

2019 Fall National Meeting
Austin, Texas

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP
Saturday, December 7, 2019
9:00 – 11:30 a.m.

Meeting Summary Report

The Statutory Accounting Principles (E) Working Group met Dec. 7, 2019. During this meeting, the Working Group:

1. Adopted its Sept. 9 and Summer National Meeting minutes.
2. Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - a. *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions adopt: 1) SSAP No. 61R disclosures with an effective date of Dec. 31, 2020; 2) A-791 Q&A updates regarding contracts with medical loss ratios (MLRs); and 3) updates to the 2c. Q&A regarding risk transfer and group term life yearly renewable term (YRT) reinsurance with an effective date of Jan. 1, 2021. The proposed revisions to the A-791 Q&A regarding the scope of nonproportional contracts subject to Appendix A-791 was referred to the informal life and health reinsurance drafting group to address informal application questions. The Working Group also directed notification to the Life Actuarial (A) Task Force. (Ref #2017-28)
 - b. *SSAP No. 68—Business Combinations and Goodwill*: Revisions clarify that goodwill resulting from the acquisition of a subsidiary, controlled or affiliated (SCA) entity by an insurance reporting entity that is reported on the SCA financial statements (resulting from the application of pushdown) is subject to the 10% admittance limit based on the acquiring entity’s capital and surplus. The remainder of the agenda item was re-exposed to consider comments received on pushdown accounting and receive specific examples from interested parties. (Ref #2019-12)
 - c. *SSAP No. 68 and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions reject *ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The alternative option permitted in this ASU is similar to the existing guidance for statutory filers in SSAP No. 68. (Ref #2019-29)
 - d. *SSAP No. 86—Derivatives*: Revisions clarify the recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions. (Ref #2019-18)
 - e. *SSAP No. 97*: Revisions clarify that nonadmittance is required when there is an unalleviated substantial doubt about an SCA’s ability to continue as a going concern identified in any part of the audit report, accompanying financial statements or notes to the financial statements. (Ref #2019-23)
 - f. *SSAP No. 100R—Fair Value*: Revisions reject *ASU 2019-05, Targeted Transition Relief*, as the ASU provides optionality, allowing the utilization of a fair value measurement for certain assets. (Ref #2019-28)
 - g. *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions clarify that only wash sales that cross reporting period end-dates are subject to the wash sale disclosure. (Ref #2019-22)
 - h. *Supplemental Investment Risk Interrogatory (SIRI)*: Revisions clarify information captured in *Line 13: 10 Largest Equity Interests*, noting that a look-through should only occur for non-diversified funds. The Working Group directed a Blanks (E) Working Group proposal for 2020 year-end application. (Ref #2019-19)
 - i. *Appendix A—Excerpts of NAIC Model Laws*: Revisions incorporate the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (U.K. Covered Agreement), collectively the Covered Agreement, into *Appendix A-785—Credit for Reinsurance*. (Ref #2019-26)

- j. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject the following ASUs as not applicable to statutory accounting:
 - 1. *ASU 2019-03, Updating the Definition of Collections*. (Ref #2019-30)
 - 2. *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. (Ref #2019-31)
- 3. Adopted the following editorial revisions to statutory accounting (Ref #2019-27EP):
 - a. *SSAP No. 62R—Property and Casualty Reinsurance*: Revisions clarify wording in an existing disclosure.
 - b. *SSAP No. 86*: Revisions reference the definition of a structured note in *SSAP No. 26R—Bonds*.
 - c. *SSAP No. 97*: Revisions add two new suffixes for Securities Valuation Office (SVO) filings that have been carried over from the prior year.
- 4. Exposed the following substantive revisions to statutory accounting guidance:
 - a. *SSAP No. 32—Preferred Stock*: Exposed a revised issue paper and a draft substantively-revised SSAP as part of the Investment Classification Project. (Ref #2019-04)
 - b. *SSAP No. 105—Working Capital Finance Investments*: Exposed a draft SSAP to incorporate industry revisions to program requirements, as directed by the Working Group during the Summer National Meeting. The Working Group directed NAIC staff to draft an issue paper. (Ref #2019-25)
- 5. Exposed the following nonsubstantive revisions to statutory accounting guidance:
 - a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions specify that cash pooling structures that meet specified criteria qualify as cash equivalents. (Ref #2019-42)
 - b. *SSAP No. 2R* and *SSAP No. 103R*: Revisions incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Revisions exclude qualifying cash pools from the short-term rolling provisions. (Ref #2019-20)
 - c. *SSAP No. 3—Accounting Changes and Corrections of Errors* and *SSAP No. 51R—Life Contracts*: Revisions add reference, disclosures and accounting for Section 21 of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, grade-in requirements for reporting changes in the valuation basis for years beginning Jan. 1, 2020. (Ref #2019-47)
 - d. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 72—Surplus and Quasi-Reorganizations*, and *SSAP No. 86*: Revisions reject *ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception* and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities, not equity. (Ref #2019-43)
 - e. *SSAP No. 5R* and *SSAP No. 97*: Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the equity value. With the revisions, the equity value of an SCA would not go negative, and guarantee liabilities would be reported to the extent that there is a financial guarantee or commitment. The “Illustration of the Application of INT 00-24” will be inserted into *SSAP No. 97* as Exhibit F. (Ref #2018-26)
 - f. *SSAP No. 25—Affiliates and Other Related Parties*:
 - 1. Revisions data-capture existing disclosures, which are currently completed in a narrative format. A blanks proposal to expose the data-captured template was proposed to be concurrently exposed. (Ref #2019-33)
 - 2. Revisions clarify the types of entities that are included as related parties, that a non-controlling ownership interest greater than 10% is a related party and subject to the related party disclosures, the guidance for disclaimers of affiliation, and control for statutory accounting. The revisions also reject seven Financial Accounting Standards Board (FASB) ASUs for statutory accounting. The exposure includes an intent to dispose agenda item 2011-16,

which is a historical item drafted to consider the SSAP No. 25 definition. With exposure, directed notification to the Group Solvency Issues (E) Working Group. (Ref #2019-34)

- g. *SSAP No. 41R—Surplus Notes*: Revisions provide enhanced disclosures to identify when an issued surplus note's anticipated or typical cash flows have been partially or fully offset by a held asset. (Ref #2019-37)
- h. *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions eliminate the multi-step financial modeling designation guidance in determining final NAIC designations for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) securities. The Working Group noted that this exposure was contingent on a related action by the Valuation of Securities (E) Task Force. If the Task Force does not take a similar action during the Fall National Meeting, this item will be removed from the exposure posting. (Ref #2019-41)
- i. *SSAP No. 51R and SSAP No. 52—Deposit-Type Contracts*: Revisions include footnote excerpts in the reporting exhibits to aggregate deposit-type contracts captured in Exhibit 5 – Life Contracts and an inquiry as to whether a similar footnote would be beneficial for Exhibit 6 – Accident and Health Contracts. Additionally, feedback regarding instruction clarifications for Exhibit 7 – Deposit-Type Contracts has been requested. With exposure, directed notification to the Financial Stability (EX) Task Force. (Ref #2019-08)
- j. *SSAP No. 51R, SSAP No. 52, and SSAP No. 61R*: Revisions propose minor edits to the liquidity disclosures regarding withdrawal characteristics for life and deposit-type contracts to match noted reporting clarifications. (Ref #2019-35)
- k. *SSAP No. 51R, SSAP No. 53—Property Casualty Contracts—Premiums, SSAP No. 54R—Individual and Group Accident and Health Contracts, and SSAP No. 59—Credit Life and Accident and Health Insurance Contracts*: Revisions expand managing general agent and third-party administrator disclosures. (Ref #2019-36)
- l. *SSAP No. 53*: Revisions clarify that the installment fee guidance should be narrowly applied. Comments are requested on how related installment fee expenses should be reported, whether guidance to separately identify and reclassify installment fee expenses to other expenses should be provided, and whether diversity should be permitted in reporting installment fee expenses. The Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group will be notified of the exposure. (Ref #2019-40)
- m. *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*: Revisions incorporate interested parties' recommendations to separate the guidance by product type and emphasize guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). The revisions emphasize existing guidance that claims that related liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. (Ref #2018-38)
- n. *SSAP No. 62R*:
 - 1. Revisions incorporate disclosure updates for reinsurers from reciprocal jurisdictions. (Ref #2019-48)
 - 2. Comments are requested on the preferred approaches for reporting retroactive contracts that meet the exception for prospective accounting and the disadvantages to approaches being used. Industry and state insurance regulator volunteers are requested to assist with developing this guidance. The Working Group directed notification to the Casualty Actuarial and Statistical (C) Task Force of the request for comments. (Ref #2019-49)
- o. *SSAP No. 71—Policy Acquisition Costs and Commissions*: Revisions include additional NAIC staff modifications regarding persistency commission and levelized commission arrangements to address certain comments received to allow for further discussion. With exposure, directed a referral to the Life Actuarial (A) Task Force. (Ref #2019-24)
- p. *SSAP No. 86*: Revisions clarify the reporting of derivatives with financing premiums. Proposed reporting revisions 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 risk-based capital (RBC). Comments are requested as to whether guidance allowing offset should be considered derivatives and related financing provisions that would not meet the *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* right of offset criteria. (Ref #2019-38)
- q. *SSAP No. 86*: Revisions clarify that the fair value of collateral received or held for derivative disclosure purposes shall be reported net of collateral paid/pledged if a counterparty has the legal right to offset. Updates to applicable annual statement instructions are proposed to be concurrently exposed. (Ref #2019-39)

- r. SSAP No. 97:
 - 1. Revisions clarify that the “assignment” of goodwill is a disclosure element. The Working Group also directed revisions to the Sub-1 Acquisition Overview filing template to capture this information for new SCA acquisitions. (Ref #2019-14)
 - 2. Revisions clarify that a look-through of a more-than-one holding company structure is permitted if each of the holding companies within the structure complies with the requirements in SSAP No. 97. (Ref #2019-32)
 - s. *SSAP No. 101—Income Taxes*: Revisions reject *ASU 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit* for statutory accounting. (Ref #2019-45)
 - t. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable for statutory accounting. (Ref #2019-46)
6. Exposed the following editorial revisions to statutory accounting (Ref #2019-44EP):
- a. SSAP No. 62R: Update references in Exhibit A – Implementation Questions and Answers, which provides a retroactive reinsurance illustration and update, and paragraph 85 to match the current format of property/casualty (P/C) annual statement Schedule F – Reinsurance.
 - b. Various SSAPs: Revise references to the annual statement instructions for consistency and combine the life and fraternal references.
7. Received an update on the following projects and referrals:
- a. Ref #2019-21: SSAP No. 43R – Equity Interests: The Working Group has scheduled a conference call on Jan. 8, 2020, to discuss comments received. (Ref #2019-21)
 - b. *SSAP No. 41R—Surplus Notes*: Received an update on Surplus Note Accounting – Referral from the Reinsurance (E) Task Force, noting that NAIC staff is in the process of collecting information from a data call on “linked” surplus notes, with responses requested by Dec. 31, 2019. (Ref #2018-07)
 - c. Agenda item 2016-20, Credit Losses: Received an update that the FASB delayed implementation of *ASU 2016-13: Credit Losses* until 2023 for everyone except large U.S. Securities and Exchange Commission (SEC) filers, which are required to follow the ASU in 2020. (Ref #2016-20)
 - d. Received an update on the *Accounting Practices & Procedures Manual* (AP&P Manual) reserve process, noting that the deadline to reserve a printed version of the “As of 2020” AP&P Manual is Dec. 13, 2019.
 - e. Received an update on current U.S. generally accepted accounting principles (GAAP) exposures and invitations to comment, noting that no comments by the Working Group are planned during the exposure periods. Received info from industry on recent FASB discussions. NAIC staff noted they are closely monitoring the expected Reference Rate Reform FASB project and will review the update immediately upon issuance.
8. The comment deadline for new and exposed items is Jan. 31, 2020, except for the editorial agenda item (Ref #2019-44EP), which has a Dec. 20, 2019, comment deadline.

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