Meeting Summary Report

The Valuation of Securities (E) Task Force met Dec. 8, 2019. During this meeting, the Task Force:

1. Adopted its Sept. 5, Oct. 31 and; and Summer National Meeting minutes, which included the following action:
   a. Adopted an updated amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to add instructions for the new administrative fields “RTS” and “RT” that was exposed for a 14-day comment period that ended Aug. 30.
   b. Adopted its 2020 proposed charges.
   c. Adopted a P&P Manual amendment updating the interim instructions for Mortgage Reference Securities that was exposed for a 30-day comment period that ended Sept. 4.
   d. Discussed a proposed P&P Manual amendment to add instructions for Exchange Traded Funds (ETF) that contain a combination of preferred stocks and bonds and directed Securities Valuation Office (SVO) staff to prepare a memo summarizing issues related to ETFs.
   e. Received a proposed P&P Manual amendment to rename the U.S. Direct Obligations/Full Faith and Credit Exempt List and to the NAIC U.S. Government Money Market Fund List and discontinue the Bond Fund List and migrate these funds to the new NAIC Fixed Income-Like SEC (U.S. Securities and Exchange Commission) Registered Funds List in 2020. The amendment was exposed for 45-day comment period ending on Dec. 16.
   f. Receive a proposed P&P Manual amendment to add instructions to limit NAIC Designations to the NAIC Assigned Sovereign Rating. The amendment was exposed for 45-day comment period ending on Dec. 16.
   g. Received a proposed P&P Manual amendment to add instructions for Ground Lease Transactions. The amendment was exposed for 22-day comment period ending on Nov. 22.
   h. Discussed a proposed P&P Manual amendment for Principal Protected Securities.

2. Received an update from NAIC staff on projects before the Statutory Accounting Principles (E) Working Group, including:
   - Items Adopted by the Working Group: 1) Other Derivatives – revisions to clarify that other derivatives – which are derivatives that are not used in hedging, income generation or replication transactions – shall be reported at fair value and nonadmitted; 2) Goodwill – for subsidiary, controlled and affiliated investments (SCAs), the Working Group adopted minor revisions to clarify that goodwill from an insurance entity acquisition of an SCA is subject to the 10% adjusted capital and surplus limit, regardless if the goodwill had been “pushed down;” and 3) Wash Sales – revisions to clarify that the wash sale disclosure shall only include wash sale transactions that cross reporting periods. Items Exposed by the SAPWG: 1) Preferred Stock – revised issue paper and proposed substantively revised SSAP No. 32R as part of the investment classification project; 2) Related Party Transactions – proposed to data-capture existing SSAP No. 25 disclosures and exposure to clarify the types of entities that are included as related parties, clarification that non-controlling ownership interest greater than 10% is a related party; 3) Working Capital Finance Investments – substantive revisions to SSAP No. 105 as directed by the Working Group to reflect 6 of the recommendations provided by industry and referred from the Task Force; 4) Rolling Short-Term Investments – revisions to SSAP No. 2R to incorporate principle concepts in classifying investments as cash equivalents or short-term investments; 5) Qualifying Cash Pools – revisions to SSAP No. 43R to incorporate concepts to allow cash pools to be reported as cash equivalents; 6) Financial Modeling – 43R – revisions to eliminate the financial modeling guidance from SSAP No. 43R, noting that this exposure was contingent on the Task Force taking a similar action at the National Meeting; and 7) Financing Derivatives – revisions for the reporting of derivatives with financing premiums.

3. Received a proposed Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) amendment to reflect the U.S. SEC’s adoption of a new Rule 6c-11 under the Investment Company Act of 1940, to modernize regulation of exchange traded funds to operate without first obtaining an exemptive order under from the SEC under the Act and exposed the amendment for a 45-day comment period ending Jan. 23, 2020.

4. Adopted a proposed P&P Manual amendment and refer it to the Statutory Accounting Principles (E) Working Group instructions for Ground Lease Financing (GLF) transaction following a decision tree analysis approach: 1) the SVO would analyze it to see if meets the credit tenant loan criteria and the SVO could analyze the sub-leases; 2) assess if the Structured Security Group can model the GLF; and 3) if a ratings agency rating was assigned, authorize the SVO to use that analysis in its assessment. The amendment that was exposed for a 22-day comment period that ended on Nov. 22.
5. Received a proposed P&P Manual amendment to remove the financial modeling instructions for RMBS/CMBS securities and direct Investment Analysis Office (IAO) staff to instead produce NAIC designations and NAIC designation categories for these securities and exposed the amendment for a 60-day comment ending Feb. 7, 2020.

6. Received an SVO staff report on their work defining principal protected notes. Staff reported been working iteratively with industry on a general framework to describe repackaged securities that may possess Other Non-Payment Risks that the SVO must assess under its Subscript S authority.

7. Received a CIPR staff report on their infrastructure project. CIPR staff, with assistance from the Capital Markets Bureau, is researching the state of infrastructure investing as it pertains to US insurance companies and has solicited a great deal of information from interested parties. A great deal of progress has been made, including finalizing a definition of economic infrastructure.

8. Received an SVO staff report on various technology projects: integration of security identifiers in the filing exempt process (BECRS/GICRS) has been deferred; inclusion of ratings data the Japan Credit Rating Agency, Ltd. has been deferred; implementation of additional CRP data feeds for securities subject to private rating letters component of filing exemption has been deferred; implementation of the carry-over procedure in 2019 for the administrative symbols “YE” and “IF completed; and implementation of NAIC designation categories was on schedule for early 2020.