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June 19, 2020

Mr. Dale Bruggeman, Chairman

Statutory Accounting Principles Working Group

National Association of Insurance Commissioners

1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Ref #2019-14, *Attribution of Goodwill*

Dear Mr. Bruggeman:

Thank you for the opportunity to comment and provide suggested edits to Ref 2019-14, *Attribution of Goodwill*. In discussing the guidance with both NAIC staff and with members of industry, we believe the proposed guidance would be made clearer by incorporating the attached decision tree and expanded examples. We also believe that the disclosure contained in paragraph 42 of SSAP No. 97 should be amended for the reasons discussed below.

The guidance in SSAP No. 68, *Business Combinations and Goodwill* (SSAP No. 68) and SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97), provides that statutory goodwill is an asset held by a parent insurance entity, which is distinguished as a separate component of the carrying value of the investment, regardless of look-through accounting. The statutory goodwill would be audited within the initial acquisition transaction and within the annual audit of the investments in subsidiaries balance of the insurance entity. Further, the investment (including related statutory goodwill) would be subject to impairment testing under SSAP No. 68 upon triggering events, including paragraph 9f, when there is “a current expectation, that more likely than not, a long-lived asset will be sold or otherwise disposed.” Importantly, if a look-through approach is not employed, a GAAP audit of a non-insurance holding company or any of its subsidiaries would not provide any assurance over the statutory goodwill that is associated with the investment.

Likewise, if a look-through of a non-insurance holding company is performed, and goodwill was required to be “allocated” to the underlying subsidiaries of the non-insurance holding company, the audits of such underlying entities would not provide any assurance as to the value of the associated goodwill. This is because the attributed goodwill would not be in the assets, liabilities, or equity of the audited balance sheet of the underlying subsidiaries. As a result, interested parties question whether the exposure will have its intended effect of providing additional assurance on the value of goodwill admitted by insurers. Therefore, interested parties believe that all of the statutory goodwill resulting from the acquisition of a noninsurance holding company should be admitted, subject to the 10% limitation of SSAP No. 68.

Notwithstanding our comments above, interested parties believe that the proposed disclosure requirements in paragraph 42 of SSAP No. 97 are not meaningful if there is no statutory goodwill associated with an insurance company’s acquisition of a noninsurance holding company, or if the statutory goodwill has been fully amortized. To address this, we propose the following changes to paragraph 42:

42. If a reporting entity utilizes the look-through approach for the valuation of the downstream noninsurance holding company instead of obtaining audited financial statements of the downstream noninsurance holding company, the financial statements of the reporting entity shall include the following disclosures:

1. The name of the downstream noninsurance holding company
2. If statutory goodwill was recorded as part of the acquisition of a noninsurance holding company, the following disclosures shall be provided for each noninsurance holding company in which the look-through approach is utilized (this disclosure shall only be provided as long as unamortized statutory goodwill is included as part of the value of the investment in the noninsurance holding company):
	1. Information that details whether the reporting entity has looked-through more-than-one holding company, along with details on the carrying value, goodwill and admitted value of the holding company
	2. Information on the entities held by the noninsurance holding company that includes their carrying value, assignment of goodwill (and how this assignment was determined), whether audited financial statements were obtained, and the ultimate admitted value
3. The carrying value of the investment in the downstream noninsurance holding company

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Thank you for considering interested parties’ comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested Parties