

2020 Spring National Meeting  
Conference Call

**STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP**

Wednesday, March 18, 2020

10:00 – 11:30 a.m. CT

**Meeting Summary Report**

The Statutory Accounting Principles (E) Working Group met via conference call March 18, 2020. During this call, the Working Group:

1. Adopted its Jan. 8 minutes, which included adoption of its 2019 Fall National Meeting minutes and one nonsubstantive agenda item. The Jan. 8 nonsubstantive agenda item adopted the following editorial revisions to statutory accounting (Ref #2019-44EP):
  - a. *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance*: Revisions update references in Exhibit A – Implementation Questions and Answers and paragraph 85 to match the current format of property casualty annual statement Schedule F – Reinsurance.
  - b. Various other SSAPs: Revisions revise all references to the annual statement instructions for consistency and combine life and fraternal statement references.
2. Adopted the following nonsubstantive revisions to statutory accounting guidance:
  - a. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the subsidiary, controlled and affiliated entity’s (SCA’s) equity value. The reported equity losses of an SCA would not go negative (thus stopping at zero); however, the guaranteed liabilities would be reported to the extent that there is a financial guarantee or commitment. (Ref #2018-26)
  - b. *SSAP No. 5R*, *SSAP No. 72—Surplus and Quasi-Reorganizations*, and *SSAP No. 86—Derivatives*: Revisions reject *Accounting Standards Update (ASU) 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception* in SSAP No. 86 and incorporate guidance into SSAP No. 5R and SSAP No. 72 requiring issued, free-standing financial instruments with characteristics of both liability and equity to be reported as a liability to the extent that the instrument embodies an unconditional obligation of the issuer. (Ref #2019-43)
  - c. *SSAP No. 25—Affiliates and Other Related Parties*: Revisions data-capture existing disclosures, which are currently completed in a narrative format. A blanks proposal to expose the data-capture; the template was proposed to be concurrently exposed. (Ref #2019-33)
  - d. *SSAP No. 51R—Life Contracts*, *SSAP No. 56—Separate Accounts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions: 1) ensure that separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures; 2) correct an identified inconsistency in one of the new disclosures regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%; and 3) add a cross reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R, as the disclosures include separate account products. (Ref #2019-35)
  - e. *SSAP No. 51R* and *SSAP No. 52—Deposit-Type Contracts*: Revisions add a footnote to aggregate deposit-type contracts, which are captured in annual statement *Exhibit 5 – Life Contracts*. This item did not result in statutory revisions, but instead it resulted in a blanks proposal. (Ref #2019-08)
  - f. *SSAP No. 53—Property and Casualty Contracts—Premiums*: Revisions clarify that the installment fee guidance should be narrowly applied. If warranted, a separate agenda item would be prepared to discuss any installment expense

comments received from the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group, as they both were notified of the prior exposure. (Ref #2019-40)

- g. *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*: Revisions emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). (Ref #2018-38)
  - h. *SSAP No. 62R*: Revisions incorporate disclosure updates for reinsurers from reciprocal jurisdictions. (Ref #2019-48)
  - i. *SSAP No. 97*: Revisions clarify that a more-than-one holding company structure is permitted for look-through if each of the holding companies within the structure complies with the look-through requirements in *SSAP No. 97*. (Ref #2019-32)
  - j. *SSAP No. 101—Income Taxes*: Revisions reject *ASU 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit*, as statutory accounting requires immediate recognition of unrecognized tax benefits through current income tax expense. (Ref #2019-45)
  - k. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable to statutory accounting. (Ref #2019-46)
3. Exposed the following substantive revisions to statutory accounting guidance:
- a. *SSAP No. 32—Preferred Stock*: Exposed an issue paper and a substantively revised draft *SSAP No. 32* as part of the Investment Classification Project. (Ref #2019-04)
  - b. *SSAP No. 43R—Loan-Backed and Structured Securities*: Exposed a preliminary issue paper to provide initial information on key concepts for consideration. Comments and information are requested throughout the exposure period on issues and questions presented within the document. (Ref #2019-21)
  - c. *SSAP No. 105—Working Capital Finance Investments*: Exposed *Issue Paper No. 16x—Working Capital Finance Investment Updates* and a substantively revised draft *SSAP No. 105*, incorporating six industry amendments, which were directed by the Working Group. (Ref #2019-25)
  - d. *SSAP No. 106—Affordable Care Act Section 9010 Assessment*: Exposed the intent to supersede *SSAP No. 106* and nullify *INT 18-02: ACA Section 9010 Assessment Moratoriums*, effective Jan. 1, 2021. *SSAP No. 106* and *INT 18-02* would be moved to *Appendix H – Superseded Statements of Statutory Accounting Principles and Nullified Interpretations*. Referrals will be sent to the Blanks (E) Working Group to ensure that the annual statement disclosures related to *SSAP No. 106* in Note 22 are removed from the annual statement instructions and annual statement blank beginning in reporting year 2021, and to the Health Risk-Based Capital (E) Working Group for risk-based capital (RBC) implications related to the 2021 removal of the federal Affordable Care Act (ACA) adjustment sensitivity test, which uses data from the *SSAP No. 106* disclosures. (Ref #2020-05)
4. Exposed the following nonsubstantive revisions to statutory accounting guidance:
- a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*:
    - 1. Revisions incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments. The revisions restrict the classification of certain related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds* or *SSAP No. 43R*, or that would be reported as “Other Invested Assets.” An additional disclosure was proposed to identify short-term investments (or substantially similar investments), which remain on the short-term schedule for more than one year. A concurrent blanks exposure is proposed to include a reporting code for renewed short-term investments, as well as a new general interrogatory to certify compliance with the proposed guidance for certain investments which are renewed. (Ref #2019-20)
    - 2. Revisions reflect that certain cash/liquidity pools, meeting defined criteria, may be reported as cash, cash equivalents, or short-term investments. (Ref #2019-42)

- b. *SSAP No. 3—Accounting Changes and Corrections of Errors* and *SSAP No. 51R*: Revisions specify to provide disclosures of changes in the reserve valuation basis, as a result of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, optional phase-in requirements, which are disclosed consistent with a change in valuation basis, with additional disclosures regarding the phase-in period. The Working Group directed NAIC staff to notify the Life Actuarial (A) Task Force of the exposure. (Ref #2019-47)
- c. *SSAP No. 26R* and *SSAP No. 30R—Unaffiliated Common Stock*: Revisions eliminate references to the NAIC Bond Fund List in *SSAP No. 26R* and *SSAP No. 30R* and add reference to the NAIC Fixed-Income Like SEC Registered Funds List in *SSAP No. 30R*. (Ref #2020-01)
- d. *SSAP No. 26R*: Revisions clarify that the accounting and reporting of investment income and capital gain/loss due to the early liquidation, either through a call or a tender offer, shall be similarly applied. (Ref #2020-02)
- e. *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. (Ref #2019-37)
- f. *SSAP No. 47—Uninsured Plans*:
  - 1. Revisions reject *ASU 2016-20, Technical Corrections and Improvements to Topic 606*. (Ref #2020-08)
  - 2. Revisions reject *ASU 2018-18, Collaborative Arrangements (Topic 808)* (Ref #2020-09)
- g. *SSAP No. 51R*, *SSAP No. 53*, *SSAP No. 54R—Individual and Group Accident and Health Contracts*, and *SSAP No. 59—Credit Life and Accident and Health Insurance Contracts*: Revisions to expand managing general agent (MGA) and third-party administrator (TPA) disclosures, which were updated to reference the NAIC model definition of TPA along with an updated disclosure threshold for claim processing. A referral will be sent to notify the Blanks (E) Working Group of the exposed modifications for its concurrent exposure. (Ref#2019-36)
- h. *SSAP No. 51R*, *SSAP No. 52*, and *SSAP No. 54R*: Revisions provide that the decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the *Valuation Manual* shall be reported as a change in valuation basis. A notification of the exposure will be sent to the Life Actuarial (A) Task Force (Ref #2020-04)
- i. *SSAP No. 68—Business Combinations and Goodwill*: Revisions add goodwill disclosures to improve the validity and accuracy of reporting. Revisions to annual statement Schedule D, Part 6, Section 1 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies and Schedule D, Part 6, Section 2 - Valuation of Shares of Subsidiary, Controlled and Affiliated Companies were also proposed. (Ref #2020-03)
- j. *SSAP No. 86*: Revisions ensure reporting consistency in that derivatives will be reported without the inclusion of financing components from either the acquisition or the writing of derivatives. A blanks proposal will be sponsored, and notice of the proposed edits will be provided to the Capital Adequacy (E) Task Force. (Ref #2019-38)
- k. *SSAP No. 97*: Revisions propose additional disclosure of goodwill attributed to subsidiaries of certain downstream holding companies. (Ref #2019-14)
- l. *Appendix D—Nonapplicable GAAP Pronouncements*:
  - 1. Revisions reject *ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220)*, *Revenue Recognition (Topic 605)*, and *Revenue from Contracts with Customers (Topic 606)*, *Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403* as not applicable to statutory accounting. (Ref #2020-10)
  - 2. Revisions reject *ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)*, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)* as not applicable to statutory accounting. (Ref #2020-11)

- m. *Appendix A-001, Investments of Reporting Entities*: Revisions to Appendix A-001, Section, 3 Summary Investment Schedule adding a line for total mortgage valuation allowance. A blanks proposal to expose the revisions to the Summary Investment Schedule was proposed to be concurrently exposed. (Ref #2020-07)
5. Exposed the following editorial revisions to statutory accounting (Ref #2020-06EP)
    - a. SSAP No. 21R: Removes the excerpts from *SSAP No. 4—Assets and Nonadmitted Assets* regarding the definition and accounting treatment for admitted assets.
    - b. SSAP No. 51R: Updates various paragraph references, requiring that changes in valuation basis be consistent with the originally adopted language in *Issue Paper No. 154—Implementation of Principle Based Reserving, Exhibit A*.
  6. Disposed the following without revisions to statutory accounting guidance:
    - a. Agenda item 2019-39: Acceptable Collateral for Derivatives was disposed without statutory revisions as third-party derivative exposure through centrally cleared exchanges is appropriately captured in the existing financial statement disclosure requirements and blanks. (Ref #2019-39)
  7. Deferred discussion of the following agenda items for a subsequent call or meeting:
    - a. SSAP No. 25: 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. (Ref #2019-34)
    - b. SSAP No. 43R: 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). (Ref #2019-41)
    - c. SSAP No. 62R: Discussion of comments received regarding the preferred approaches for reporting retroactive contracts that meet the exception for prospective accounting and the disadvantages to approaches being used. (Ref #2019-49)
    - d. SSAP No. 68: Revisions clarify that goodwill resulting from the acquisition of an SCA entity by an insurance reporting entity is subject to the 10% admittance limit based on the acquiring entity's capital and surplus. (Ref #2019-12)
    - e. *SSAP No. 71—Policy Acquisition Costs and Commissions*: Revisions include enhancements regarding persistency commission and levelized commission arrangements to address certain comments received to allow for further discussion. (Ref #2019-24)
  8. Received an update on the following projects and referrals:
    - a. Received an update that the FASB issued an ASU regarding Reference Rate Reform and a subsequent agenda item is forthcoming, which is anticipated for interim exposure.
    - b. Received an update that the Working Group has had several discussions/exposures regarding *ASU 2016-13: Credit Losses*. On Oct. 18, 2019, the FASB board voted unanimously to delay implementation of the Credit Loss accounting standard until 2023. While large U.S. Securities and Exchange Commission (SEC) filers are required to follow the Current Expected Credit Losses (CECL) standard in 2020, small SEC reporting companies, financial institutions, and other public business entities were granted a reprieve by the FASB until 2023.
    - c. Received an update that on Dec. 10, 2019, the U.S. Supreme Court heard an oral argument over whether insurers are entitled to more than \$12 billion in unpaid ACA risk corridor payments from 2014 to 2016. NAIC staff is monitoring this topic and will prepare agenda items and coordinate with federal counterparties if needed based on the U.S. Supreme Court decisions.
    - d. Received an update on the four referrals that the Working Group received from the Valuation of Securities (E) Task Force.

- e. Received an update that NAIC staff have proposed a process update to the SCA review process, thereby eliminating manual portions of the process, which will save NAIC staff a substantial amount of time. With this proposal, NAIC staff will still provide state insurance regulators with SCA filing information on a monthly basis, but insurance company filers will be able to gather this information from the SCA filing screen themselves.
  - f. Received an update on current U.S. Generally Accepted Accounting Principles (GAAP) Exposures / Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.
  - g. Received an update that the Health Risk-Based Capital (E) Working Group is considering a new health test for determining whether an entity would be more appropriately represented on the Health, Life or Accident and Health blank. State insurance regulators and industry are encouraged to monitor that exposure and discussion by Working Group.
9. The following agenda items have a May 1, 2020, comment deadline.

Items with Corresponding Blanks Revisions:

- 2019-20 – Rolling Short-Term Investments
- 2019-25 – Working Capital Finance Investments
- 2019-36 – Expand MGA and TPA Disclosures
- 2019-37 – Surplus Notes – Enhanced Disclosures
- 2019-42 – Cash Equivalent – Cash & Liquidity Pools
- 2019-47 – VM 21 Grading
- 2020-01 – Update / Remove References to SVO Listings
- 2020-07 – Changes to the Summary Investment Schedule

Editorial/Proposed to be Rejected:

- 2020-06EP – Editorial and Maintenance Update
- 2020-08 – *ASU 2016-20, Technical Corrections & Improvements – Topic 606*
- 2020-09 – *ASU 2018-18, Collaborative Arrangements – Topic 808*
- 2020-10 – *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606*
- 2020-11 – *ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses and Leases*

All remaining exposed agenda items have a May 29, 2020, comment deadline except for the SSAP No. 43R Issue Paper (Ref #2019-21). Feedback on agenda item 2019-21 is requested throughout the exposure process, with all final comments due by June 26, 2020.

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