

2020 Summer National Meeting
Virtual Meeting

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP

Thursday, July 30, 2020

11:00 a.m. – 1:00 p.m. ET / 10:00 a.m. – 12:00 p.m. CT / 9:00 – 11:00 a.m. MT / 8:00 – 10:00 a.m. PT

Meeting Summary Report

The Statutory Accounting Principles (E) Working Group met July 30, 2020. During this meeting, the Working Group:

1. Adopted the minutes for the following conference calls and e-votes: July 15, June 15, May 20, May 5, April 17, April 15, March 26 and March 18.
2. Adopted the following substantive revisions to statutory accounting guidance:
 - a. *Statement of Statutory Accounting Principles (SSAP) No. 32R—Preferred Stock*: Adopted substantively revised SSAP No. 32R and corresponding *Issue Paper No. 164—Preferred Stock*, which updates the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project. Revised SSAP No. 32R is effective Jan. 1, 2021. (Ref #2019-04)
3. Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions update the reporting line for qualifying cash pools and make clarifying edits. (Ref #2020-16EP)
 - b. *SSAP No. 26R—Bonds* and *SSAP No. 30R—Unaffiliated Common Stock*: Revisions eliminate references to the NAIC Bond Fund List (Bond List) in SSAP No. 26R and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R. (Ref #2020-01)
 - c. *SSAP No. 26R*: Revisions clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a called bond or a tender offer, shall be similarly applied. This adoption has a Jan. 1, 2021, effective date with early adoption permitted. (Ref #2020-02)
 - d. *SSAP No. 51R—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts*, and *SSAP No. 54R—Individual and Group Accident and Health Contracts*: Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the *Valuation Manual*, shall be reported as a change in valuation basis. (Ref #2020-04)
 - e. *SSAP No. 68—Business Combinations and Goodwill*: Revisions add disclosure elements for reported goodwill. The additional disclosures will improve the validity and accuracy of the financial statements, and they will assist with state insurance regulators’ review of reported assets that are not readily available for policyholder claims. These disclosure revisions will be effective for the 2021 reporting year to correspond with blanks changes. (Ref #2020-03)
 - f. *SSAP No. 86—Derivatives*: Revisions ensure reporting consistency in that derivatives are reported “gross;” i.e., without the inclusion of financing components. Additionally, amounts owed to/from the reporting entity from the acquisition or writing of derivatives shall be separately reflected. The concepts are consistent with existing statutory accounting guidelines, but the revisions clarify the guidance and improve uniform application. The revisions have an effective date of Jan. 1, 2021. (Ref #2019-38)
 - g. *SSAP No. 106—Affordable Care Act Section 9010 Assessment*: Revisions supersede SSAP No. 106 and nullify *Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums*. With this adoption, a blanks proposal will be sponsored to incorporate reporting changes for 2021 reporting and recommend guidance for 2020 year-end reporting. (Ref #2020-05)
 - h. *Appendix B—Interpretations of Statutory Accounting Principles: INT 20-09: Basis Swaps as a Result of the LIBOR Transition* basis swaps are compulsory derivatives issued by central clearing parties (CCPs) in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR). The interpretation directs that the basis swaps

be reported as "hedging - other" and at fair value, thus qualifying for admittance. To be considered or reported as an "effective" hedging, the instrument must qualify as a highly effective hedge under SSAP No. 86.

4. Exposed the following nonsubstantive revisions to statutory accounting guidance:
 - a. SSAP No. 2R: Revisions require the identification/disclosure of cash equivalents, or substantially similar investments, that remain on the same reporting schedule for more than one consecutive reporting period. This is an expansion of the current disclosure requirements that only referenced short-term investments and to clarify that the disclosure is satisfied through the use of the code on the investment schedules. (Ref #2020-20)
 - b. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*: Revisions update the amortization guidance for leasehold improvements. The updated language will allow leasehold improvements to have lives that match the associated lease term, which agrees with U.S. Generally Accepted Accounting Principles (GAAP). (Ref #2020-23)
 - c. *SSAP No. 25—Affiliates and Other Related Parties*: Revisions clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation, a disclaimer of control does not eliminate the classification as a related party, and disclosure of material transactions are required under SSAP No. 25. The revisions also propose rejection of several U.S. GAAP standards addressing variable interest entities and include an update to the related party disclosures. (Ref #2019-34)
 - d. SSAP No. 26R: Revisions clarify that perpetual bonds shall be reported at fair value, not to exceed any currently effective call price, with a proposed effective date of Jan. 1, 2021, with early application permitted. (Ref #2020-22)
 - e. *SSAP No. 37—Mortgage Loans*: Revisions clarify that a participant's financial rights in a mortgage participation agreement may include the right to take legal action against the borrower or participate in the determination of legal action, but they do not require that the participant has the right to solely initiate legal action; foreclosure; or under normal circumstances, require the ability to communicate directly with the borrower. (Ref #2020-19)
 - f. *SSAP No. 43R—Loan-Backed and Structured Securities*:
 1. Revisions reflect the updated NAIC designation category guidance for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) recently adopted to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). (Ref #2020-21)
 2. Exposed agenda item to solicit comments on two options for the accounting of credit tenant loans (CTLs). The Valuation of Securities (E) Task Force will be notified of this exposure with a request for further confirmation that a Securities Valuation Office (SVO)-Listing could be developed to capture the CTLs that meet the SVO's structural and legal analysis and possess bond characteristics. (Ref #2020-24)
 - g. *SSAP No. 53—Property and Casualty Contracts—Premiums*, *SSAP No. 54R*, and *SSAP No. 66—Retrospectively Rated Contracts*: Exposed agenda item with a request for comments on the development of authoritative guidance for policyholder refunds and other premium adjustments for accident and health and property and casualty lines of business. Assistance from industry was requested in developing principles-based guidance, particularly for the varieties of data-telematics policies. (Ref #2020-30)
 - h. *SSAP No. 71—Policy Acquisition Costs and Commissions*: Exposed revisions clarify existing levelized commissions guidance, which requires full recognition of the funding liabilities incurred to date for commission expenses prepaid on behalf of an insurer. The revisions also clarify that the recognition of commission expense is based on experience to date. The exposed revisions are consistent with the 2019 Fall National Meeting exposure, with the inclusion of guidance to clarify that reporting entities that have not complied with the original intent shall reflect the change as a correction of an error, in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*, in the year-end 2020 financial statements. (Ref #2019-24)
 - i. *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:
 1. Revisions update the subsidiary, controlled and affiliated entities (SCA) review process descriptive language and the procedures for availability and delivery of completed SCA reviews for domestic regulators and financial statement filers. (Ref #2020-17)

2. Revisions remove the statement that guarantees or commitments from the insurance reporting entity to the SCA can result in a negative equity valuation of the SCA. (Ref #2020-18)
- j. *Appendix B—Interpretations of Statutory Accounting Principles*: Exposed revisions to extend the following interpretations issued in response to COVID-19 to the third quarter 2020 financial statements. With these revisions, these interpretations will expire Dec. 30, 2020; therefore, they will not be applicable for year-end 2020. The exposure has a shortened comment period ending Aug. 14. Adoption of these extensions may be considered by an e-vote if there are no concerns with the extensions received during the exposure period:
1. *INT 20-02: Extension of the Ninety-Day Rule for the Impact of COVID-19*
 2. *INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19*
 3. *INT 20-05: Investment Income Due and Accrued*
- k. *Appendix B—Interpretations of Statutory Accounting Principles*: Received an update and determined that the following two interpretations, issued in response to COVID-19, are specifically tied to the timeframes described in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As such, an extension was not deemed necessary at this time.
1. *INT 20-03: Troubled Debt Restructuring Due to COVID-19*
 2. *INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19*
- l. *Appendix D—Nonapplicable GAAP Pronouncements*:
- The following U.S. GAAP standards were rejected as not applicable to statutory accounting:
1. *ASU 2015-10, Technical Corrections and Improvements*. (Ref #2020-26)
 2. *ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date*. (Ref #2020-27)
 3. *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. (Ref #2020-28)
 4. *ASU 2020-05—Effective Dates for Certain Entities*. (Ref #2020-29)
5. Exposed the following editorial revisions to statutory accounting: (Ref #2020-25EP)
- a. *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*: Removed redundant paragraph references.
 - b. *SSAP No. 62R—Property and Casualty Reinsurance*: Added a table that lists the questions addressed in Exhibit A - Implementation Questions and Answers.
6. Rejected agenda item 2020-13: Health Industry Request on 2020 Health Insurance Assessment without statutory revisions. (Note that the sponsor requested withdrawal) (Ref #2020-13)
7. Received an update on the following projects and referrals:
- a. Ref #2019-21: Received an update that the issue paper to consider substantive revisions to SSAP No. 43R was exposed through July 31, and a subsequent conference call will be scheduled to consider comments and continue the discussion. It was also noted that NAIC staff have had ongoing conversations with industry representatives and investment providers to discuss differing structures during the exposure period.
 - b. Deferred discussion of the following agenda items for a subsequent call or meeting:
 1. Ref #2018-07: Surplus Note Accounting – Referral from the Reinsurance (E) Task Force

2. Ref #2019-12: *ASU 2014-17, Business Combinations, Pushdown Accounting*
 3. Ref #2019-49: Retroactive Reinsurance Exception
- c. Received an update on two referrals.
1. Referral from the Valuation of Securities (E) Task Force regarding the accounting and reporting treatment of CTLs is being addressed in agenda item Ref #2020-24.
 2. Referral from the Financial Condition (E) Committee regarding an American Council of Life Insurers (ACLI) request relative to the accounting treatment of certain “basis swaps” permitted under state law, as a result of the transition away from LIBOR. This referral was addressed with the adoption of INT 20-09.
- d. Received an update on current U.S. GAAP Exposures / Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.
8. With the exception of INT 20-02, INT 20-04 and INT 20-05, which have a comment deadline of Aug 14, the comment deadline for all exposed agenda items is Sept. 18.

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