:
During the Summer National Meeting, the Working Group exposed revisions to reject ASU 2018-08, Not-for-Profit Entities - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958) as not applicable to statutory accounting. This ASU was issued to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and in determining whether the contribution is conditional. This update was primarily written in response to government grants and contracts to respond when a contribution is conditional, especially when an entity receives assets accompanied by certain stipulations but with no specified return requirement for when the stipulations are not met.

Interested Parties’ Comments: Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as not applicable to statutory accounting.
REVIEW of COMMENTS on EXPOSED ITEMS – EXPECTING MINIMAL DISCUSSION

The following items received comments during the exposure period that are open for discussion. NAIC staff has separated these items as limited discussion is expected prior to considering action.

1. Ref #2018-26: SCA Loss Tracking – Accounting Guidance
2. Ref #2019-04: SSAP No. 32 – Investment Classification Project
3. Ref #2019-08: Reporting Deposit Type Contracts
4. Ref #2019-18: Other Derivatives

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Summary:
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to update the existing reporting requirements for when a reporting entity has a negative equity value in an SCA investment and has provided a financial guarantee or commitment. With the most recent exposed revisions, the financial guarantee or commitment will be recognized under SSAP No. 5R and the SCA value will stop at zero under SSAP No. 97.

Interested Parties’ Comments:
Interested parties believe that additional clarifications are necessary regarding the proposed revisions to paragraphs 18 and 24 of SSAP No. 5R. Regarding paragraph 18, we believe a parent’s guarantee on behalf of an SCA entity with negative equity could result in the recognition of either an initial guarantee liability or a liability subsequent to the initial recognition. Therefore, we propose more general wording to the end of paragraph 18 as follows:

18. The following types of guarantees are exempted from the initial liability recognition in paragraphs 20-25, but are subject to the disclosure requirements in paragraphs 29-32. For the guarantees addressed in paragraphs 18f and 18g, recognition of a contingent guarantee may be required subsequent to initial recognition in accordance with paragraph 24a:

   a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;
   b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;
   c. Guarantee issued in a business combination that represents contingent consideration;
   d. Guarantee in which the guarantor’s obligation would be reported as an equity item;
   e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligator;
   f. Guarantees (as defined in paragraph 16) made to/or on behalf of directly or indirectly wholly-owned insurance or non-insurance subsidiaries; and
   g. Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in response to a rating agency’s requirement to provide a commitment to support).

The exemptions for items f and g above do not apply in situations in which a reporting entity has provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity (SCA), and the SCA’s equity is negative (see paragraph 24).
We find the new paragraph 24 wording confusing in that it tells the preparer in the first sentence to recognize the greater of the guarantee liability or the negative equity of the SCA. However, the third sentence clarifies that the guarantee liability shall not exceed the maximum amount of the guarantee. We propose condensing these items into one sentence in our recommended revisions below, and also clarifying that the “greater” term actually refers to the greater negative impact to the reporting entity’s financial statements. We also recommend that the new proposed paragraph be a stand-alone paragraph (i.e., new paragraph 25, with re-numbering of all subsequent paragraphs):

“In situations in which a reporting entity has provided a financial guarantee or commitment to support a subsidiary, controlled or affiliated entity (SCA), and the reporting entity’s share of losses in the SCA exceed the equity method carrying amount of the SCA (resulting in a negative equity value in the SCA), the reporting entity shall adjust the initially recognized guarantee obligation to reflect the greater impact of (i) the then-current fair value liability for the guarantee or (ii) the negative equity position, limited to the maximum amount of the financial guarantee or commitment provided by the reporting entity. (For this guidance requires recognition of a guarantee liability for guarantees captured in paragraphs 18f and 18g, this guidance requires recognition of a contingent guaranty when negative equity exists in an SCA.) The recognized guarantee liability shall not exceed the maximum amount of the financial guarantee or commitment provided by the reporting entity. The guidance in paragraphs 24 and 25 through 26 shall be followed for the recognition of recognizing a contingent liability and subsequent re-recognition of a noncontingent liability, as applicable.”

Recommended Action:
NAIC staff believes the proposed language submitted by interested parties reflects the intent of the language exposed during the Summer National Meeting. However, as we are close to year-end, NAIC staff recommends exposing the revisions with the modifications suggested by interested parties. Additionally, the exposure will also include the proposed Exhibit F, which was exposed during the Spring National Meeting, but not explicitly detailed in the Summer National Meeting.

The proposed edits, with the modifications from the interested parties, and the proposed Exhibit F are detailed in the agenda item.

As an overview of the agenda item and revisions, it was identified that the existing guidance in SSAP No. 97, which requires negative SCA reporting when there are negative equity losses that go below “zero” and the insurer has provided a financial commitment or guarantee could result with double-counting when the guarantee has also been reported under SSAP No. 5R. After a number of exposures and discussion, the current revisions proposed in the agenda item would eliminate the guidance from SSAP No. 97 and instead address the issue with an expansion of guidance involving financial guarantees in SSAP No. 5R. With the revisions, all SCAs would stop at “zero” regardless of the equity method losses and guarantees. (The SCA on the investment schedules would not be shown negative.) Instead, the negative loss position (liability) would be recognized, to the extent there is a financial guarantee or commitment, under the provisions of SSAP No. 5R. The revisions to SSAP No. 5R specifically scope in SCAs that would normally be excluded from the financial guarantee recognition guidance when the SCA is in a negative equity position and the insurer has provided a financial guarantee.
Summary:
During the Summer National Meeting, the Working Group exposed an issue paper to revise the definitions, measurement guidance and impairment guidance for preferred stock pursuant to the investment classification project regarding SSAP No. 32—Preferred Stock.

Interested Parties’ Comments:
Interested parties substantially agree with the objectives of the proposal to:

a. Improve preferred stock definitions, with inclusion of information from U.S. generally accepted accounting principles (GAAP) for classifying preferred stock as redeemable or perpetual. The revisions also incorporate a new exhibit to capture various terms prevalent in preferred stock.
b. Revise the measurement guidance to ensure appropriate, consistent measurement based on the type of preferred stock held and the terms of the preferred stock. The revisions also incorporate guidance for mandatory convertible preferred stock.
c. Incorporate revisions to clarify impairment guidance as well as guidance for dividend recognition and redemption of preferred stock with the issuer.

Interested parties have the following comments related to the issue paper:

Overall:
The issue paper refers to preferred stock throughout the document, at times the paper references the instruments as securities. For purposes of definitional clarity, we do not believe the use of the term security is interchangeable as it pertains to preferred stock. As such, we recommend that all references to security be changed to interest or directly reference the type of stock under discussion.

Scope:
Interested parties note that the scope retains, albeit edited, the guidance that preferred stock of subsidiary, controlled and affiliated entities is included and therefore accounted for under the guidance for preferred stock regardless of their SCA character. Interested parties also note that preferred stock in SCAs other than preferred stock issued by domestic insurance entities is required to be filed with the NAIC pursuant to paragraph 50 of SSAP No. 97 Exhibit A — SCA Reporting Process. For the avoidance of doubt, interested parties suggest a clarifying sentence in double underline below. The existing wording in SSAP No. 32 and the exposed language for SSAP No. 32 is below with interested parties suggested clarifying sentence (underlined).

Existing language in SSAP No. 32

SCOPE OF STATEMENT
1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of subsidiaries, controlled or affiliated entities, including preferred stock interests of certified capital companies (CAPCO) per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement.

Exposed language in SSAP No. 32 and interested parties’ suggested clarifying sentence in underlined.
SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of entities captured in SSAP No. 97—Investments in subsidiaries, controlled or affiliated entities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, as well as preferred stock interests of certified capital companies per INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting under this statement.

Definitions:

The proposed definitional guidance could potentially change the scope of what is considered redeemable preferred stock vs perpetual preferred stock and create an inconsistency as to how the preferred stock would be treated. Under the previous guidance, redeemable preferred stock included stock that was mandatorily redeemable or redeemable at the option of the holder. This definition was consistent with how GAAP distinguishes between debt and equity security classification under ASC 321, Investments – Equity Securities. We believe the intention of the Staff was to align the definitions with the treatment under GAAP. However, using the language from ASC 480, which addresses the accounting from the issuer’s perspective, does not align with how the investor in the security accounts for the asset under GAAP. As such we propose the following revisions (indicated with edit marks) to the definitions:

3. Preferred stock shall include:

   a. Redeemable preferred stock, which is preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. Redeemable preferred stock is any stock which 1) the issuer undertakes to redeem at a fixed or determinable price on the fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; 2) is redeemable at the option of the holders; or 3) has conditions for redemption which are not solely within the control of the issuer, such as stock which must be redeemed out of future earnings. Preferred stock which meet one or more both of these three criteria would be classified as redeemable preferred stock regardless of other attributes such as voting rights or dividend rights. (Staff Note – this definition comes from FASB ASC 480-10-S99, modified to eliminate reference to conversion features as mandatory convertible preferred stock has special treatment under this SSAP.) ; and to be consistent with the description of redeemable preferred stock for a holder in the ASC Master Glossary definition of debt security.);

   b. Perpetual preferred stock, which is preferred stocks which are not redeemable or are redeemable other than solely at the option of the issuer holder (non-redeemable preferred stock). Perpetual preferred stock is any preferred stock which does not meet the criteria to be classified as redeemable preferred stock pursuant to paragraph 3.a. Staff Note – this definition comes from FASB ASC 480-10-S99 modified to be made consistent with the description of redeemable preferred stock for a holder in the ASC Master Glossary definition of debt security.)

Fair Value Cap for Callable Perpetual Preferred Stock:

The issue paper broadly requires fair value measurement for redeemable preferred stock, perpetual preferred stock, mandatory convertible preferred stock and dividends (paras 16.a-d, para 18), depending on the quality rating expressed as an NAIC designation. Interested parties note that these assets may not have readily determinable fair values, and as such, fair value techniques using the cost approach, Level 3 inputs and practical expedients may be prevalent and necessary for these assets.
The issue paper discusses carrying perpetual preferred at fair value capped by any call price. However, it did not provide guidance on timing for application of the cap. Because the call may not be effective for a period of time, we propose the language be modified to state that “the measurement for these preferred stocks reflects fair value, not to exceed any currently effective buy back rates (call prices) that the issuer can utilize to redeem the stock.” These provisions would ensure that purchases of perpetual preferred stock could still be carried at values greater than par (assuming market values remain above par).

Other Than Temporary Impairment (OTTI):

For perpetual preferred stock, if the intent of the clarification is to provide OTTI guidance when the asset is already recorded at fair value then we would suggest OTTI language consistent with SSAP No. 30R, revised for preferred stock as follows:

For any decline in the fair value of a perpetual preferred stock, reported at fair value, for which the decline is determined to be other than temporary the perpetual preferred stock shall be written down to the new fair value basis and the amount of the write down shall be accounted for as a realized loss. For those reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Future declines in fair value which are determined to be other than temporary shall be recorded as realized losses. A decline in fair value which is other than temporary includes situations where a reporting entity has made a decision to sell a security at an amount below its carrying value.

Recommended Action:

NAIC staff recommends that the Working Group expose a revised Issue Paper and a draft SSAP proposing substantive revisions to SSAP No. 32—Preferred Stock.

NAIC staff has reviewed the comments received from interested parties on the initial Issue Paper exposure and has incorporated a variety of revisions into the document. NAIC staff has not incorporated all industry’s proposed changes as NAIC staff is proposing to maintain consistency between U.S. GAAP and SAP on the definitions of redeemable and perpetual preferred stock. Although NAIC staff understands that some aspects of the U.S. GAAP definitions are written from the perspective of the issuer, the holder of preferred stock would need to consider these elements in classifying preferred stock. As such, for consistency and to prevent confusion on whether there is an intent to have different definitions, the U.S. GAAP definition of preferred stock is proposed to be retained. The revised issue paper includes discussion on aspects noted by interested parties in paragraphs 5-6 of the discussion section and changes to the draft SSAP (included as an exhibit in the issue paper) from the last exposure are shaded for identification. (The proposed SSAP provided as a stand-alone document is a clean version of the proposed statement.)

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Summary:
During the Summer National Meeting, the Working Group exposed this agenda item to gain further clarification regarding circumstances when guaranteed investment contracts (GICs), or other deposit-type contracts, are reported in Exhibit 5, Life Contracts or Exhibit 6, Accident and Health Contracts, instead of Exhibit 7, Deposit Type Contracts. Questions were directed to industry and state insurance regulators, and directed notifications of
the exposure with a request for comments were sent to the Financial Stability (EX) Task Force and the Life Actuarial (A) Task Force on the reporting of insurance contracts that do not have a mortality or morbidity risk.

**Interested Parties’ Comments:**

Before responding to the questions raised, interested parties note that the comments from the FSTF anticipates a classification system based on degree of risk. This is entirely new. The current classification is based strictly on mortality guarantees (Exhibit 5), morbidity guarantees (Exhibit 6), or neither (Exhibit 7). There is no concept of degree of risk in the current statutory classification. If the benefits of such fundamental changes to Exhibits 5, 6, and 7 were demonstrated to outweigh the costs, this would be a significant undertaking and companies would need significant lead time to implement systems changes. Please see the questions and interested parties (IP) responses below:

1. **Classification at Issuance** – The interested parties noted that because a contract was life-contingent at issue, it is reported in Exhibit 5, and then it remains in Exhibit 5 after the death of the annuitant.

   **Question** – Is it appropriate to classify products based on original issuance when the original risks are no longer present in the contract? Is this simply past industry practice, or is there direction that prevents reclassification to the category that most appropriately reflects the risk? Preliminary information received from the Financial Stability (EX) Task Force (FSTF) staff has noted that this practice will make it more difficult to properly aggregate and assess deposit-type contracts, and that this assessment is important as the payouts for deposit-type contracts are significantly different than payouts generated by an insured event. The Task Force has identified that information on liabilities, particularly those that can be called quickly with little or no surrender penalty, is of critical importance to liquidity assessments.

   **IP Response** - Tradition and SSAP No. 50 generally classify contracts with any life contingencies as life contracts. In practice, this “any life contingencies” is interpreted as those that are guaranteed.

   SSAP No. 50, Paragraph 5, includes the statement, “Such classification shall be made at the inception of the contract and shall not change.” In practice, if there is a new contract, such as a supplementary contract to a life insurance benefit, the contract is re-evaluated as to whether it contains life contingency guarantees. For policyholder election of a payout benefit from a deferred annuity contract, re-evaluation varies depending on the Company’s valuation and risk policies. (For example, two-tiered policies are priced for annuitization, and the election of an annuitization option may be treated as a continuing contract and may not create a re-evaluation.)

   For payout contracts issued as life contingent with a minimum guaranteed certain period, death of the original annuitant does not cause a change in contract. It is a change in payee for the remainder of the guaranteed certain period.

2. **State Approval** – The interested parties noted that state insurance departments have the discretion to approve or require a contract to be classified as a life or A/H insurance contract.

   **Question** – If a state directs reporting differently than what is stipulated in the AP&P Manual, is that being captured as a permitted or prescribed practice? (The provisions in SSAP No. 1 require permitted / prescribed practice reporting when it results in different statutory reporting. Examples included in SSAP No. 1 include gross or net presentation, financial statement reporting lines, etc.)

   **IP Response** - In our observation and experience, discretion exercised by state insurance departments on product classification is rare. When it happens, it is generally in the product filing process, generally applies to group products (e.g., association group), and where there is judgement as to whether the benefits should be classified as Exhibit 5 or Exhibit 6.
3. **Annuity Guidance** – The interested parties cited existing annuity guidance in paragraph 20 of SSAP No. 50 - *Classifications of Insurance or Managed Care Contracts*. Per this guidance, contracts containing well-defined class-based (e.g., age / gender) annuity purchase rates used in defining either a specific or maximum purchase rate guarantee would constitute an annuity contract containing a life contingency that would require it to be classified as a life contract.

**Question** – NAIC staff agrees with the citation from interested parties on annuities in paragraph 20 of SSAP No. 50 - *Classifications of Insurance or Managed Care Contracts*. However, with the intent to have more explicit product breakouts to allow for better assessment, is it time to clarify / revise this guidance to result with the appropriate breakouts created by FSTF? It was noted that the current concepts were established a long time ago and there is a focus on non-traditional insurance liabilities (which includes funding agreements) for liquidity risk assessment as they can have higher run risk.

**IP Response** – We believe the current guidance supports the classification of life annuity contracts within Exhibit 5 regardless of payout status. While we acknowledge the conceptual distinction noted by NAIC Staff with respect to a single life annuity contract for which the life status has changed, we do not believe this represents a significant change in the risk profile of a given block of annuity contracts, for which the majority may not reach term-certain status.

We would also highlight the administrative burden of the proposed changes. As a practical matter, it would be necessary to convert life annuity contracts to new plan codes on the death of the annuitant in order to capture the appropriate information in the Summary of Operations by Line of Business. This change must be implemented at the policy administration system level and would require significant time and effort on the part of industry. We do not believe the perceived benefits of this change justify the cost, particularly given recent significant annual statement changes for product reporting. Rather than implementing additional product granularity at this time, we suggest that regulators and staff work with industry to review the new Note 32 and Note 33 disclosures, which are specifically designed to communicate liquidity risk. We believe these disclosures will fulfill the regulatory objective in a more cost-efficient manner.

4. **Materiality of Issue** – Although the interested parties cite a “common” scenario, without information in the financial statements, there is no current ability to identify the extent contracts with no remaining mortality or morbidity risk are reflected as life contracts.

**Question** – To what extent are deposit-type contracts captured in an exhibit other than Exhibit 7? Is it possible to receive information from companies regarding this population for assessment purposes?

**IP Response** - We contend that by the guidance identified in SSAP No. 50, paragraph 20, a certain and life annuity, or a refund annuity, that continues payments to a surviving beneficiary after the death of the primary annuitant is not re-classified as a deposit-type contract. It is a life annuity contract where additional information on the life-status of the annuitant has become known.

Many deferred annuities contemplated by SSAP No. 50, paragraph 20a, are ultimately surrendered rather than electing a guaranteed lifetime income. These annuities are treated as investment contracts under US GAAP and re-evaluated at the time of election to annuitize. On the other hand, it is becoming more common for deferred annuities to include guaranteed minimum income benefits, minimum death benefits, or similar benefits (collectively GMxBs). A policyholder no longer has to annuitize for the contract to be subject to life contingent risks.

**Recommended Action:**

After discussing with NAIC staff for the Financial Stability (EX) Task Force, the SAPWG NAIC staff does not suggest revising the fundamental SAP concepts for classification in *SSAP No. 50—Classification of*...
Insurance or Managed Care Contracts. Instead, NAIC staff recommends exposing agenda item 2019-08 to:
1) request feedback on the inclusion of a footnote excerpt for Exhibit 5 to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit, 2) request feedback on circumstances where a morbidity risk is no longer present or a significant factor for Exhibit 6 items and whether a similar footnote disclosure would be appropriate, and 3) industry input for instruction clarifications regarding the classifications of deposit-type contracts captured in Exhibit 7.

With the current recommendation, there are no proposed edits planned for statutory accounting. Rather, the proposed edits would be limited to blanks reporting and annual statement instructional revisions. Although it is recommended that the revisions be exposed by Working Group, NAIC staff suggests a concurrent exposure at Blanks to allow for the changes to be considered in time for 2020 year-end reporting.

In response to interested parties’ comments, just to clarify, the intent of collecting this information is to identify the amount based on risk type. This is a different assessment than a collection based on the “degree of risk.” The goal is to provide information that allows regulators to fully accumulate the reported reserves that do not have mortality or morbidity elements.

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Summary:
During the Summer National Meeting, the Working Group re-exposed revisions to clarify that “other” derivatives not used in hedging, income generation or replication transactions shall be reported at fair value and do not qualify as admitted assets. Per existing guidance in SSAP No. 86, derivatives used for purposes other than hedging, income generation or asset replication do not qualify as admitted asset.

Interested Parties’ Comments:
Interested parties are still concerned about potential unintended consequences of the cliff effect (potential non-admission of a bond with a trivial embedded derivative) as capital markets develop. If and when problems develop, interested parties may re-examine this issue.

Recommended Action:
NAIC staff recommends adopting the exposed revisions to SSAP No. 86—Derivatives to include recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions, as final. As the guidance clarifies existing practice, this revision is proposed to be adopted as a nonsubstantive change and effective immediately. NAIC staff encourages information on evolving investments, and the impact of statutory accounting, therefore interested parties are always welcome to provide additional information or scenarios that are subsequently identified for review.
REVIEW of COMMENTS on EXPOSED ITEMS

The following items received comments during the exposure period that are open for discussion.

1. Ref #2017-28: Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group
2. Ref #2018-38: Prepaid Providers
3. Ref #2019-12: ASU 2014-17, Business Combinations, Pushdown Accounting
4. Ref #2019-14: Allocation of Goodwill
5. Ref #2019-20: Rolling Short-Term Investments
6. Ref #2019-24: Levelized and Persistency Commission

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Summary:
During the Summer National Meeting, the Working Group exposed for comment the following items which were recommended by the informal life and health reinsurance drafting group:

1. SSAP No. 61R—Life and Health Reinsurance Disclosures, (previously exposed) and concurrent with the exposure, directed notification to the Financial Analysis (E) Working Group of the exposure as the disclosures were originally developed at their request.

2. A-791 – Life and Health Insurance Question and Answer update to clarify the phrase “certain non-proportional contracts” to assist in determining which nonproportional reinsurance contracts are subject to under the A-791 guidance. This QA was previously exposed with only minor comments which were reviewed and not incorporated by the drafting group as the yearly renewable term (YRT) reinsurance discussion is ongoing.

3. A-791 – Life and Health Insurance Question and Answer regarding business that has a statutorily required medical loss ratio or similar refund / rebate. This item was previously exposed, and no questions were received. The drafting group did not recommend any additional revisions.

4. A-791 – Life and Health Insurance Question and Answer, regulator proposed revisions to add A-791 question and answer under paragraph 2c regarding group term life YRT reinsurance contracts. As noted at the Summer National Meeting, industry member and regulators members had different views regarding the proposed revisions and after discussion, the regulator and industry members of the drafting group could not come to agreement.

   o The industry members prefer to seek ways to explicitly allow the group term life YRT reinsurance contracts to exceed the amount of the underlying direct proportionate premium. The most recent industry proposal was to allow this, provided the ceding entity establishes a liability for the amount of reinsurance premium in excess of the direct premium. Industry discussed the commercial reasoning and argued that risk would still be transferred.

   o The regulator members continued to question whether such group term life YRT contracts appropriately transferred risk if a reinsurer could charge premiums in excess of the underlying direct proportionate premium. It was noted that these contracts generally included other risk limiting features such as loss carry forward provisions and would typically not pass risk transfer requirements under GAAP. They also noted concerns that codifying the industry proposed
exception in statutory accounting could result in unintended consequences and appeared to be designed address a commercial concern. Therefore, the regulator members proposed to accept the Q&A drafted by the industry but without wording that would allow reinsurers to charge premiums in excess of the underlying direct proportionate premium. The regulator members of the drafting group have requested exposure of the guidance to allow for specific concerns to be raised and addressed. This guidance provides that group term life YRT contracts which exceed the underlying direct premium are unreasonable and violate the provisions of paragraph 2c of A-791, and therefore, would not be subject to reinsurance accounting.

Interested Parties’ Comments:
Interested parties appreciate the outreach the NAIC has made to the industry through the informal SSAP No. 61R Life and Health reinsurance drafting group. We believe the drafting group has allowed us to better understand the issues raised by regulators.

In summary, we do not have any concerns with the re-exposed disclosures and the two Q&A’s regarding short-duration health reinsurance treaties and offer the following comments.

With respect to the group term life YRT exposure, in general interested parties believe this draft exposure language addresses the concerns expressed by regulators in the drafting group and in prior exposures, and we would support this Q&A being added to 2.c in Appendix A-791, as long as the guidance does not impact contracts that do not raise such concerns as described below.

The proposed Q&A would deny risk transfer for specific group term life YRT reinsurance transactions if the reinsurer has the right to charge reinsurance premiums higher than the premiums received by the ceding company on the business reinsured. However, SSAP 61R and Appendix A-791 specifically exempt YRT reinsurance arrangements from paragraph 2.e of Appendix A-791, which denies risk transfer if the reinsurance agreement charges reinsurance premiums greater than the direct premiums collected by the ceding company.

There are specific circumstances where YRT reinsurance agreements do have reinsurance premiums greater than direct premiums, yet reinsurance accounting is appropriate, and this 2.e exemption has allowed those circumstances to meet risk transfer regulations. Examples of such reinsurance agreements include:

1. High level excess YRT agreements. High amount policies have higher volatility in claims. It is reasonable and appropriate for a reinsurer to charge a higher amount to cover these claims.
2. Level term premiums, where a true one-year risk premium in later years is likely to exceed the level premium.
3. In force business, where a ceding company has realized they are not charging sufficient premiums for the true risk. The ceding company may have to accept higher reinsurance premiums than they charge to appropriately discharge the risk going forward.
4. YRT for universal life. YRT premiums often will not have a direct or proportional relationship to either the premiums or cost of insurance rates charged by the ceding company.

The concerns about group term life YRT reinsurance raised by regulators are focused on reinsurance agreements with risk limiting features. As the exposure is phrased, the guidance here would be limited to group term life YRT reinsurance agreements where future experience refunds can be offset against current and prior year losses. Reinsurance agreements such as those in the examples above are unlikely to have such a loss carryforward provision, and thus should not be impacted by this guidance.

Additionally, we would like to comment on the implementation/timing of the proposed exposure, when it is finalized. We believe that there are reinsurance transactions in place today which meet current regulations for risk transfer that would not meet risk transfer under this new guidance. This new Q&A may impact some company’s
financial statements. Consideration should be given to grandfathering these transactions, or to establishing a prospective effective date that would provide enough time for these companies to make appropriate changes to their reinsurance agreements or to otherwise prepare for this impact. If a prospective effective date is the approach chosen, we recommend an effective date of 1/1/2021.

**Recommended Action:**
NAIC Staff recommends that the Working Group take the following actions regarding the exposed items:

1. **Adopt the exposed SSAP No. 61R disclosures** with paragraph number updates as reflected in the agenda item and with an initial effective date of year end 2020 reporting. Proposed effective date language for the disclosures is illustrated below.

   The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 15, 2020.

2. **Adopt the exposed revisions to A-791 question and answer regarding contracts with medical loss ratios.**

3. **Refer to the informal life and health reinsurance drafting group the exposed revisions to the A-791 question and answer update to clarify the phrase “certain non-proportional contracts” with informal questions received by NAIC staff regarding:**
   1) the application of the exposed language regarding measurement period and settlement period and,
   2) the application of substantially less likely than not. During the interim the informal questions were distributed to the drafting group. Based on informal input from various drafting group members, more discussion is needed regarding this question and answer item and this is an issue that the drafting group can lend some useful expertise.

4. **Provide direction on the A-791 question and answer, regarding the paragraph 2c exposed regulator language.** As noted in the summary section above, regulator and industry members of the drafting group could not come to agreement. Industry comments received still indicate opposition on the topic of limiting group term life YRT reinsurance contracts to being not greater than the amount of the underlying direct proportionate premium reinsurance premium for the contract to receive reinsurance accounting. If preferred, the Working Group could have further discussion and provide direction at a subsequent meeting as the drafting group has noted that the regulators and the industry members are not in agreement on this topic. NAIC staff recommends that the Working Group send a referral to the Life Actuarial (A) Task Force to receive their insight on this issue as part of their YRT project. In addition, request assistance and input from LATF on evaluation of YRT risk transfer.

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**Summary:**
During the Summer National Meeting, the Working Group exposed revisions emphasizing existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Prepayments to third party administrators, which are not for claims or loss adjusting expense, are “miscellaneous underwriting expenses.” The revisions also added a reference to SSAP No. 84 regarding
prepayments to providers. Revisions indicate that liabilities for unpaid losses and claims shall be established regardless of any payments made to third-party administrators, management companies or other entities except for capitated payments under managed care contracts. The liability for claims on non-capitated payments under managed care contracts shall be established in an amount necessary to pay the losses/claims irrespective of payments made to third-party administrators.

**Interested Parties’ Comments:**
Interested parties note that there are differences in the treatment of loss and loss adjusting expenses by different sectors of the industry. However, the current exposure removes important clarification from the 2019 Spring National Meeting exposure draft. To address these noted concerns, interested parties proposes the following changes which are highlighted in yellow to the 2019 Summer National Meeting exposure draft – these changes incorporate industry specific guidance to address the differences in accounting by industry. Interested parties also propose moving exposed item 4.c. back to the last sentence of paragraph 4, along with proposed wording for the treatment of prepaid loss and loss adjusting expenses by specific sector of the industry. As reflected in the drafting note, there is already existing guidance which will remain unchanged; the additional clarifying guidance is proposed to be added to existing guidance.

**Interested Parties’ Proposed Edits to the Summer National Meeting Exposure are in the comment letter.**

**Recommended Action:**
NAIC Staff recommends that the Working Group expose revisions incorporating the majority of interested parties’ comments as reflected below as tracked changes to SSAP No. 55 (rather than as reflected as changes to the Summer 2019 exposure). Interested parties’ comments primarily delete the exposed guidance and move the same or similar concepts into the broad product guidance for property and casualty, life and health or health in SSAP No. 55. These revisions are to reinstate annual statement references by entity type and to adjust scoping language and make the SSAP No. 29 prepaid guidance consistent. Note that shading reflects staff proposed variations in wording from the interested parties proposed wording that accomplishes a similar intent.

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

**SUMMARY CONCLUSION**

4. Claims, losses, and loss/claim adjustment expenses shall be recognized as expenses when a covered or insured event occurs. In most instances, the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims-made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. **Until claims payments and related expense payments are made subsequent to the occurrence of a covered or insured event, and in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income. Claims related extra contractual obligations losses and bad-faith losses shall be included in losses. See individual business types for the accounting treatment for adjustment expenses related to extra contractual obligations and bad-faith lawsuits.**

5. The liability for unpaid LAE shall be established regardless of any payments made to third-party administrators, management companies or other entities except for capitated payments under managed care contracts for which — The liability for claims adjustment expenses on non-capitated payments under managed care contracts shall be established in an amount necessary to adjust all unpaid claims irrespective of payments made to third-party administrators, etc. The liability for claims adjustment expenses on capitated payments under managed care contracts shall be established in an amount necessary to adjust all unpaid claims irrespective of payments to third parties with the exception that the liability is established net of capitated payments to providers.
Drafting Note - No changes to paragraphs 6a-c. Only revised guidance shown below for brevity.

Property/Casualty

6. The following are types of future costs relating to property and casualty contracts, as defined in SSAP No. 50, which shall be considered in determining the liabilities for unpaid losses and loss adjustment expenses:

   d. The contractual terms for arrangements (i.e., variable, fixed or bundled amounts) to third party administrators, management companies, or other entities for unpaid claims, losses and losses/claims adjustment expenses, shall be evaluated to determine if the arrangement meets the criteria to be reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29—Prepaid Expenses. These payments shall not be offset against any amounts required to be reported in accordance with paragraphs 4 or 5 within this guidance. Only when loss/claim and related adjusting expense payments which are made by the third-party administrators, management companies or other entities, to the policyholder or claimant, shall the insurer’s liability (loss/claim or loss/claim adjustment expense reserves) be reduced.

   c. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as aggregate write-in for miscellaneous underwriting benefits in the Underwriting and Investment exhibit Part 3.

Drafting Note - No changes to paragraph 7a-d. Only revised guidance shown below for brevity

Life, Accident and Health

7. The following future costs relating to life and accident and health indemnity contracts, as defined in SSAP No. 50, shall be considered in determining the liability for unpaid claims and claim adjustment expenses:

   c. In cases where insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants, the guidance in paragraph 9 applies.

Drafting Note - No changes to paragraph 8 a-d. Only revised guidance shown below for brevity

Managed Care

8. The following costs relating to managed care contracts as defined in SSAP No. 50 shall be considered in determining the claims unpaid and claims adjustment expenses:

   e. In cases where insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants, the guidance in paragraph 9 applies.

Managed Care and Accident and Health

Drafting Note: New guidance is issued within par. 9, which is underlined. Existing par 9 is renumbered to par. 10, and all other pars within existing guidance (i.e., pars. 10 – 23, will be renumbered to 11 – 24, respectively.
9. In some instances, insurers advance funds to third-party administrators, management companies or other entities prior to the occurrence of the claim who then, on behalf of the insurer, adjudicate the claim and make payments to insureds or other claimants. In such cases the following guidance applies:

a. For capitated payments under managed care contracts, the liability for claims and claim adjusting expenses shall be established in an amount necessary to adjudicate and pay all unpaid claims irrespective of payments to third-party administrators, management companies or other entities, and is reported net of capitated payments to providers.

b. For non-capitated advance payments, the liability for unpaid losses/claims and related adjustment expenses shall be established regardless of any payments made to third-party administrators, management companies or other entities, and such payments shall be reported by the insurer as prepayments. All prepayments (i.e., variable, fixed or bundled amounts) to third party administrators, management companies, or other entities for unpaid claims, losses and losses/claims adjustment expenses, shall be initially reported as a prepaid asset and nonadmitted in accordance with SSAP No. 29—Prepaid Expenses. These payments shall not be offset against any amounts required to be reported in accordance with paragraphs 4 or 5 within this guidance. Only when loss/claim and related adjusting expense payments which are made by the third-party administrators, management companies or other entities, to the policyholder or claimant, shall the insurer’s liability (loss/claim or loss/claim adjustment expense reserves) be reduced.

c. Prepayments to third party administrators or management companies or other entities that do not relate to services or adjusting for the underlying direct policy benefits are reported as (1) Aggregate write ins for expenses - Life/Health (Exhibit 2 – General expenses) or (2) Aggregate write ins for expenses (General Administrative Expenses) - Health (Underwriting and Investment Exhibit Part 3)

Note that this guidance in paragraph 9 does not alter existing guidance regarding the admissibility of loans and advances to providers which apply to health insurance and managed care contracts which is addressed in SSAP No. 84—Health Care and Government Insured Plan Receivables.
additional time to evaluate whether these options are feasible. In our discussions, it was apparent that the proposed changes involve significant changes to insurers' reporting and the complexities of the reporting mechanics of the annual statement will need to be addressed in applying the 10% goodwill admittance limitation and pushdown accounting. These complexities include the application of an aggregate 10% admittance limitation when multiple SCA entities carry GAAP goodwill on their individual balance sheets, as well as application to an acquired SCA holding company with subsidiaries (or layers of subsidiaries). Because annual statement reporting and disclosure includes considerable details on each investment in an SCA entity, specific guidance will likely be needed to address reporting issues such as presentation on the annual statement balance sheet and the related investment schedules, as well as interpretation related to current disclosures (including the proposed disclosures in Ref #2018-14). We believe these operational complexities need to be addressed before any proposal is considered for adoption by the Working Group.

Interested parties request additional time to evaluate various approaches for allowing pushdown accounting and working through the operational mechanics of a goodwill admittance limitation as well as evaluating the impact on insurers’ capital and surplus. Our goal is to present a recommendation for Ref # 2019-12 to the Working Group during the 2020 Spring National NAIC Meeting that addresses these complexities. Because the proposed disclosures in Ref #2019-14 includes specific SCA entity goodwill and admitted value amounts, interested parties would include those proposed disclosures in our evaluation and recommendation and, therefore, also request additional time to respond to that agenda item.

Given the need to work out clear examples that address the reporting complexities and the need for transition guidance, interested parties do not believe the proposed changes in Ref #2019-12 and Ref # 2019-14 are non-substantive nor do we believe these proposed changes can be applicable to year end 2019 reporting.

_AICPA NAIC Task Force Informal Comments:_
Consistent with our comments submitted June 14 on the draft exposed at the 2019 Spring National Meeting, the Task Force believes the proposed revisions could be a significant change to current SAP and requests clarification as to what is meant by "audited reconciliation" and "audited support" in the proposed new paragraph 20 of SSAP 97. Would this be similar to adjustments made to the audited U.S. GAAP carrying value for par. 8.b.ii and 8.b.iv entities? For these adjustments, there is no "audited reconciliation" included in any financial statements. An insurance entity prepares a schedule to determine the required adjustments for purposes of its carrying value of the SCA, which is subject to audit procedures in relation to the insurer's financial statements taken as a whole, but there is no reconciliation included in the audited financial statements of the SCA.

In the re-exposed document we note that the working group clarified, for companies that receive approval from their domiciliary commissioner to continue to admit the existing goodwill that has been pushed down on or before December 31, 2019, that this goodwill would be subject to the 10% of surplus limitation. We suggest that specific transition guidance be provided for companies that have not previously included this goodwill in the goodwill limitation calculation. We also suggest that the working group clarify whether this GAAP goodwill is subject to amortization under SSAP 68 (as it is not amortized under U.S. GAAP). We also request that specific transition guidance be added for companies that do not obtain approval from their domiciliary regulator to continue to admit goodwill pushed down from acquisitions prior to January 1, 2020. Given the proximity of these discussions to year-end 2019, the SAP Working Group may also want to consider whether it is too near year-end to adopt any changes for 2019, since a December 2019 adoption would likely not provide adequate time for capital planning for affected companies.

_Teachers Insurance and Annuity Association of America (TIAA) Comments:_
TIAA strongly encourages the NAIC to thoroughly engage with the industry on Exposure Draft Ref. #2019-12 Business Combinations – Pushdown Accounting and the classification of the proposal as substantive or non-substantive.
We note that the NAIC classifies as “substantive listings” those items that require a new issue paper and SSAP to address the issue. Once items are placed on this listing, they are prioritized and the formal maintenance policy is followed. Conversely, “nonsubstantive listings” are those items that are considered editorial or technical in nature and for which a new SSAP will therefore not be developed. In other words, a revision to a SSAP for these items will not be deemed to modify its conclusion or original intent.

While the NAIC categorized the revisions in the Exposure Draft as “nonsubstantive,” without industry analysis and further clarity in application, we believe the proposed changes to SSAP No. 68, paragraph 9, which would apply a 10% limitation on goodwill, could represent a substantive change in accounting. Without conducting an impact assessment and publishing a more thorough issue paper, we feel it is difficult for the NAIC to conclude that the proposed revisions do not modify the conclusion or original intent of the guidance with regards to all admitted Subsidiary, Controlled and Affiliated Entities (“SCAs”).

We acknowledge the NAIC staff’s concerns with goodwill; however, we believe staff can gain insight through deeper engagement with the industry regarding the structure of insurance entities, and the creation, accounting, and reporting of goodwill. Additionally, while we understand there are concerns with regards to goodwill treatment to non-insurance entities, we believe the NAIC can more thoroughly consider the purpose of those entities and their support of the insurance parent as these entities typically provide operational support as well as dividends that directly support policyholder obligations.

*TIAA supports pushdown accounting Option 2 as proposed by the NAIC.*

TIAA does not support a complete rejection of pushdown accounting (Option 1), nor do we believe that pushdown should be permitted if elected by SEC registrants (excluding non-insurance entities) (Option 3), as we predict this approach would create competitive disadvantages and unnecessary inconsistencies in the treatment of goodwill among entities owned by an insurer. We recommend that the NAIC continue allowing pushdown for all non-insurance entities (Option 2).

*TIAA recommends the NAIC partner with industry to conduct an impact assessment.*

Given the potential substantive nature of the proposal, we recommend that industry participants partner with the NAIC to evaluate the Exposure Draft, including conducting an industry impact assessment. The assessment will include an analysis of the types of insurance entities impacted by the NAIC’s proposal and the potential effects on these entities’ organizational structure and domicile. The information gathered as a result of the impact assessment can assist in preventing the formation of competitive disadvantages and other unintended negative consequences among the affected entities. We welcome the opportunity to assist the NAIC in identifying, evaluating and driving such assessment.

*TIAA encourages the NAIC to discuss transitional guidance with the industry, and consider responses to FASB’s proposed treatment of goodwill.*

As noted above, given the potential substantive nature of the NAIC’s proposed accounting changes, and in light of our view that an industry impact assessment be conducted before these changes are finalized, we believe transitional guidance, in any form (i.e., disclosure, prospective, effective dates, etc.), be carefully discussed with all interested parties before proposal.

Additionally, we recognize that the Financial Accounting Standards Board (“FASB”) is also considering the treatment of goodwill and, as such, we recommend that NAIC consider the responses to the FASB Invitation to Comment on File Reference No. 2019-720, Identifiable Intangible Assets and Subsequent Accounting for Goodwill. As many of the SCAs within scope of the NAIC proposal report goodwill on a GAAP basis, any future changes to GAAP could impact or potentially address the NAIC’s concerns.
Conclusion
TIAA applauds the NAIC’s continued focus on this issue, and we appreciate the opportunity to comment on the Exposure Draft. We recommend that the NAIC classify Exposure Draft Ref. #2019-12 Business Combinations – Pushdown Accounting as *substantive* and work with the industry to perform an impact assessment that would inform an issue paper. We welcome the opportunity to discuss our views and recommendations in greater detail and any questions you have.

**Recommended Action:**
NAIC staff recommends that the Working Group discuss and consider whether to adopt the exposed edit to *SSAP No. 68—Business Combinations and Goodwill*, as detailed below, to require goodwill resulting from the acquisition of an SCA by the insurance reporting entity to be subject to the 10% admittance limit based on the insurer’s capital and surplus. If the Working Group considers adoption, it is recommended that the clarification be required for year-end 2019. NAIC staff highlights that the exposed edit only clarifies existing guidance and is intended to prevent situations in which pushdown has occurred to prevent nonadmittance. NAIC staff highlights that only reporting entities that would exceed the 10% limit for goodwill from insurer acquired SCAs and have not previously nonadmitted the excess goodwill would be impacted by this change.

After considering adoption of the proposed edit to SSAP No. 68, NAIC staff recommends re-exposure of the remainder of the agenda item to allow additional time for specific examples to be provided by interested parties and consider comments received on pushdown. It is anticipated that the discussion of whether pushdown should be permitted under statutory accounting will occur after this exposure.

**Additional Discussion on Proposed Edit:**
The proposed edit is considered a clarification change as the guidance in SSAP No. 68 already restricts aggregated goodwill to 10% of the acquiring entity’s adjusted capital and surplus. With the proposed edit, the guidance is simply clarified that all goodwill *from an insurance entity’s acquisition of SCAs*, regardless whether pushdown accounting is applied, is subject to the existing 10% admittance limitation. (This will address the situations recently noted in which entities have acquired SCAs and have elected pushdown accounting to prevent nonadmitting goodwill that exceeds the 10% limitation.)

As a reminder, the 10% admittance limitation is an aggregate calculation of all goodwill, therefore there is no need to consider retrospective, prospective or “grandfathering” provisions with adoption. If as of a reporting date an entity’s total goodwill exceeds 10% of the calculated capital and surplus, then the goodwill that exceeds the 10% provision shall be nonadmitted. (The edit simply clarifies that the goodwill captured in the calculation includes *insurance entity acquisitions of SCAs* in which pushdown has been applied.)

NAIC staff appreciates the informal comments from the AICPA representatives, but does not believe the proposed edit, which is specific to goodwill *from an acquisition by the insurance reporting entity*, should be delayed for the items identified. NAIC staff agrees that further discussion may be necessary to better define “goodwill from all sources” (which is existing guidance in SSAP No. 68) and to clarify whether pushdown goodwill should be amortized under the provisions of SSAP No. 68 (instead of “tested for impairment” under U.S. GAAP), but both of those discussions could occur as part of the project to review the permissibility of pushdown. NAIC staff believes the immediate concern is whether goodwill from insurance company acquisitions is being admitted beyond the 10% limit through the use of pushdown accounting, and this is the clarification intended to be addressed in the minimal edits.

**It is important to highlight that the clarification edit proposed for adoption consideration is specific to insurance entity acquisitions of SCAs.** As such, if an acquisition occurred downstream from the insurance company (by a non-insurance holding company), and the holding company applied pushdown accounting, so that
the goodwill was reported at the holding company’s acquired SCA, the proposed edit would not require that push
down goodwill to be brought up to the insurance entity’s level and included in the 10% limit.

*Exposed Clarification Edit to SSAP No. 68—Business Combinations and Goodwill:*

8. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. of SSAP No. 97 under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction.

If there is concern that the proposed edit will inadvertently require amortization of pushdown goodwill, then NAIC staff would recommend separating paragraph 9 into two separate paragraphs as illustrated below. (Although amortization may be the proper approach, NAIC staff believes this should be further discussed as part of the project to review the permissibility of pushdown.)

9. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity’s capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the

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1 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

2 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 20 of SSAP No. 97.

3 The “acquiring” entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.
SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

9.10. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction. (INT 01-18)

Response to TIAA Comments:

Although NAIC staff recommends deferring the discussion of pushdown until examples are received from interested parties, the following comments are provided in response to TIAA’s comments:

- NAIC staff does not believe that the clarification of the 10% goodwill limitation is a substantive change. As detailed in SSAP No. 68, the guidance is explicit that goodwill from all sources shall be limited to 10% of an adjusted capital and surplus calculation. This percentage limitation has been in place since the codification of statutory accounting principles. As detailed in the original issue paper, the limitation placed on goodwill is based on the conservatism and recognition concepts – which focus on policyholder protection and the existence of readily marketable assets available for current and future obligations. (There was also a 10% limit prior to codification. However, at that time, the goodwill amount over the 10% capital & surplus threshold was required to be written off immediately and not just nonadmitted.) NAIC staff also highlights that at least three states have prescribed practices that do not allow any admittance of goodwill. Expanding the admittance of goodwill in SSAP No. 68 – by allowing full admittance of goodwill through pushdown accounting – would be a substantive change. Clarifying the 10% admittance limitation, which has been place since codification, is not a substantive change.

- NAIC staff does not believe that the complete rejection of pushdown or the ability for pushdown to be applied solely by SEC registrants would create competitive disadvantages or unnecessary inconsistencies. As a reminder, prior to the FASB revisions, pushdown was only required for SEC registrants acquiring more than 95% of an SCA, (and it was only optional for SEC filers acquiring over 80% of an SCA), therefore, historically, pushdown has not been available for most insurance reporting entities. All non-SEC filers and SEC filers acquiring less than 80% of an SCA that are currently electing pushdown are applying new FASB provisions. As such, the restriction of pushdown is not the new SAP concept. Rather, the new concept is whether the application of pushdown for non-SEC entities and SEC entities with less than 80% acquisition should be permitted.

- NAIC staff has been monitoring the FASB discussions on goodwill. The recent FASB exposure is considering whether the amortization approach (which is already used by SAP) should be re-implemented under U.S. GAAP for public entities. (The 10-year amortization approach was used prior to the “testing for impairment” approach that is currently in place for public entities under U.S. GAAP.) NAIC staff supports the amortization approach and is supportive of FASB moving back to this approach. As detailed in the most recent FASB exposure, the application of the goodwill impairment test is a costly exercise and may not be worth the benefits in lieu of the standard amortization approach. NAIC staff notes that recent U.S. GAAP changes have permitted amortization of goodwill in not-for-profit and private entities instead requiring those entities to test goodwill for impairment. (As detailed in the earlier discussion, the minor

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4 This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 20 of SSAP No. 97.
edit being discussed only focuses on nonadmittance for insurer entity acquired SCAs that have been pushdown. The edit would not mandate amortization for those pushdown situations. The discussion on whether amortization should be required for those situations is proposed to occur after the next exposure.)

Review of Admitted Goodwill Amounts From the 2018 Year-End Financial Statements

NAIC staff analyzed a data query of the results of the goodwill table in Footnote 3 – Business Combinations and Goodwill of the 2018 Annual Statement. This query resulted in a total of 123 companies, with a total of $3.8 billion of total admitted goodwill. The query detailed the total amount of admitted goodwill, considering the insurance reporting entity’s 10% of capital and surplus limitation. Adjusted surplus is calculated by subtracting total admitted goodwill, EDP equipment and net deferred tax assets from surplus. From the sampled query, there were eight insurance reporting entities that admitted goodwill nearing the 10% limitation of adjusted surplus. The majority of the companies, 103 or 83.7%, had goodwill as a percentage of adjusted surplus of under five percent. Of these companies, 71 had admitted goodwill below 1% of adjusted surplus.

From the query review, as most insurance entities are reporting goodwill significantly below the 10% threshold, it is presumed that the proposed edit will not impact most reporting entities. Presumably, it would only impact the limited number of companies that are close to the 10% limit – and only if those companies had pushdown goodwill. Other than those that are close to the 10% limit, it would only impact companies if those companies had a significant amount of undisclosed goodwill as a result of pushdown.

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Summary:
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to clarify that the “assignment” of goodwill is a disclosure element, with revisions to the disclosure requirements for downstream holding companies. The revisions did not dictate method of assignment, but rather the allocation of goodwill to acquired subsidiaries shall be disclosed upon acquisition and cannot change once assigned. The revisions also reflect a change in terminology from “allocation” to “assignment.”

Interested Parties’ Comments:
Interested parties reviewed the options exposed by the Working Group for consideration regarding pushdown accounting in Ref #2019-12. We do not recommend option 1 (“complete rejection of pushdown accounting”). With regard to the second and third options exposed for Working Group consideration, interested parties need additional time to evaluate whether these options are feasible. In our discussions, it was apparent that the proposed changes involve significant changes to insurers’ reporting and the complexities of the reporting mechanics of the annual statement will need to be addressed in applying the 10% goodwill admittance limitation and pushdown accounting. These complexities include the application of an aggregate 10% admittance limitation when multiple SCA entities carry GAAP goodwill on their individual balance sheets, as well as application to an acquired SCA holding company with subsidiaries (or layers of subsidiaries). Because annual statement reporting and disclosure includes considerable details on each investment in an SCA entity, specific guidance will likely be needed to address reporting issues such as presentation on the annual statement balance sheet and the related investment schedules, as well as interpretation related to current disclosures (including the proposed disclosures in Ref #2018-14). We believe these operational complexities need to be addressed before any proposal is considered for adoption by the Working Group.
Interested parties request additional time to evaluate various approaches for allowing pushdown accounting and working through the operational mechanics of a goodwill admittance limitation as well as evaluating the impact on insurers’ capital and surplus. Our goal is to present a recommendation for Ref #2019-12 to the Working Group during the 2020 Spring National NAIC Meeting that addresses these complexities. Because the proposed disclosures in Ref #2019-14 includes specific SCA entity goodwill and admitted value amounts, interested parties would include those proposed disclosures in our evaluation and recommendation and, therefore, also request additional time to respond to that agenda item.

Given the need to work out clear examples that address the reporting complexities and the need for transition guidance, interested parties do not believe the proposed changes in Ref #2019-12 and Ref #2019-14 are non-substantive nor do we believe these proposed changes can be applicable to year end 2019 reporting.

**Recommended Action:**
NAIC staff identifies that the comments received on the proposed disclosure enhancement under this agenda item are limited, but generally request additional time before adoption. NAIC staff believes the disclosure information requested under this agenda item will be necessary regardless of the decision involving pushdown accounting. As a reminder, the proposed disclosure only details the amount of goodwill recognized from the acquisition of a downstream holding company and the assignment of the goodwill to the entities owned by the holding company. This information is necessary in determining the amount of goodwill that would need to be nonadmitted, or derecognized, if an underlying company in the downstream holding company was nonadmitted or sold.

However, NAIC staff recognizes that there would be limited time to complete the new disclosure before year-end 2019, therefore NAIC staff supports re-exposure of agenda item 2019-14 at the Fall National Meeting. (As noted in the proposed disclosure and example Annual Statement illustration, this disclosure was not proposed to be data-captured.) NAIC staff also recommends that the Working Group direct revisions to the Sub-1 filing template to capture this information for new SCA acquisitions. (NAIC staff notes that this direction can occur even if the agenda item is re-exposed.) There are no changes from the prior exposure. The proposed revisions are detailed in the agenda item.

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**Summary:**
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments. As detailed in the exposure, the proposed revisions will restrict the classification as a cash equivalent or short-term investment for all affiliated SSAP No. 26R—Bond investments, all affiliated and nonaffiliated investments in scope of SSAP No. 43R—Loan-backed and Structured Securities and all affiliated and non-affiliated investments that would be reported on Schedule BA in the event that 1) the reporting entity does not reasonably expect that the investment will actually terminate or mature within the timeframe permitted for cash equivalent or short-term investment classification, 2) the investment was previously reported as a cash equivalent / short-term investment and the initial maturity timeframes have passed, 3) the investment was sold or matured and the same or substantially similar investment was reacquired within a 1-year timeframe.
As a reminder, this agenda item has been drafted to consider statutory accounting guidance for short-term investment structures that are being purposely designed to mature at or around 364 days (often with affiliates), with the full expectation that the investment structure would be renewed (rolled) continuously for subsequent years. These structures occur because reporting as short-term investments (or cash equivalents) results with the following benefits: 1) More-desirable risk-based capital (RBC) charge, 2) to avoid filing with either the SVO or to avoid obtaining a rating from a credit rating provider, or 3) limited affiliate reporting.

Illinois Department of Insurance Comments:
The IDOI agrees with attempting to correct issues where certain investments now reported as short-term items or cash equivalents should be reported elsewhere; however, we are concerned that companies which are now properly utilizing affiliated liquidity pools may be negatively affected by the current proposal. Illinois Insurance law allows the use of such pools and has at least one large domestic group that uses one.

If the investments held in such a pool consist only of cash, cash equivalents and short-term investments as defined by SSAP 2R, it appears the proposed changes would require these companies to report these items on Schedule BA. This would result in erroneous reporting of actual invested assets, RBC calculations and distortions to the Liquidity and other FAST/IRIS Ratio results. IDOI would recommend additional language or other clarification be added to SSAP 2R that would allow use of investment pools by companies via looking through the pool to the actual underlying assets for determination of where such investments should be reported on the statement. Please let us know if there are further questions.

Interested Parties’ Comments:
Interested parties have concerns about the proposal to prohibit the reporting of certain short-term investments and cash equivalents as such. Certain short-term / cash equivalent investment structures have been identified by industry that are utilized in order to facilitate efficiencies and gain economies of scale and we believe they should continue to be reported as short-term or cash equivalents. While these investments may be regularly renewed, the risk profile continues to be commensurate with that of short-term investments or cash equivalents. Interested parties disagree with the broad-based language of the current exposure and believe there are more direct approaches to addressing concerns about inappropriate investment classification. We welcome the opportunity to discuss alternative approaches with staff.

Short-Term Cash Pooling Arrangements:
Many entities maintain short-term cash pooling arrangements. These arrangements have been instituted at insurance entities in order to more effectively invest enterprise cash, gain economies of scale, and reduce transaction costs; they have not been instituted in order to circumvent reporting requirements. Through the use of these arrangements, entities are able to generate higher returns for subsidiaries while reducing cost and personnel time required for investing on a short-term basis for all affiliated companies in an organization. These arrangements are often held within separate legal entities in which each participant invests or withdraws funds as needed on a short-term basis (sometimes daily), with their ownership interest in the arrangement fluctuating accordingly. However, participants maintain some level of interest in the pool for an extended period of time. These cash pooling arrangements have been permitted by model investment law; in addition, many insurers have received guidance from state regulators to report these investments as either short-term investments or cash equivalents depending upon the character of the underlying investments in the pool. We believe, although an insurer may own interest in the pools for longer than 3 months or a year, their investments in the short-term pools should continue to be reported as either short-term or cash equivalents, depending on the maturity dates of the underlying assets in the pool, because the risk of repayment is commensurate with the risk of repayment for the underlying assets.

In addition to the specific structures noted above, interested parties are concerned that the exposed guidance would result in misclassified assets on the balance sheet (e.g., BA asset for short-term pool arrangements instead of a cash equivalent), which would distort the level of cash, impacting liquidity ratios, RBC charges and presentation of cash flows. Thus, for these reasons, interested parties believe that short-term investment / cash
equivalent reporting should continue for investments made at fair market terms with contractual maturities within the applicable time periods.

Short-Term Lending:
Regarding short-term lending, interested parties believes that the reporting of the investment should continue to follow the form of the legal agreement, including the contractual maturity. These loans are structured for several important business reasons and have contractual maturities of less than one-year, often with the ability to renew. Upon initial evaluation, lender considerations include borrower repayment ability, value of any collateral provided, current market conditions and the presence of subordinated capital. Diligent underwriting and structuring are performed, with the completed loan agreement representing a binding contract with an unconditional obligation to repay upon contractual maturity (<12 months). Neither lender nor borrower has an obligation to extend the loan; however, at maturity, both lender and borrower have the ability to re-evaluate the transaction. If either or both parties wish to extend, the lender re-evaluates the financial position of the borrower, current value of existing collateral, and terms of the loan. If the lender decides to renew the loan, the terms are reviewed and renegotiated/re-underwritten with new terms reflecting then current market rates, consistent with the provisions of SSAP 25. Therefore, any extension should be considered a new loan transaction with a new maturity date. If extension is not mutually agreed upon, repayment to the lender is contractually required. Further, for short-term lending with affiliates over certain thresholds, prior regulatory approval may be required, providing additional opportunity for regulatory oversight. Thus, as long as these short-term loans have been made at fair market rates and with fair market conditions (which is required for loan admittance in accordance with SSAP No. 25 paragraph 9, if applicable), the economics and risk of the investment is commensurate with short-term investment reporting.

Interested parties recommend that the scope of the issue be identified prior to proposing any changes to the SSAPs. This should include identification of specific problematic investment structures, under which the economics of the transaction are not commensurate with the current classification. Once the scope and magnitude are identified, a decision can be made whether the targeted issue is widespread or limited to a few companies and whether a more direct approach may also have the desired result.

Security Benefit Comments:
We agree that SSAP No. 2R – Cash, Cash Equivalents, Drafts and Short-Term Investments should not be utilized to mischaracterize long-term investments as short-term investments. We thus support revisions to exclude from SSAP No. 2R short-term investment structures purposely designed to mature at or around 364 days (often with affiliates) with full expectation that the investment structure will be renewed (rolled). We propose modest modifications to the recommendation, however, that we believe will support eliminating abuses of SSAP No. 2R while also ensuring that legitimate short-term investment activity continues under SSAP No. 2R.

The exposure sets forth “an overall principle that investments are permitted for short-term and cash equivalent reporting only if the reporting entity reasonably expects the investment duration to be realized (e.g., terminate / mature) on the designated maturity date” (the “overall principle”). We fully support the overall principle and believe it is essential that it be preserved. We believe, however, that certain elements of the exposure are not fully consistent with the overall principle – namely, commentary and scoping around 1) all affiliated SSAP No. 26R - Bonds investments and 2) the reacquisition of the same or substantially similar short-term investment immediately after maturity of a prior short-term investment. We address each of these items in greater detail below.

Item 1 - all affiliated SSAP No. 26 investments
The exposure states that: “by excluding all non-affiliated ‘bonds’ from the new guidance, the ‘normal’ recurring short-term / cash equivalent investments are not expected to be impacted.” This implies that “normal” recurring short-term / cash equivalent investments can only occur between unaffiliated entities. We disagree; we believe that the overall principle should apply to all investments, not just those that are affiliated. We also believe the concern that including unaffiliated investments would inadvertently scope in U.S. Treasury-bills, commercial paper, certificates of deposit, etc., where a reporting entity may continuously reacquire the same or a substantially
similar short-term investment of such nature immediately after maturity of such a prior short-term investment, can and should be addressed otherwise (see below).

Item 2 - the reacquisition of the same or substantially similar short-term investment immediately after maturity of a prior short-term investment

The exposure states that “the sale or maturity of an investment, with a reacquisition of the same or substantially similar security within a 1-year timeframe, would preclude the reporting entity from reporting the currently held security as a cash equivalent or short-term investment regardless of the maturity date. (This one-year timeframe prevents reporting of recurring ‘re-acquisitions’ as cash equivalents or short-term investments.) (This provision is similar to the one regarding ‘rolled’ securities but clarifies that the ‘settlement’ of a security with a reacquisition does not prevent application of the new concepts in determining cash equivalent or short-term reporting.) (NAIC staff highlights that this restriction is necessary particularly with the use of “net settlement” structures with affiliates in which no cash is exchanged.)

The reacquisition of the same or a substantially similar short-term investment immediately after the maturity of a prior short-term investment should be permitted as long as the following proposed conditions are met that substantiate and evidence that the overall principle has been factually satisfied:

1. The prior short-term investment / cash equivalent has been fully, contractually settled in cash on or prior to a maximum original maturity date of 364 days (this provision would exclude “net settlement” structures from being eligible under SSAP No. 2R).
2. The cash used to satisfy the prior short-term investment / cash equivalent cannot have been directly or indirectly (i.e., through a separate entity) provided by the same reporting entity.

We believe that incorporating the above elements would effectively exclude unaffiliated cash equivalent / short-term investments such as U.S. Treasury bills, commercial paper, certificates of deposits, and other legitimate short-term investment activity from the exposed provisions, but in a manner consistent with the overall principle and the application of SSAP No. 2R.

**Recommended Action:**

NAIC staff recommends that the Working Group expose this agenda item (Ref #2019-20) with limited revisions to exclude qualifying cash pools in scope of SSAP No. 2R from the short-term rolling provisions. As detailed in the Meeting portion of the agenda, there is a new agenda item (Ref # 2019-42) that proposes to capture cash pools in scope of SSAP No. 2R. NAIC staff highlights that an exception was not included for cash pools in the original Short-Term Rolling agenda item as cash pools are not currently in scope of SSAP No. 2R. From what NAIC staff has learned, most cash pools are established as LLCs, and under existing SSAP guidance, LLCs are in scope of SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies and captured on BA – Other Long-Term Invested Assets. NAIC staff recognizes that cash pools have been included by insurers as cash equivalents or short-term investments, and the new agenda item has proposed revisions to include cash pools that meet certain provisions in scope of SSAP No. 2R.

With re-exposure, NAIC staff would request comments from industry and regulators on the comments received to permit short-term lending structures, eliminate the “unaffiliated” exclusion from SSAP No. 26R, and permit reacquisition of a similar investment if certain criteria is met. NAIC staff does not initially support some of these proposed modifications, so additional information and feedback from regulators would be beneficial in determining whether further modifications should be considered. NAIC staff has provided some initial commentary on each of these items:

- **Short-Term Lending** – NAIC staff identifies that interested parties have proposed allowing “short-term lending” to be renewed without moving the short-term lending agreement from the cash equivalent or short-term investment schedule. The comments received have presented a position that if the loan has
been re-evaluated (and not just renewed), then it should be considered a new short-term loan. **NAIC staff disagrees with this position and highlights that short-term lending, particularly with affiliates, is a key situation that is proposed to be captured in the short-term rolling agenda item.** **NAIC staff also believes a process to distinguish between renewals that have been “re-underwritten” and those that have not been re-underwritten would not be easily discernable by auditors or regulators.** NAIC staff was contacted by interested party representatives to discuss their proposal, and two different scenarios were presented:

- **Collateral Loans** – Industry presented a position that renewed non-affiliated short-duration collateral loans should continue to be reported as cash equivalents or short-term investments. In considering these comments, **NAIC staff does not support the industry proposal, and suggests that in all situations in which a short-term collateral loan is renewed beyond the original short-duration maturity date (regardless if with an affiliate or nonaffiliate), it should be captured on the distinct reporting line for collateral loans on Schedule BA.** NAIC staff notes that collateral loans receive a low RBC charge (5%) on BA, therefore there is very little RBC difference between reporting a collateral loan as a cash equivalent or short-term investment. As there is very little difference in RBC, the main motivation in including collateral loans as cash equivalents or short-term investments seems to be reducing the amount of assets reported on Schedule BA. **(NAIC staff would also support a position that all collateral loans be captured on schedule BA regardless of maturity date. This would eliminate collateral loans from ever being reported as cash equivalents or short-term assets and would ensure that all collateral loans are reported on the designated BA reporting line. This would allow a complete picture of all collateral loans held by a reporting entity regardless of maturity date.)**

- **Affiliate Non-Collateral Loans** - Industry presented a position that renewed affiliated non-collateral loans that have been re-underwritten should continually be reported as cash equivalents or short-term assets. **NAIC staff distinctly disagrees with this proposal and highlights that renewing affiliated non-collateral loans and continually reporting such loans as cash equivalents or short-term investments are the types of arrangements that were the original basis for this overall agenda item.** As previously noted, NAIC staff does not believe it is feasible to successfully distinguish between a “re-underwritten” and “non-re-underwritten” affiliate loans. With the industry discussion, it was highlighted that the main motivation for this proposal was that these non-collateral loans are captured at a high RBC charge (either 20% or 30% based on type of insurer), therefore reporting as a cash equivalent or short-term investment achieves a much-more desirable 3% charge. **(Particularly with related party transactions, the reporting entity may be compelled to continue renewing the transaction rather than terminate the loan and receive back their cash.)** **(Similar to the proposal above, NAIC staff would support a position that all affiliate loans be captured on Schedule BA regardless of maturity date. This would eliminate affiliate loans from ever being reported as cash equivalents or short-term investments and would ensure that all non-collateral affiliate loans are reported on the designated BA reporting line. This would allow regulators to have a complete picture of all such loans regardless of the maturity date.)**

- **Non-Affiliated SSAP No. 26R Investments** – NAIC staff identifies that Security Benefit has suggested that the provisions in the exposed agenda item be expanded to include all non-affiliated SSAP No. 26R investments. This comment letter indicates that this approach would be more consistent with the overall
principle intent of the guidance. **NAIC staff does not oppose this proposal and agrees that concerns with the rolling of investments could occur with affiliated and related-party investments.**

- **Reacquisition Provisions** – NAIC staff identifies that Security Benefit has suggested that investments that have been settled in cash and reacquired shall be permitted to continually reported as cash equivalents or short-term investments. These comments highlight that the noted provisions would effective allow Treasury Bills, commercial paper, CDs and other legitimate short-term activity. With this proposal, Security Benefit proposes the inclusion of the following provisions:
  
  o Requirement that the original short-term investment / cash equivalent be fully, contractually settled in cash on or prior to the original maturity date. This provision would exclude “net settlement” structures from being eligible for subsequent reporting under SSAP No. 2R.
  
  o Requirement that the cash used to satisfy the short-term investment / cash equivalent cannot have been directly or indirectly (e.g., through a separate entity) provided by the reporting entity.

**In reviewing the proposal from Security Benefit, NAIC staff thinks this could result with churning of investments with affiliates - resulting in the same net effect of renewing investments. However, comments from regulators and other interested parties are requested during the exposure period.**

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**Summary:**
During the Summer National Meeting, the Working Group exposed revisions to SSAP No. 71—Policy Acquisition Costs and Commissions to provide clarifications to the existing levelized commissions guidance and provide additional guidance regarding commission that is based on policy persistency. The revisions clarify that a levelized commission arrangement (whether linked to traditional or nontraditional elements) requires the establishment of a liability for the full amount of the unpaid principal and accrued interest payable to a third party at the time the policy is issued. Additionally, persistency commission shall be accrued proportionately over the policy period in which the commission relates to and is not deferred until fully earned.

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

**Interested Parties’ Comments:**
The proposal as written will be a substantive change to the current guidance and to our industry, despite being categorized as nonsubstantive. The proposed changes do not merely clarify the current SSAP 71 regarding commissions, but substantially change a key point regarding persistency. During the SAP formulation process, there were two Issue Papers issued in 1996 (January and final paper in September 1996), the latter of which introduced the last sentence of paragraph 5 of the current SSAP 71. The addition of this sentence in the final issue paper from 1996 makes a distinction between the levelized commissions described as funding agreements and those which are based on persistency and other traditional elements. The effect of removing that distinction is substantive and requires the protocol of a substantive change. Additional comments and details are as follows:
1. The proposal makes substantive changes to the accounting paradigm for levelized commissions. As written, the proposed changes may have serious unintended consequences to statutory accounting. The nature of the exposed substantive changes separates the issue of “persistency” as a key element of the levelized commission payment mode of operation. This practice is engaged in by several insurers, specifically companies issuing variable life and annuity products. For example, per the exposed language, a liability for trail commissions over possibly decades would be required at policy issuance although not formally due. Persistency is a critical insurance risk. (See proposed language that the only obligating event is initial sale of a policy.) Ignoring persistency runs directly counter to various other principles of statutory accounting, most notably the definition of principle risks for reinsurance consideration in A-791.

2. The newly installed Principles-Based Reserving (“PBR”) methodology allowed by regulators now includes the commission element. The effects of the proposal on PBR have not been reviewed or analyzed to determine if there are any unintended consequences, possibly double-counting, that inure to the proposal.

3. The effects of the proposal relative to reinsurance transactions have not been reviewed and analyzed inasmuch as reinsurance transactions must transfer risk, including persistency risk. (See note above regarding A-791.)

4. The issuance of a policy or contract is not the sole triggering event of a commission liability under a levelized commission mode of operation. Persistency requirements under the actual terms of the contract between the payor (the insurer) and the payee (the agent or broker receiving the levelized commission) is a key determinant as to when a liability is incurred. If a policy is issued but the persistency requirement is not met, then no commission liability is due.

5. The current accounting mode is standard in the industry, preceding the formulation of current SAP (reference the Accounting Practices and Procedures Manual-Life which was in force prior to the effective date of current SAP and which includes the same wording as current SSAP No. 71).

6. The proposal does not address policy fees, which can possibly be interpreted in a similar vein as commissions.

7. The proposal’s paradigm could possibly be applied to other items reflecting estimated predictable expenses that have yet to be incurred or for which benefits have not been received.

8. The proposal seems to be at odds with GAAP accounting rules as to the establishment of liabilities, specifically how GAAP treats commissions tied to persistency. Required persistency is deemed a “future” event negating the need for recording a current liability. This is differentiated where payments are merely extended (payment due solely based on passage of time) versus payments requiring ongoing commitments, persistency.

Acadia Capital Solutions Comments:
We have reviewed the proposed changes to SSAP No. 71 – Policy Acquisition Costs and Commissions as outlined in Ref. #2019-24. We question several elements of the proposal and strongly object to the revisions for the following reasons:

1. This is very much a substantive change to existing policy, contrary to the characterization in the published exposure draft.

2. The proposal dramatically alters the fundamental premise of statutory accounting by creating a situation in which certain historically period expenses, trail commission payments, are to be treated differently from other period expenses by way of an accrual methodology. This leads to:
a. A hybrid of statutory, GAAP and tax accounting.

b. Fundamentally and permanently different economics for products designed with trail commission payments, leading to the need for significant effort at primary writers to redesign and/or reprice such products, presumably at a cost to the consumer.

c. Guaranteed renewable products, like Long Term Care Insurance, could be exposed to further rate increases if the fundamental profit dynamics of the products change as a result of the new reserving practices.

d. New uncertainty within the statutory accounting framework as to which other period expenses should also be accrued or might be targeted for similar treatment.

e. A situation whereby trail commission expenses have a greater impact on statutory capital than other, similar expenses.

f. A disincentive for primary writers to align the interests of the writer, broker/agent and policyholder through trail commissions because of the unique treatment and resulting capital implications.

3. Should the proposed changes be adopted, primary writers will be exposed to new and substantial accounting and actuarial workload relating to the determination of accrual methodologies for each effected product and the related periodic ‘true-up’ required to adjust the new statutory reserves for actual performance. All this with no apparent benefit for the consumer, primary writer, investment community, or regulatory bodies.

Greenberg Traurig on behalf of DRB Insurance Solutions, LLC Comments:

SSAP No. 71 provides that levelized commissions occur in situations in which a third party, such as a funding agent, pays agents non-levelized commissions and the reporting entity pays the third party by levelized payments. The Working Group notes that it is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third-party would ultimately be repaid to the third-party from the reporting entity. SSAP No. 71 identifies such arrangements as “funding agreements” between the reporting entity and the third-party. SSAP No. 71 further provides that the use of a commission arrangement where commission payments are not linked to traditional elements (such as premium payments and policy persistency) requires the establishment of a liability for the full amount of the unpaid principal and accrued interest which is payable to a third-party related to levelized commissions.

The accounting issue is whether levelized commission arrangements that are linked to traditional elements (such as premium payments and policy persistency) should require the establishment of a liability for the full amount of the unpaid principal and accrued interest which may be paid to a third-party in the future based upon the occurrence of defined events outside the control of the parties involved. However, the persistency commission expense should be accrued proportionately over the policy period to which the commission relates, and it should accrue only when fully earned and unavoidable, specifically since the payments to the funding agent are theoretically avoidable until the policy passes the anniversary year-end date.

NAIC Staff indicates that this proposal is to recommend clarifications to the existing levelized commissions guidance and provide additional guidance regarding commission obligations that are based on policy persistency. Questions received by NAIC staff relate to the use of levelized commission arrangements and when the liability for a commission structure that is based on annual persistency is required to be recorded as a liability in accordance with SSAP No. 5R-Liabilities, Contingencies and Impairments of Assets. Staff made the following recommendations:
1. A levelized commission arrangement (whether linked to traditional or nontraditional elements) require the establishment of a liability for the full amount of the unpaid principal and accrued interest payable to a third-party at the time the policy is issued.

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

However, we respectfully suggest that requiring the expensing at policy issuance of future levelized commission payments that are contingent upon policy persistency will likely establish a dangerous precedent requiring the accrual of liabilities for other predictable future expense payments for services or other benefits that are not yet payable. Examples may include payroll costs, commissions and expense allowances on reinsurance assumed, non-vested postemployment benefits and compensated absences and/or lease obligations.

Further, in accordance with SSAP No. 5R, key characteristics of a liability include: (1) a present duty or responsibility that entails settlement by probable future transfer of assets, (2) with little or no discretion to avoid the future sacrifice, and (3) the obligating event has already occurred. With respect to recognition of commission expense, the proposed revisions to SSAP No. 71 include the justifying statement that “The issuance of the policy is the obligating event under SSAP No. 5R.” However, this statement is factually inaccurate. The insurance company is not contractually obligated to pay future levelized commissions if the policy does not persist. No subsequent levelized commission ever becomes due unless the policy remains in-force through each subsequent anniversary date. Until the policy reaches each anniversary date, the insurance company is not obligated and has no present duty or responsibility to pay the commission.

Statutory Accounting and Principle-Based Reserving

The fundamental objective of statutory accounting is to measure solvency, as expressed in the Preamble to the Accounting Practices and Procedures Manual. Statutory Accounting Principles require expensing current amounts that are no longer available to pay policyholder claims in the future or that will have no value in liquidation. However, probable future levelized commission payments are payments that have not yet been made. Accordingly, the insurance company still has the cash or other assets that will ultimately be used to make those payments should the policies persist. Therefore, required accrual of levelized commissions appears inconsistent with the fundamental objective of measuring solvency.

Principle-Based Reserving (PBS) is a new shift in reserving approach and is expected to include consideration of commission payments within policy reserves. The addition of an accrual for levelized commissions would duplicate expenses on the Statement of Operations and again, function inconsistently with the assumptions contained in PBR.

Non-Substantive Change

Levelized commission programs began over thirty years ago, before the 1998 publication of Statutory Issue Paper No. 71 and the January 1, 2001 codification of Statutory Accounting Principles. The primary objectives of a levelized commission structure include aligning the interests of the customer, the agent, and the company and improved persistency from providing ongoing customer service. There is a duty to act in the best interests of the policyholder, as well as a compensation incentive, to make sure policies are well serviced so they stay in-force.

The proposed revisions to SSAP No. 71 are designated as non-substantive and deemed to be a clarification of intent of the codified statutory guidance. However, levelized commission programs were implemented more than a decade before the codification in 2001. Therefore, this is a material change to historical accounting practices and not a clarification of original intent. Even after codification, levelized commission programs continued for years and were not identified as applying statutory accounting incorrectly.
In conclusion, the proposed revision to SSAP 71 is clearly not “non-substantive” and would have substantial unintended consequences only some of which I have mentioned here. Accordingly, the proposal requires further substantive and policy analysis prior to consideration by the Working Group. Additionally, the expansive effect of this policy decision should be subject to open deliberation and public comment as the Working Group considers further action. Thank you for the opportunity to comment.

**Recommended Action:**
NAIC staff recommends that the Working Group expose the agenda item with NAIC staff modifications regarding persistency and funding to allow for further discussion. NAIC staff provides the following points in response to key aspects of the comments received.

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

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

   **Levelized Commission**

   The accounting treatment for certain transactions, characterized as levelized commissions, which results in enhancement of surplus, has been determined to be inappropriate for statutory reporting.

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

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

   The intent of SSAP No. 71 for levelized commissions is that repayment of an advance, even if it has been labeled as a commission, requires the establishment of a liability for the full amount of unpaid principal and accrued interest.

2. **Multi-Year comments** - NAIC staff agrees that the exposed language would benefit from additional edits to address industry concerns that the exposed guidance could be interpreted to require a traditional persistency commission to be accrued for multiple years up front. NAIC staff has proposed edits for possible exposure. NAIC staff notes that there is a distinction between a true persistency commission and the use of a levelized commission arrangement that functions as a funding agreement as described in
SSAP No. 71. The intent of the exposed guidance was not to change the annual accrual of normal persistency commission, but rather to require accrual of levelized commission arrangements which are being termed persistency. Summary of proposed edits for exposure

Paragraph 2 - Removed previously exposed revisions as unneeded.
Paragraph 3 - Added clarifying phrases regarding persistency commission accrual. The concept is that normal persistency commission is accrued for the period it relates unless the policy is cancelled.
Paragraph 4 - Added two clarifying phrases to assist with identifying levelized commission funding agreements.
Paragraph 5 - Added clarifying phrases regarding funding agreements.
Footnote 1 - Redrafted to remove double negative wording.

3. Levelized Commission Funding Agreement - The levelized commission arrangements described to NAIC staff had the following key elements:

a. A third party (referred to as a “super-agent”) is paying sub agents upfront, large commission amounts for business directly written on behalf of the reporting entity in the year of policy issuance. These amounts are similar to normal initial sales commission policy acquisition costs.

b. Reporting entity repays the super-agent through a levelized commission arrangement which spreads out the commission repayment over a period of multiple years with an explicit or implicit interest charge payable to the super-agent over time. Similar to the guidance in SSAP No. 71, paragraph 4, this levelized commission arrangement is repaying the super-agent amounts “which are less than the normal first year commissions but exceed the normal renewal commissions.”

c. The super-agent was deemed to assume lapse risk in that if the policy was cancelled, the remaining levelized commission due by the reporting entity would no longer be payable by the insurance reporting entity to the super-agent. This reduction in commission payment for policy cancellation is not materially different than direct agreements with agents that have commission “claw back” features. This aspect is consistent with the levelized commission guidance in SSAP No. 71, paragraph 4, which notes that, “It is intended, but not necessarily guaranteed, that the amounts paid to the agents by the third party would ultimately be repaid (with interest explicit or implied) to the third party by levelized payments (which are less than the normal first year commissions but exceed the normal renewal commissions)”.

d. Reporting entity is asserting that even though commission has been paid by the super-agent to the sub agent, that no commission should be accrued by the reporting entity until after the end of each policy year when the policy has persisted past its anniversary. However, SSAP No. 71, paragraph 4, notes, “The continuance of the stream of payments specified in the levelized commission contract is a mechanism to bypass recognition of those expenses which are ordinarily charged to expense in the first year of the contract.” SSAP No. 71, paragraph 5 also states:

5. The use of an arrangement where commission payments are not linked to traditional elements such as premium payments and policy persistency, but rather are linked to the repayment of an advance amount requires the establishment of a liability for the full amount of the unpaid principal and accrued interest which is payable to a third party related to levelized commission.

e. To provide an illustration to the steps above:

i. Sub agent writes direct business for the reporting entity
ii. Super-agent pays sub agent $8,000 year one.
iii. Reporting entity owes super-agent eight $1,000 payments (plus interest) annually for 8 years. Reporting entity can forgo remaining repayment to the super-agent if policy is cancelled during that time period.

The insurance reporting entity is trying to assert that until the policy anniversary passes, (the fully earned date for “persistency” on what is in essence a funding agreement) that zero should be accrued as payable to the super-agent. In trying to define accrual accounting, we do think that some wordsmithing on the exposure is in order. In the case of true persistency where the agent is being paid annually, we are not advocating accruing more than is being paid to the agent each year. Rather, if an annual persistency commission is payable it shall be accrued annually. The reporting entity example is trying to shift their expense recognition to defer commission cost recognition. In this case it is commission that a third party has already paid on the insurance entity’s behalf and the insurance entity wants to defer recognition for years into the future.

Consistent with the guidance in SSAP No. 71, the amounts that the super-agent has paid to sub agents should be recognized as a funding agreement and be accrued for the balance to be repaid plus interest to date. To the extent that an individual policy is cancelled, the liability would be reduced. In the example provided, money has been paid by the super-agent and there is a clear intent that the super-agent will be repaid plus interest. Delaying repayment does not change the incurred date. **NAIC staff recommendations are that the levelized commission repayment amount is owed to the super-agent who made the advance on the insurer’s behalf unless the policy has lapsed.** Delaying payment does not delay expense recognition. Waiting to accrue the commission owed until it is “earned” or unavoidable to the super-agent is making what amounts to a 100% lapse assumption until proven otherwise. This assumption would not be consistent with the other financial statement assertions that the company is making as the policy is in force and revenue is being recognized. Waiting until the lapse risk had fully passed would be closer to a cash basis accounting method instead of the accrual accounting method that statutory accounting requires.

The fact that the super-agent has already paid the sub agent is what makes this approach different from a typical persistency commission. A typical persistency commission is usually a small annual commission. An argument that these “commission” amounts due should be recognized like a normal persistency commission when the amount has already been paid by a third party does not acknowledge that the use of the third party is a funding agreement. SSAP No. 71 clearly intends to identify funding agreements as such, even if they are labeled differently. **If this approach is permitted under statutory accounting, it is presumed that all reporting entities would move to using third parties to make commission payments as it would delay expense recognition and result with increased net income in the financial statements until there is no potential risk for the policies to lapse.**

4. Comments were received regarding Principles-Based Reserving (“PBR”) methodology which takes commission into account when projecting future cash flows. However preliminary discussion with LATF staff note that the projected future cash flows would not double count if there is an existing liability. However, comments are requested on if there is specific Valuation Manual language in VM-20 and VM 21 that needs to be addressed in the coordination process.

The comment letters are included in Attachment 23 (36 pages).
A. Consideration of Maintenance Agenda – Pending List

1. Ref #2019-32: Look-Through with Multiple Holding Companies
2. Ref #2019-33: SSAP No. 25 – Disclosures
3. Ref #2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities
4. Ref #2019-35: Update Withdrawal Disclosures
5. Ref #2019-36: Expand MGA and TPA Disclosures
7. Ref #2019-38: Financing Derivatives
9. Ref #2019-40: Reporting of Installment Fees and Expenses
11. Ref #2019-42: Cash Equivalent – Cash & Liquidity Pools
12. Ref #2019-43: ASU 2017-11, EPS, Distinguishing Liabilities from Equity, Derivatives & Hedging
15. Ref #2019-46: ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities
16. Ref #2019-47: VM 21 Grading
17. Ref #2019-48: Disclosure Update for Reciprocal Jurisdiction Reinsurers
18. Ref #2019-49: Retroactive Reinsurance Exception

Meeting Tabs A-C

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Summary:
This agenda item was drafted in response to Working Group direction from the 2019 Summer National Meeting. A clarification question arose while discussing agenda item 2019-13, Clarification of a Look-Through Approach. The Working Group verbalized the conclusion that look-through is permitted for more than one downstream company so as long as each look-through entity complies with SSAP No. 97—Investment in Subsidiary, Controlled and Affiliated Entities. In response to interested party request for formal clarification, the Working Group directed a separate agenda item to provide this guidance in SSAP No. 97. This agenda item formally documents the multiple look through approach for statutory accounting.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, to clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the requirements in SSAP No. 97.

The requirements permitting look-through in SSAP No. 97:

- Downstream holding company is an 8.b.iii entity.
- The downstream holding company does not own any other assets which are material to that downstream holding company other than the audited SCA entities and/or audited non SCA SSAP No. 48 entities, and
- The downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to that downstream noninsurance holding company.
**Summary:**
This agenda item has been drafted to data-capture disclosures from *SSAP No. 25—Affiliates and Other Related Parties*. Currently, all disclosures from SSAP No. 25 are completed in a narrative (pdf) format. With the proposal to data-capture disclosures, the regulators can aggregate and query related party relationships.

This item is separate from an agenda item (Ref #2019-34) that is considering revisions to SSAP No. 25 to clarify the identification of related parties and consider enhanced disclosures for when there is a disclaimer of control approved by a domiciliary state and when a company outside of the holding company group owns more than 10% of the insurance reporting entity. This agenda item will follow a separate work stream to allow for year-end 2020 data capturing. If the revisions being considered under the separate agenda item are adopted by June 2020 (blanks deadline), then those disclosures may modify or expand the data templates proposed in this agenda item.

**Recommendation:**
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose the proposed data-capture templates. A blanks proposal to expose is anticipated to occur concurrently with the Working Group exposure. With inclusion of the data templates, narrative (pdf) reporting shall still occur to provide additional information regarding the related party transactions. NAIC staff notes that the current narrative illustrations are fairly simple. NAIC staff requests comments on whether more robust illustrations are necessary, or whether the disclosures that historically have been provided in the financial statements have included the extent of information necessary and more detailed illustrations are not necessary in the annual statement instructions. Note: Transactions with affiliates detailed in Schedule Y–Part 2, *Summary of Insurer’s Transactions with Any Affiliates* would not need to be duplicated in these data-captured charts. Narrative disclosure information regarding the transactions captured in Schedule Y-2 shall continue to be reported consistently with past reporting.

Note: A few of the data-captured components are not specifically named in SSAP No. 25 but are anticipated elements that would be captured in existing SSAP No. 25 disclosure references. (For example, the due date of the written agreement is not explicitly noted but is presumed to be captured in the disclosure for “any other information considered necessary to obtaining an understanding of the effects of the transactions on the financial statements.”) All of these instances are detailed in the agenda item.

**Summary:**
The intent of this agenda item is to clarify identification of related parties and affiliates in *SSAP No. 25—Affiliates and Other Related Parties* and to incorporate new disclosures to ensure regulators have the full picture of complicated business structures.

The proposed SSAP revisions intend to address the following key aspects:

- Clarify the identification of related parties and ensure that any related party identified under U.S. GAAP or SEC reporting requirements would be considered a related party under statutory accounting principles (SAP).
Public Meeting Agenda

- Clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

- Clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. As detailed, such disclaimers impact holding company group allocation and reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a “related party” and the disclosure of material transactions as required under SSAP No. 25.

- Proposes rejection of several U.S. GAAP standards addressing variable interest entities.

NAIC staff noted that the requirements for the SEC filings do not allow for a disclaimer of affiliation, as is allowed in the Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation (#450) and included in Appendix A-440. As a result, the statutory financial statements do not provide the full picture of some complicated business structures, which can be common among insurance companies. This agenda item intends to propose revisions to have the related party and affiliate reporting more closely match that of SEC filings. This will be done by adding language from SEC laws and regulation and clarifying the disclaimer of affiliation or control from a statutory reporting standpoint.

Additionally, this agenda item addresses the FASB Accounting Standards Updates (ASU) related to Variable Interest Entities (VIE) and Consolidation (Topic 810).

FASB defines a VIE as an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights. This agenda item discusses several ASUs that established the initial guidance for VIEs and all subsequent ASUs to update and clarify this guidance. As a fundamental issue, the concept of consolidation has been rejected for statutory accounting. As such, the main concepts included in the ASUs that are discussed in this agenda item are proposed to be rejected for statutory accounting. While this agenda item is not intended to change the concept of consolidation for statutory accounting, NAIC staff believe that there is a need and justification for enhanced disclosures to supplement the reporting process of related parties and affiliates within a company structure. The proposed additions will ensure state insurance regulators have a full picture of the companies that they are regulating.

Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 25—Affiliates and Other Related Parties, to clarify the types of entities or persons that are included as related parties, to clarify that a non-controlling ownership interest greater than 10% is a related party and is subject to the related party disclosures, to clarify the guidance for disclaimers of affiliation and control for statutory accounting, and to reject the seven FASB Accounting Standards Updates listed in the agenda item for statutory accounting in SSAP No. 25. With exposure, NAIC staff recommends a referral notice to the Group Solvency Issues (E) Working Group.

As detailed in the agenda item, the Working Group had a prior item to clarify relationships that should be considered related parties. With the exposure of this new item, it is recommended that the Working Group dispose agenda item 2011-16, Definition of Related Party in SSAP No. 25.
Summary:
In November 2018, the Working Group updated the life, health and separate account liquidity disclosures to provide more granularity of the withdrawal characteristics by product type. These updates were developed by the Financial Stability (Ex) Task Force and were adopted in agenda item 2018-28: Updates to Liquidity Disclosures. Agenda item 2018-28 updated the liquidity disclosures in SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance with an effective date of year-end 2019. This agenda item proposes minor clarifying edits to the disclosures identified subsequent to the adoption of the related 2019 annual statement blanks proposal.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 51R, SSAP No. 56 and SSAP No. 61R to:

- Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures.
- Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting.
- Add a cross reference from SSAP No. 56—Separate Accounts to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

Summary:
Two states have requested that the existing annual statement disclosure regarding managing general agents or third-party administrators be expanded to include additional information.

The enhanced note would list any managing general agent (MGA) and third-party administrator (TPA) and the respective core service(s) provided to the insurer or authority granted by the insurer. Additionally, the affiliated, related party or unaffiliated relationship would be disclosed, along with whether the entity is independently audited and/or bonded. The disclosure is specific to legal names for TPAs and MGAs to ensure consistency in reporting and allow for aggregation assessment.

State insurance regulators and policyholders should be able to fully understand the level and extent core services and binding authority are provided by TPAs and MGAs. The state sponsors have advocated that this understanding would also help in the assessment of the Enterprise Risk Management (ERM) framework, Own Risk Solvency Assessment (ORSA) report, market analysis reviews, operational risks, group analysis, and recovery and resolution considerations.

Recommendation:
NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to the following statutory accounting statements to expand the MGA/TPA note:
- SSAP No. 51R—Life Contracts, paragraph 50;
- SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 19;
- SSAP No. 54R—Individual and Group Accident and Health Contracts, paragraph 33 and
- SSAP No. 59—Credit Life and Accident and Health Insurance Contracts, paragraph 19

As detailed in the agenda item, new disclosures would include:

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

An illustration of the draft revisions to the current annual statement note tables for annual statement note 19 which would be forwarded to the Blanks (E) Working Group is also provided.

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<td>2019-37</td>
<td>Surplus Notes – Enhanced Disclosures</td>
<td>F - Agenda item</td>
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Summary:
Surplus notes are unique statutory accounting items which have the characteristics of both debt and equity addressed in SSAP No. 41R—Surplus Notes. Surplus notes are debt instruments that are required to be subordinated to policyholders, claimants and all other creditors; with interest and principal repayments requiring approval by the domiciliary commissioner. As such, surplus notes are reported as equity for statutory accounting purposes. (This treatment is specific to statutory accounting. Surplus notes are reported as debt under U.S. GAAP.) Pursuant to the requirements of SSAP No. 41R, proceeds received by the issuer of a surplus note must be in the form of cash or other admitted assets meeting both value and liquidity requirements of the state of domicile’s commissioner.

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

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 41R to provide enhanced disclosures to identify when a surplus note has been issued in which anticipated or typical cashflows have been partially or fully offset through the terms of the asset provided by the note holder.
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<td>2019-38</td>
<td>Financing Derivatives</td>
<td>G - Agenda Item</td>
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<td>(Julie)</td>
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**Summary:**
This agenda item has been prepared to reconsider the accounting and reporting of financing derivative transactions pursuant to a review of information from the 2018 year-end statutory financial statements.

A financing derivative transaction is one in which the premium to acquire the derivative is paid throughout the derivative term or at maturity of the derivative. With the accounting and reporting that has been utilized by some companies, the “cash flows” (the derivative obtained and the premium liability owed) are netted, generally resulting with zero-value reporting at inception. Over the course of the derivative term, an unrealized loss is recognized for changes in the present value of the premium liability (increase), which may be offset by any value change in the underlying derivative (increase or decrease). (With derivative financing, a gain would only ever be recognized if the fair value change of the derivative exceeded the cost of the derivative.) When the derivative matures, the calculation of realized gains and losses reflects the deferred cost (amount owned), adjusted for any actual fair value change.

Several key concerns are noted in the agenda item; however, a few are highlighted as follows:

- Reporting is inconsistent, as not all insurers utilizing financing derivatives report using the net approach. Additionally, insurers acquiring (or writing) similar derivatives would represent the financial statement impact in substantially different ways based solely on when the cost to acquire the derivative is due.

- The amounts reported when derivative assets and liabilities are netted with financing components do not reflect actual derivative assets or liabilities, and the corresponding unrealized gains / losses do not solely reflect changes in derivative value. The amounts reported are impacted by both changes in fair value and the present value change in the premium cost for the derivative. (This approach, particularly with the recognition of unrealized losses for the premium liability owed, results with changes in AVR that do not reflect actual unrealized investment losses.)

- The impact of financing derivatives can have a significant impact on the reported derivative amounts, which impacts the assessment of derivatives and the activity reported in regulator tools (e.g., profile reports / financial analysis assessments). For example, in one instance where financing derivatives were reflected, if the derivative had been reported without the financing components, the reported derivatives assets would have increased 50%, and the derivative liabilities would have decreased 60%. These two changes would have doubled the amount of overall net derivatives used in the company’s profile report. With a net presentation, the use of financing derivatives may artificially mask derivative activity, causing difficulty in regulator review to ensure derivative limitations have not been exceeded.

- After reviewing the information reported in the 2018 year-end financial statements, it was noted that some entities both acquire and write derivatives using financing derivative components. For entities that are writing these derivatives, the entity has a receivable for the amount due, but the receivable is not subject to nonadmittance requirements as it is being commingled with the derivative.

The agenda item includes additional information regarding the proposed overall accounting and reporting concepts, application of the concepts to acquired and written derivatives, as well as information on the calculation of RBC and the impact to AVR. With the detail on RBC, information is also included on the impact of derivative collateral. As detailed in the recommendation, the agenda item includes a proposal to consider derivative premium receivable (and payable) as part of the counterparty risk assessment (similar to derivative collateral) for life RBC.
Recommendation:
NAIC staff recommends that statutory accounting revisions be considered to ensure consistency in the gross reporting of derivatives - without inclusion of financing components - and consistency in reporting amounts owed to / from the reporting entity from the acquisition or writing of derivatives. NAIC staff highlights that the concepts are consistent with existing statutory accounting guidelines but require clarification changes to ensure uniform application across the industry. **NAIC staff recommends that the Working Group move this item to the active listing, classified as nonsubstantive, and expose revisions to SSAP No. 86 to clarify the reporting of derivatives with financing premiums.** With the proposed revisions, NAIC staff is suggesting reporting revisions that would allow the present value of the derivative premium receivable (and payable) for financed derivatives to be factored into the counterparty risk assessment for life RBC.

In addition to the proposed revisions, comments are requested as to whether derivatives and related financing provisions that would generally not meet the SSAP No. 64 right to offset criteria and if explicit guidance allowing offset should be considered. (Allowing offset only impacts the amount reported on balance sheet and does not impact the gross amount reported on Schedule DB-A or DB-B. The offset provision would impact RBC for p/c and health companies but would not impact the RBC for life reporting entities.)

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<td>2019-39</td>
<td>Acceptable Collateral for Derivatives</td>
<td>H - Agenda Item</td>
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Summary:
Potential misinterpretation for Blank instructions on Schedule DB-D, section 1, column 4 (Fair Value of Acceptable Collateral) exist as collateral is reported as 1) the fair value of collateral pledged by a counterparty, or 2) for central clearinghouses as the net positive variation margin received by the reporting entity.

NAIC staff believes the intent of **net positive variation margin** was originally meant to reflect net realizable margin. For example, if a reporting entity originally paid $5k as collateral to initiate a position, then subsequently received $15k in variation margin true-up, the reporting entity should report $10k in the fair value of acceptable collateral (assuming the counterparty has the legal right to offset the original $5k received). With the legal right to offset, in this example the holder can only realize a net $10k in collateral if liquidation were to occur. As the instructions indicate “net positive variation margin,” the variation collateral of $15k could be reported, disregarding the $5k initial margin.

Conversely, had the reporting entity received $5k in initial margin, and a subsequent $20k in variation margin, a total of $25k should be reported as collateral, thus giving credit for the initial margin received. NAIC staff believe this intent is articulated in SSAP No. 86, as collateral is defined in the disclosures as “net assets held.”

This agenda item included proposed clarification language that states collateral shall be determined by the summation of any assets held less any collateral paid/pledged from collateral received, if the counterparty has a legal right to offset as defined in SSAP No. 64.

Recommendation:
**NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 86 to clarify that the fair value of collateral received or held, for derivative disclosure purposes, shall be reported net of collateral paid/pledged, in the event a counterparty has the legal right to offset against as defined in SSAP No. 64.** Further, minor updates to applicable annual statement instructions are proposed to be concurrently exposed.
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<td>2019-40</td>
<td>Reporting of Installment Fees and Expenses</td>
<td>I - Agenda Item</td>
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**Summary:**

*SSAP No. 53—Property Casualty Contracts—Premiums, paragraph 6, provides specific guidance that allows for installment fees that meet specified criteria to be excluded from premium and reported as other income. An installment fee is the amount the policyholder pays if they make the choice to pay their premium on an installment basis. This fee is allowed to be excluded from premium income if it is an avoidable amount by the policyholder and the policy would not be cancelled for nonpayment of the installment fee.*

NAIC staff has received regulator requested clarifications regarding potential diversity in the application of the SSAP No. 53 installment fee guidance on the following issues:

1. The first issue recommends additional language to ensure that the installment fee guidance continues to be narrowly applied, because the regulator became aware of some reporting entities seeking to analogize the application of the installment fee guidance to exclude other fees from premium income. Given the historical discussion on this paragraph, NAIC staff notes that the installment fee guidance is intended to be applied narrowly to a specific instance described in SSAP No. 53, footnote 1 and it should not be used to exclude other fees from being reported as premium.

2. The second issue pertains to the reporting of expenses related to the installment fee (other revenue). The regulator noted that while reporting entities were reporting the installment fees in other income, there was diversity in practice for the related installment fee expenses. Most entities were reporting the installment fee expenses in underwriting expenses where there are clear reporting lines for such expenses in the underwriting exhibits. Other entities were reporting the installment fee expenses either as a contra amount to finance and service charges not included in premium or as a contra amount to “aggregate write-ins for miscellaneous income.” The amounts are being reported as “contra” to other income because there is not an explicit reporting line in the property and casualty statement of income for expenses not related to underwriting (See Authoritative Literature). This agenda item requests feedback to address potential diversity in reporting.

**Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose proposed revisions to SSAP No. 53 and request comments as detailed below. In addition, it is recommended that the Working Group request comments on reporting installment fee expenses as detailed below.

1. Installment fee and services charges guidance should be applied narrowly to the specific situation described and not analogized to exclude other fees from written premium.

2. Request comments on incurred installment fee expenses and notify the Casualty Actuarial (C) Task Force and the Property and Casualty Risk Based Capital (E) Working Group of the exposure, particularly regarding installment fee expenses. Questions for exposure:

   a. Should the Working Group develop guidance to allow installment fee expenses associated with fees that are reported in other income according to the criteria in SSAP No. 53 be permitted reported in or as an expense in “Other Income?”

   b. If included in Other Income, should the expense be classified as a contra revenue in or “Aggregate Write-Ins for Miscellaneous Income”?

   c. Installment fees and expenses are often immaterial for property and casualty except for nonstandard writers. Comments are also requested on allowing diversity in reporting installment fee expenses (that is optional to report as other expense category of contra other revenue Aggregate Write-Ins for Miscellaneous Income,” particularly for immaterial amounts.
**Summary:**
In coordination with the Valuation of Securities (E) Task Force and the Blanks (E) Working Group, this agenda item proposes elimination of the multi-step modeling process (i.e. incorporating breakpoints) to determine final NAIC designations on RMBS and CMBS securities.

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

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

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

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

**Summary:**
Cash pooling, also known as liquidity bundling or liquidity pools, is a special form of liquidity management in which groups combine resources in order to make a more efficient use of idle cash. A cash pool is typically a structure in which several entities’ cash accounts are aggregated for numerous purposes, including optimizing earned interest, accessing additional short-term investments markets, and improving liquidity management. The investment goal is to optimize financial results by increasing investment access and lower transaction costs that would be incurred by each individual pool participant.

Contributed cash is typically placed in short-term investments, which may not have been previously available to a single affiliated reporting entity that possesses a lower cash balance. Affiliates with lower cash balances can leverage the financial strength of other related affiliates in order to access certain markets that contain significant initial investment requirements. Additionally, by pooling resources and making fewer (and larger) investments, transaction costs are reduced, thus giving the participants a more efficient use of cash resources.
This agenda item recommends revisions to allow specific structures that strictly hold cash, cash equivalents and short-term investments and other certain criteria, but do not meet the current requirements for cash equivalent reporting, to be reported as cash equivalents under SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to specify the types of cash pooling organization structures and the investments they are required to maintain in order to qualify as cash equivalents.

NAIC staff is aware a circumstance where a Limited Liability Company was used as the primary structure for a Cash / Liquidity Pool. However, NAIC staff is not proposing changes to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies as the legal structure of such pools will vary. Comments are requested regarding the need for a Cash / Liquidity Pool reference in SSAP No. 48.

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<tr>
<td>2019-43 (Jim)</td>
<td>ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives &amp; Hedging</td>
<td>L - Agenda Item</td>
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Summary:
ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception to address issues identified with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. The purpose of this agenda item is to review ASU 2017-11 and to consider statutory accounting guidance on distinguishing liabilities from equity.

This ASU addresses the complexity of accounting for certain freestanding financial instruments (or embedded features such as a conversion option) with down round features. A down round feature is a provision in certain financial instruments (most often warrants or convertible instruments) that allows for the reduction in the strike price of the financial instrument if the issuer sells additional shares of common stock for an amount less than the financial instrument’s stated strike price, or if the issuer issues another equity-linked instrument with a strike price below the current strike price of the original financial instrument. Down (financing) rounds typically occur when additional capital is required, but the company’s valuation is now lower than it was in an earlier stock offering. Financial instruments with down round features help protect the holder from declines in the issuer’s share price because if a company issues additional equity shares at a lower price than had been previously sold, the holder is allowed to exercise its purchase option at a lower strike price than was originally stated on the financial instrument.

Recommendation:
Staff Recommendation: NAIC staff recommends the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 86 to reject ASU 2017-11 (Topics 480 & 815) and expose revisions to SSAP No. 5R and SSAP No. 72 to incorporate guidance on when certain freestanding instruments shall be recognized as liabilities and not equity.

Proposed changes to SSAP No. 5R and SSAP No. 72 incorporate key concepts from ASC 480 in that issued, freestanding financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation of the issuer. Several criteria items are proposed however summarized that in the issuer shall report a liability on financial instruments in which they are obligated to transfer assets and the transfer is unavoidable.
Summary:
The maintenance updates provide revisions to the Accounting Practices and Procedures Manual, such as editorial corrections, reference changes and formatting.

1. SSAP No. 62R—Property and Casualty Reinsurance: Update references in Exhibit A – Implementation Questions and Answers, question 31, which provides a retroactive reinsurance illustration. This revision does not revise the illustrated journal entries it just revises the referenced “item numbers” to the appropriate SSAP No. 62R, paragraph 34 references.

2. Update reference in paragraph 85 to match the current format of property casualty annual statement Schedule F - Reinsurance.

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

- Generic references: annual statement instructions
- Specific Names:
  - Property/Casualty Annual Statement Instructions
  - Life, Accident and Health/Fraternal Annual Statement Instructions
  - Title Annual Statement Instructions
  - Health Annual Statement Instructions

Note: Only the changes to combine the Fraternal and Life references will be tracked as edits to the AP&P Manual. Since the other changes are just consistency changes to existing title references, those changes will not be tracked in the AP&P Manual. (Since there are several instances, they are not individually shown in this Form A.)

Recommendation:
NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose the editorial revisions as illustrated in the agenda with a shortened exposure period to allow for 2020 publication.

Summary:
Topic 740, Income Taxes did not include explicit guidance for the financial statement presentation of an “unrecognized tax benefit” when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit generally reflects a tax position that does not meet the ASC 740 more-likely-than-not recognition threshold, but to a certain extent owes its existence to an uncertain tax position. A more-likely-than-not threshold requires a recognized benefit of having a greater than 50 percent likelihood of being realized upon settlement.
Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 101 to reject ASU 2013-11 for statutory accounting.

By definition, unrecognized tax benefits have a lower than 50 percent likelihood of being utilized (resulting in future tax savings), and as such, should be recognized in current income taxes as required by SSAP No. 101, paragraph 3. This ASU allows, as an election of the reporting entity, reporting of unrecognized tax benefits on the balance sheet (as a reduction to deferred tax assets) while statutory accounting requires immediate recognition through current income tax expense. As these unrecognized tax benefits are not deferred tax items and NAIC SAP tries to limit optionality in the financial statements, NAIC staff proposes to reject the ASU and retain existing statutory accounting guidance.

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<td>2019-46</td>
<td>ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities</td>
<td>O - Agenda Item</td>
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Summary:
The FASB issued ASU 2016-14 to provide more useful information to donors, grantors, creditors, and other financial statements users of not-for-profit (NFP) entities. This update is to improve the current net asset classification requirements and the information presented in financial statements regarding liquidity, financial performance, and cash flows. While several changes were implemented within this ASU, the main provisions include the presentation of two classes of net assets – with donor restrictions and without donor restrictions. Due to complexities regarding the appropriate use of the previous three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) that focused on the absence or presence of donor-imposed restrictions and whether those restrictions were temporary or permanent, this ASU designates presentation of two classes of net assets. Changes in these two classes of net assets are to be reported on the statement of activities.

Recommendation:
Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities as not applicable to statutory accounting.

This item is proposed to be rejected as not applicable as statutory accounting guidance does not separately present assets based on donor restrictions. If assets are restricted, they must be identified as restricted in the investment schedules and captured in the restricted note disclosure. Furthermore, the concept of donor-restrictions for insurance reporting entities is not identified to be a prevalent concept.
Summary:
At the 2019 Summer National Meeting, the NAIC Executive and Plenary adopted revisions drafted by the Life Actuarial (A) Task Force to Section 21 of the *Valuation Manual Requirements for Principle-Based Reserves for Variable Annuities (VM-21)* which provides comprehensive updates to the Commissioners Annuity Reserve Valuation Method of reserving for variable annuities. The revisions adopted to VM-21 represent an accounting change that must be recognized as a change in valuation basis under *SSAP No. 51R—Life Contracts*. Updates to SSAP No. 51R are needed to coordinate with the recent revisions to the variable annuity reserving methodology. In addition, the proposed revisions recommend deferring to VM-21 regarding future variable annuity reserving methodology phase-ins along with disclosure on phase in details.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the revisions described and illustrated in the agenda item to *SSAP No. 51R—Life Contracts*, and adding reference to the additional grade-in disclosure requirements in *SSAP No. 3—Accounting Changes and Corrections of Errors* for reporting years beginning Jan. 1, 2020. In addition, NAIC staff plans a future agenda item regarding exercise of Commissioner Discretion in the VM. Proposed revisions detailed in the current agenda item:

1. Revises the existing guidance, which prohibits grading-in changes in valuation basis unless provided for in the statement, to allow a grade-in for changes in valuation basis if permitted by the statement or the *Valuation Manual* in section 21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21). Historically choosing effective dates for major reserving changes for the *Accounting Practices and Procedures Manual* has been determined by Working Group, for example the 2001 CSO table (adopted in 2002) was effective for policies January 1, 2004 in Appendix A-820. This has been to promote consistent implementation and reporting. By deferring to the VM-21 on grade-in options with many varied features, there will be less comparability in reporting, because there is more optionality in reserve reporting. Therefore, additional disclosure regarding grade-in has been proposed.

2. A change in valuation basis under SSAP No. 51R is recognized through surplus. As the unrecognized graded-in reserve represents an unrecognized adjustment to surplus, the revisions require the unrecognized grade-in amount from a change in valuation basis, if resulting with an increase in reserves (decrease from surplus), to be reported as an allocation from unassigned funds to special surplus until the amount has been fully graded into unassigned funds. The reclassification from unassigned funds to special surplus does not reduce total surplus. This is to provide transparency regarding the increased reserve amount that has not been reflected into surplus. As amounts are graded-in to reduce surplus, the amount in special surplus is reclassified to unassigned funds.

3. The proposed revisions to SSAP No. 51R expand the disclosure for changes in valuation basis as a change in accounting principle under SSAP No. 3 to also include details regarding grade-ins of changes in valuation basis, including the grade-in period applied, the remaining amount to be graded-in, remaining time for the grade-in period and the initial grade-in amount and any adjustments to the original amount.

4. Adds a reference in SSAP No. 3 regarding additional disclosures of grade-in features.
Summary:
On June 25, 2019, NAIC Executive Committee and Plenary adopted revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) to incorporate relevant provisions from the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance” (collectively referred to as the Covered Agreement). The purpose of this agenda item is to revise one disclosure in *SSAP No. 62R—Property and Casualty Reinsurance* to reference “reciprocal jurisdictions”.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions SSAP No. 62R to incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions. The proposed revisions are illustrated below:

106. Unsecured Reinsurance Recoverables:

   a. If the entity has with any individual reinsurers, authorized, unauthorized, reciprocal jurisdiction, or certified an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, that exceeds 3% of the entity’s policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer; and

Summary:
At the 2019 Summer National Meeting, the Statutory Accounting Principles (E) Working Group, the Casualty Actuarial and Statistical (C) Task Force and the Surplus Lines (C) Task Force received a request from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries Working Group. The request was to clarify the accounting and reporting for retroactive reinsurance which meets the *SSAP No. 62R—Property and Casualty Reinsurance* exceptions to be accounted for as prospective reinsurance. The request specifically asked for the NAIC groups to:

- Provide consistent guidance on the reporting treatment to both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.

- Clarify the reporting method to be used if the ceding entity and assuming entity are not in the same group.

This agenda item is to address the inconsistencies in application of the reinsurance accounting and reporting guidance, particularly the impact on Schedule P – Analysis of Losses and Loss Expenses (Schedule P) that were highlighted in the request.

The request indicated that COPLFR has noted that the guidance for portfolio retroactive reinsurance that meets the exceptions to be accounted for as prospective reinsurance (SSAP 62R, paragraph 36) but that does not meet the definition of Run-Off Agreements (SSAP 62R, paragraphs 102-105) is ambiguous regarding reporting requirements, and specifically the reporting in the NAIC Statutory Annual Statement’s Schedule P. The ambiguity
has led to materially different presentations in Schedule P. The letter requested that this ambiguity in Schedule P presentation should be addressed, given that industry Schedule P is utilized for risk-based capital (RBC) purposes as well as other purposes, and given the increased propensity for companies to entertain partial loss portfolio transfers that do not fully meet the requirements of “Run-Off Agreements.”

Attached to the letter were two insurance company examples of publicly filed Schedule P’s illustrating this ambiguity. This resulted in different reporting in Schedule P of intercompany retroactive reinsurance agreements that met the intercompany exception for prospective accounting. Note that COPLFR did not state a preference for the approach and the impact on annual statement Schedule P.

- Entity A in the retroactive cession (accounted for prospectively) initially reported the reinsurance premium paid as current calendar year ceded earned premium. Initially, entity A included all of the ceded losses in accident year 2015. However, for the following year, entity A recorded the ceded losses across the subject accident years and prior. This approach distorted the initial calendar year and accident year loss ratios and the loss development patterns for accident years 2015 and 2012 and prior years.

- Entity G in the year of the retroactive cession (accounted for prospectively) to a parent reported the reinsurance premium paid as ceded earned premium spread to prior calendar years (based on the allocation of loss reserves by accident year as of January 1, 2014), with the ceded losses also spread across prior accident years. This avoided distorting the calendar year / accident year loss ratios but distorted the loss development patterns.

**Recommendation:**
NAIC staff agrees that there is diversity in practice and improved accounting and reporting guidance, with examples, would be beneficial. **NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose a request for comments and for industry and regulator volunteers to assist with developing guidance.** The goal is to clarify both the accounting and reporting for retroactive contracts which are accounted for prospectively, including:

- Both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.

- The reporting method to be used if the ceding entity and assuming entity are not in the same group.

Comments are specially requested regarding the preferred approaches to reporting and the advantages and disadvantages to each approach being used, including both the Schedule P (and related loss analysis) and risk-based capital impacts.

NAIC staff also recommends that the Working Group direct a referral to notify the Casualty Actuarial (C) Task Force of the request for comments and the need for coordination.

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1 SSAP 62R gives guidance on the accounting treatment of “Run-Off Agreements,” but that definition only applies to situations where an insurer exits “essentially all the risks ... of a specific line” and no longer writes business in that line. That guidance does not address the increasingly common situation where an insurer cedes reserves from all or a portion of prior writings for a line but continues to write new/renewal business for that line, i.e., partial portfolio transfers.
B. Consideration of Maintenance Agenda – Active Listing

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<td>2019-25</td>
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**Summary:**
During the Summer National Meeting, the Working Group received a referral from the Valuation of Securities (E) Task Force and directed NAIC staff to proceed with drafting revisions for subsequent exposure to substantively revise SSAP No. 105—Working Capital Finance Investments using 6 of the industry-proposed concepts supported by NAIC staff. During this discussion additional industry proposed revisions were presented, but not captured in the direction for initial revisions to SSAP No. 105.

**Recommendation:**
NAIC staff recommends exposing the substantive revisions to SSAP No. 105—Working Capital Finance Investments incorporating the industry proposed language for the specific items directed by the Working Group. NAIC staff recommends directing Staff to prepare an issue paper for discussion at the 2020 Spring National Meeting.

Summary of revisions detailed in the agenda item:

1. **Functionally Equivalent Foreign Regulators** - Removed the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the U.S. Regulator. (paragraph 10.a)
2. **Commingling Prohibitions** - Removed the finance agent prohibitions on commingling. (paragraph 10.b)
3. **Investor Rights Edit** - Removed duplicative text regarding exercise of investor rights. (paragraph 11.b)
4. **Requirements for filer to Certify Perfected Interest** – Removed requirements, with revisions allowing the SVO to determine if a first priority perfected interest has been obtained. (paragraphs 14 & 15)
5. **Finance Agent Validation Requirements** – The independent review requirements were broadened to allow independent review of the finance agent by either audit or through an internal control report. (paragraph 16)
6. **Default Date** - Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days. (paragraph 28)
ANY OTHER MATTERS

a. **Ref # 2019-21: SSAP No. 43R – Equity Interests (Julie)**

   The Working Group has scheduled a conference call on January 8, 2020, at 10:00 AM, Central to discuss this agenda item. A notification was distributed to all Members, Interested Regulators and Interested Parties of the Statutory Accounting Principles (E) Working Group on October 10, 2019.

b. **Ref #2018-07: Surplus Notes – (Julie)**

   Pursuant to the direction of the Working Group from the 2019 Summer National Meeting, NAIC staff is in the process of collecting information from a data-call on “linked” surplus notes. Responses from the data call are requested by Dec. 31, 2019. Once the data call concludes discussion on this agenda item will resume. Information on the data call, including the characteristics of surplus notes in scope, can be obtained directly from Jim Pinegar (jpinegar@naic.org).

   As a reminder, state insurance departments are requested to assist with the data call request. Insurance company submissions can occur directly to the NAIC or be provided to NAIC staff through the domiciliary state insurance department.

c. **Ref #2016-20: Credit Losses – (Jim)**

   **Summary:** The Working Group has had several discussions / exposures regarding ASU 2016-13: Credit Losses. As discussed during the 2019 Summer National Meeting, discussion on this ASU is deferred. No significant consideration has occurred since deferral.

   **Update:** NAIC staff continues to monitor the Financial Accounting Standards Board (FASB) regarding discussions involving this topic. On October 18, 2019, the FASB board voted unanimously, delaying implementation of the Credit Loss accounting standard until 2023. While large SEC filers are required to follow CECL in 2020, small SEC reporting companies, financial institutions and other public business entities are granted a reprieve until 2023.

d. **AP&P Update – Manual & Electronic Versions - (Julie)**

   Consistent with last year, a pre-order process will be used for everyone (regulators and non-regulators) that want to receive printed copies of the Manual. This year, if there are requests for printed copies of the Manual after all copies have been distributed, the requester will be limited to the electronic version. **The deadline to reserve a printed version of the “As of 2020” AP&P Manual is Dec. 13, 2019.** The reserving process is available now. (The product code is APP-CB-2020-HC.)

   Additionally, if anyone is planning to move towards the electronic version in 2020 and wants to receive the AP&P Manual updates for 2019, they can contact the Service Desk and request this option. (The product code for this option APP-2020-UPD-K.) Historically, access to the updates required pre-purchase of the hard copy Manual. This process has been incorporated to allow transitioning to the electronic product with the ability to see current year updates. Updates are included in the electronic version. Regulators and industry may order or renew at [https://www.naic.org/account_manager.htm](https://www.naic.org/account_manager.htm).

e. **Review of GAAP Exposures – Attachment U - (Jim)**

   The attachment details the items currently exposed by FASB. NAIC staff recommends reviewing all the issued ASUs under the SAP Maintenance process.

   Note: NAIC staff is actively monitoring the FASB discussion on “reference rate reform” (e.g., references to
LIBOR in hedging instruments and other financial instruments). Once the FASB ASU is issued, NAIC plans to immediately review and will likely request an interim exposure of the agenda item.

**Comment Deadlines:**

Comment deadline for the editorial agenda item (Ref #2019-44EP) is December 20, 2019 (two weeks) and for all other exposed items new items is **Friday, January 31, 2020**.