The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Washington, DC, Nov. 16, 2014. The following Working Group members participated: Dale Bruggeman, Chair (OH); Jim Armstrong, Vice Chair (IA); Kim Hudson and Tomoko Stock (CA); Linda Sizemore (DE); Eric Moser (IL); Caroline Brock and Stewart Guerin (LA); Judy Weaver (MI); Patricia Gosselin (NH); Kimberly Rankin (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Tom Houston (WI). Also participating were Richard Ford and Steve Ostlund (AL); William Arfanis and Kathy Belfi (CT).

1. Held Public Hearing to Review and Adopt Non-Contested Positions

The Working Group held a public hearing to review comments (Attachment One-A) on previously exposed items.

Mr. Bruggeman advised that six exposed items either did not receive comments, or received comments in support of the proposal. He advised that if no additional discussion was considered necessary, these items would be adopted in a single motion. On a motion from Mr. Hudson, seconded by Ms. Walker, the Working Group unanimously adopted:


b. Agenda Item 2014-16: Nonsubstantive revisions to SSAP No. 1—Disclosure of Accounting Policies, Risks and Uncertainties, and Other Disclosures and SSAP No. 4—Assets and Nonadmitted Assets to clarify guidance and disclosure requirements for restricted assets (Attachment One-C).

c. Agenda Item 2014-17: Nonsubstantive revisions to SSAP No. 104R—Share-Based Payments to adopt ASU 2014-12: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period with an effective date of Jan. 1, 2016, and with early adoption permitted (Attachment One-D).

d. Agenda Item 2014-18: Nonsubstantive revisions to SSAP No. 56—Separate Accounts to detail the disclosure withdrawal characteristics. The Working Group also noted that a corresponding annual statement blanks proposal has been submitted to the Blanks (E) Working Group (Attachment One-E).

e. Agenda Item 2014-20: Nonsubstantive revisions to SSAP No. 101—Income Taxes to clarify that the RBC authorized control level used in the annual deferred tax asset realization threshold calculation is from the RBC ratio in process of being filed. Additionally, for interim periods, reporting entities shall use the authorized control level RBC filed as of the most recent calendar year (Attachment One-F).

f. Agenda Item 2014-26: Nonsubstantive revisions to consolidate previously rejected U.S. generally accepted accounting principle (GAAP) items from INT 99-00: Compilation of Rejected GAAP into Issue Paper No. 99 (Attachment One-G).

2. Public Hearing: Reviewed Comments on Exposed Items

a. Agenda Item 2013-17

Mr. Bruggeman directed the Working Group to agenda item 2013-17: Single Member and Single Asset LLCs, Underlying Asset is Real Estate. Ms. Marcotte noted this item proposed to move the reporting of qualifying real estate investments owned directly through a limited liability company (LLC) into the real estate guidance. Ms. Marcotte noted that the comments received in this area were primarily focused in five areas regarding: 1) the types of activities that the limited liability entity can conduct; 2) annual statement organizational chart reporting; 3) contiguously located properties; 4) whether...
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the entities could have indirectly held investments; and 5) whether early adoption should be permitted. Ms. Marcotte indicated that NAIC staff has prepared discussion drafts of the revised issue paper and the substantively revised SSAP No. 40—Real Estate Investments which incorporated recommendations, based on staff review of the comments and input from the Working Group. Ms. Marcotte noted that qualifying real estate held through a LLC would continue to meet the definition of an affiliated entity and be reflected in the organizational chart. In regards to whether investments could be held indirectly through a downstream holding company, the prior Working Group direction has indicated that they must be held directly. In addition, the effective date was recommended to be Jan. 1, 2015.

John Bauer (Prudential), representing interested parties, noted that they had the opportunity to review the discussion draft, and based on conversations, they understood that the current exception would only be allowed for real estate held through directly owned limited liability entities. Mr. Bauer noted that they were supportive of a shortened comment period.

Mr. Houston made a motion, seconded by Mr. Hudson, to simultaneously expose a revised Issue Paper No. 149 and substantively revised SSAP No. 40R to move wholly-owned single asset real estate in an LLC within the scope of SSAP No. 40R as of Jan. 1, 2015. The motion passed. These items were exposed with a shortened comment deadline ending Dec. 8, 2014. Additionally, the Working Group directed NAIC staff to prepare an annual financial statement blanks proposal to reflect this change within the investment schedules.

b. Agenda Item 2013-36

Mr. Bruggeman directed the Working Group to agenda item 2013-36: Investment Classification Project and invited responders to present their comments concisely. Mr. Bruggeman also asked that commenters indicate their thoughts regarding the prioritization of the topics including the definition of a security for SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities (SSAP No. 26) and the treatment of funds. Keith Bell (The Travelers Companies), representing interested parties, noted that their general recommendation was to sharpen the focus of the project. Mr. Bell noted that there are multiple investment projects and other large projects at the NAIC, and both NAIC and industry resources to provide input is a challenge. The interested parties recommend that the project be divided into three work streams: 1) areas where clarification of guidance is needed; 2) investments or instruments where guidance regarding the classification or scope guidance is needed; and 3) areas where guidance may need to be amended. Mr. Bell stressed that it is important that any changes also have a cost benefit analysis so that resources are expended wisely. Mr. Bruggeman asked where they would classify the first two items in the prioritization list. Mr. Bell indicated they thought they would be in work stream two. Rosemarie Albrizio (AXA Equitable) expanded that work stream one would provide clarifications for questions staff have received. Mr. Bell noted that the Financial Accounting Standards Board (FASB) recently highlighted the costs and benefits analysis that FASB performs in an Outlook article.

Ms. Albrizio noted that interested parties view addressing the whether measurement method and valuation should be based on the type of company that holds the investments, that is the application of the asset valuation reserve (AVR) and interest maintenance reserve (IMR), as overly broad in scope and noted it would require valuation review across the NAIC. Ms. Albrizio also noted that given the amount of time and resources that were spent to revise SSAP No. 43R—Loan-Backed and Structured Securities-Revised that they propose not to reopen this statement. Greg Hendler (Genworth Financial), representing interested parties, noted that they do not object to the first two issues in the prioritization list of issues. Mr. Hendler also noted that interested parties would volunteer to work collaboratively with the Working Group on this project.

Katie Garvey (BlackRock) noted that BlackRock had submitted a company letter jointly with State Street Global Advisors (State Street), and they had no issues with prioritization of the first two issues. She noted that Blackrock and State Street advocated that bond-like investments with the underlying economic characteristics of bonds such as certain bond ETFs and other securities that are currently identified in the Purposes and Procedures Manual of the NAIC Investment Valuation Office as qualifying for bond treatment should remain in SSAP No. 26. Ms. Garvey noted that BlackRock and State Street would be happy to provide supportive analysis that shows that the economic performance is similar to the insurer’s portfolio of bonds. She cautioned against fundamental changes to the treatment of bond ETF funds, which could result in changes to the risk-based capital treatment. She noted that such changes could limit an entity’s ability to use these investments, noting that small and mid sized entities would suffer. She expressed that BlackRock and State Street are willing to work with regulators to develop and expose simpler changes that work within the existing framework.

Dave Chellgren (Conning Asset Management) stressed two concerns from Conning’s comment letter. Mr. Chellgren noted that SSAP No. 43R is the statutory accounting version of FAS 91: Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and
Mr. Bruggeman noted that a few of the comment letters received directed comments to the preferences of NAIC staff. He noted that although the Working Group often relies on NAIC staff to identify issues, it should be noted that the Working Group directs staff and makes the ultimate decisions. Mr. Bruggeman noted that he would also instruct staff to add mortgage loan participations to the list of items in the investment classification project to review under SSAP No. 37—Mortgage Loans and to schedule calls to address the investment classification project in January as the calendar allows. In addition, Mr. Bruggeman noted that the Working Group should direct NAIC staff to proceed with the first two issues in the prioritization list, which include considering a definition for “security” for SSAP No. 26, considering the GAAP definition already included in SSAP No. 37, and to consider a requirement for SSAP No. 26 investments to have a “contractual amount of principal due.” This item proposes consideration of a new SSAP and investment schedule for all “funds” that would allow identification and RBC assessment based on the type and risk of fund.

c. **Agenda Item 2014-06**

Mr. Bruggeman directed the Working Group to agenda item 2014-06: SSAP No. 57—Title Insurance Premium Classifications, noting that this item proposed deletion of a disclosure and corresponding revisions to the guidance to remove the term “risk rate.” Ms. Marcotte stated that the comments received from the American Land Title Association (ALTA) were supportive of adopting the exposed guidance. She stated that the interested parties’ comments on risk rate were supportive of the proposed deletion of that term as reflected in the August 2014 exposure. The interested parties also provided comments that were in reply to comments received from Demotech regarding activity codes for closing protection letters. The comments from Demotech had previously been forwarded by the Statutory Accounting Principles (E) Working Group to the Title Insurance Financial Reporting (C) Working Group. Mr. Hudson made a motion, seconded by Ms. Walker, to adopt the exposed nonsubstantive revisions to SSAP No. 57, deleting the paragraph 23a disclosure pertaining to Gross Risk Rate and Gross All-Inclusive and to delete corresponding references in paragraph 6 (Attachment One-H). The motion passed. In addition, the Working Group directed NAIC staff to forward the interested parties’ comments regarding closing protection letters to the Title Insurance Financial Reporting (C) Working Group.

d. **Agenda Item 2014-19**

Mr. Bruggeman directed the Working Group to agenda item 2014-19: Clarification of Interpretations Incorporated into SSAP No. 55. Ms. Marcotte stated that this item proposes to incorporate technical revisions to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses from INT 02-21—Accounting for Prepaid Loss Adjustment Expenses and Claim Adjustment Expenses (INT 02-21) and INT 03-17—Classification of Liabilities from Extra Contractual Obligation Lawsuits (INT 03-17) that was not originally incorporated when those interpretations were nullified. These changes incorporate previously adopted language from INT 03-17 and clarifying language regarding prepaid loss adjustment expenses from INT 02-21.

Ms. Marcotte noted that additional comments had been received from interested parties regarding extra contractual obligation lawsuits that were outside of the scope of the original INT 03-17. Ms. Marcotte noted that NAIC staff recommends obtaining more information from interested parties and that the issues identified should be addressed in a separate agenda item. Mr. Bell noted that there are circumstances where a liability is being determined without a direct relationship to a claim or policy. He noted this has particularly occurred in environmental and asbestos claims. Mr. Bell noted that it would be helpful if this issue was sent to the Casualty Actuarial and Statistical (C) Task Force. Mr. Bruggeman requested that interested parties provide more details that could be used in a referral, and Mr. Bell agreed to provide more information. Mr. Bruggeman noted that the current agenda item is technical and narrower in scope than this inquiry, and in his view, the new item could be

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*65 and a rescission of FASB Statement No. 17*, which focuses on securities that have prepayment variability over the life of the security. Conning advocated that the trust language in SSAP No. 43R that was added about six to eight years ago should be reviewed and refined so that the statement focuses on prepayment variability rather than the trust structure. Mr. Chellgren noted particular concerns regarding special revenue bonds that provide semi-annual payments like a bond and repay principal at maturity like a bond. He further noted that the default risk is more like a corporate bond, and prepayment information is not readily available. Mr. Chellgren noted it makes sense to amortize special revenue bonds based on a yield to worst concept. Mr. Chellgren noted that the recently issued Freddie Mac Structured Agency Credit Risk (STACR) structured notes should be amortized more like a SSAP No. 43R security instead of a bond because of the terms. Mr. Chellgren noted that a recommendation to review treasury indexed securities was a lesser concern for Conning. Mr. Chellgren noted that GAAP and tax basis treat the inflation adjustment as income in the period earned, which is different from the unrealized gain and loss treatment that statutory accounting applies.

Mr. Bruggeman noted that the list, which include considering a definition for “security” for SSAP No. 26, considering the GAAP definition already included in SSAP No. 37, and to consider a requirement for SSAP No. 26 investments to have a “contractual amount of principal due.” This item proposes consideration of a new SSAP and investment schedule for all “funds” that would allow identification and RBC assessment based on the type and risk of fund.
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Mr. Bruggeman directed the Working Group to agenda item 2014-21: Updates to Allow the 2012 Group Long-Term Disability Table, which incorporates changes from the Health Insurance Reserves Model Regulation (#10), which was developed by the Health Actuarial (B) Task Force in Appendix A requiring use of the 2012 Group Long-Term Disability (GLTD) Valuation Table. Ms. Marcotte noted that this item was exposed by the Working Group as requiring the 2012 GLTD table beginning in Jan. 1, 2016, with early adoption permitted.

Although no comments were received, NAIC staff recommended that the Working Group consider exposing revisions to proposed guidance to specify the effective date under statutory accounting principles. It is further proposed that this draft guidance require any reporting entity that applies the 2012 GLTD Valuation Table prior to 2016 (as allowed under the Model Regulation) to report this as a prescribed practice with documentation in annual statement note 1 of the impact to surplus and income. This disclosure would allow for consistent comparisons among reporting entities for statutory accounting purposes.

A referral was sent to the Health Actuarial (B) Task Force requesting that the Task Force be aware of the impact of optionality permitted with the effective dates for individual disability guidance currently proposed by the Task Force and to highlight the issue of comparability. Finally, the referral requested materiality information for guidance already adopted. Mr. Bruggeman noted that this referral was discussed at the Health Actuarial (B) Task Force Nov. 15 meeting. Steve Ostlund (AL), chair of the Health Actuarial (B) Task Force, noted that because of the structure of the changes in the 2012 GLTD table, the adoption of the table would be unlikely to have a material impact on a reporting entity’s surplus and would be unlikely to result in comparability issues. At a high level, Mr. Ostlund indicated that the changes resulting from the 2012 GLTD would move where certain pieces of the long-term disability liability resided in the calculation. For example, while it may appear that the prior minimum reserve under the prior GLTD table was higher than the 2012 GLTD table, the reality is that under the 2012 GLTD table, an amount similar to the difference between the prior minimum reserve and the 2012 minimum reserve would be reflected in the additional reserve.

Mr. Bruggeman noted that the purpose of the referral was to make the Health Actuarial (B) Task Force aware of the accounting issue of comparability and that multiple optional effective dates could result in disclosures to preserve accounting comparability. The 2012 GLTD table was not the focus of the referral. Mr. Bruggeman noted that based upon Mr. Ostlund’s description, it seemed that the 2012 GLTD table was unlikely to result in differences in statutory surplus.

Mr. Ostlund also noted that the transition period in Model Law #10 for the 2012 GLTD table was intended to accommodate companies and that he recommended that the Working Group choose a required effective date that was at the end of the transitional period. Bill Weller (America’s Health Insurance Plans—AHIP) also noted that because the of the common GLTD elimination period of three months, the 2012 GLTD table was not intended to actually apply to claims on Oct. 1, 2016, but to apply to claims beginning Jan. 1, 2017. Mr. Bruggeman inquired if Mr. Weller recommended that the Working Group require application of the table beginning Jan. 1, 2017, with early adoption permitted. Mr. Weller replied that Jan. 1, 2017, was preferable with early adoption permitted.

Ms. Marcotte noted that the current exposure for the Accounting Practices and Procedures Manual permits early adoption. She said it requires the application of the 2012 GLTD table as of Jan. 1, 2016, and that the proposed change was for required application of the 2012 GLTD table as of Jan. 1, 2017. Ms. Marcotte requested clarification regarding whether early adoption of the 2012 GLTD would require disclosure as a prescribed practice or if early adoption would be permitted under the Accounting Practices and Procedures Manual, in which case disclosure on adoption of the table which would be reflected as a change in valuation basis, and thus be disclosed as a change in accounting principle. Mr. Bruggeman summarized this question to the members of the Working Group, noting that he leaned toward having a prescribed practice that would require a shortened comment period to expose the new guidance.

Ms. Walker asked for clarification of what type of disclosure would be required for a reporting entity adopting on the required date. Ms. Marcotte indicated that adoption of the new methodology on whatever date it is applied would always require a change in accounting principle to be disclosed. The issue is that if the Accounting Practices and Procedures Manual does not permit early adoption and the state adoption of the model law allows for earlier application, that early application would also be disclosed in annual statement Note 1 as a prescribed practice. The purpose of the prescribed difference disclosure is to allow for comparability between reporting entities. Ms. Walker noted that if early adoption is permitted,
reporting entities could be applying either the prior table or the new 2012 GLTD table. Mr. Ostlund noted that the 2012 GLTD table is expected to have only a minimal impact on reserves because it is focused on claims. Ms. Walker noted that she preferred to allow for early adoption in the Accounting Practices and Procedures Manual consistent with the exposure and to change the required date to Jan. 1, 2017.

Ms. Walker made a motion, seconded by Ms. Sizemore, to adopt revisions to incorporate changes to Appendix A-010 requiring the 2012 GLTD table as of Jan. 1, 2017, with early adoption permitted (Attachment One-J). The motion passed.

Mr. Bruggeman directed the Working Group to agenda item 2014-22: Health Actuarial Guideline XLVII. Ms. Marcotte advised that this item proposes to incorporate the new Actuarial Guideline (AG) 47 into Appendix C of the Accounting Practices and Procedures Manual and incorporates updates to the introduction section of Appendix C to reference the Health Actuarial (B) Task Force. Ms. Marcotte noted that the AG provides guidance on blending own company experience data into the 2012 GLTD table. Mr. Houston made a motion, seconded by Ms. Weaver, to adopt the exposed nonsubstantive revisions (Attachment One-K). The motion passed unanimously.

Mr. Bruggeman directed the Working Group to agenda item 2014-23: Treatment of Non-Cash Items in the Cash Flow Statement. Ms. Marcotte advised the exposure requested information on the cash and non-cash transactions currently reflected in the cash flow statements and preferences on what should be included. Ms. Albrizio, representing interested parties, noted that the cash flow statement and the cash flow worksheets were functioning well, and they did not see a compelling need to change them. Ms. Albrizio noted that reporting entities were not required to use the cash flow worksheets, and not all entities relied on them.

Connie Jasper Woodroof (StoneRiver), representing interested parties, noted that the instructions indicate that the annual statement worksheets are designed around annual statement reporting. Ms. Woodroof noted that the worksheets are particularly helpful to smaller companies because the worksheets allow information to flow from the annual statement schedules. She noted that the worksheets do provide annual statement references, but they also note that reporting entities should make adjustments. Ms. Woodroof noted that these adjustments are made when needed in order to tie back to the cash beginning and ending balance. Ms. Woodroof noted that because the final format does tie back to cash items, they are being reported consistently. Therefore, interested parties did not think that making revisions to the cash flow statement is a good use of resources.

Mr. Bruggeman noted that he is hearing that interested parties are maintaining that the cash flow statement is getting to the appropriate cash basis. Mr. Bruggeman noted that it does not sound like the operating non-cash items, which are adjusted out, are currently being disclosed. He provided the example of when settling reinsurance with a bond instead of cash. Ms. Woodroof noted this type of transaction would be adjusted out of the cash flow statement but is likely not being separately disclosed. She further noted that bonds that are sold are sold in annual statement Schedule D, but they would not likely be separately disclosed. Mr. Bruggeman noted that based on the input that had been received, more than half of the regulators would like to see non-cash operating disclosures.

Mr. Bruggeman noted that he did not want to require worksheets. Mr. Houston noted that Wisconsin preferred not to make extensive changes to the worksheets.

In reviewing the comments from interested parties, and the regulator responses, Mr. Bruggeman stated that the recommendation is to direct NAIC staff to draft revisions to SSAP No. 69—Statement of Cash Flow to: 1) clarify that items included in the Cash Flow Statement should be limited to those that involve “cash,” which is currently defined in SSAP No. 69 to include cash, cash equivalents and short-term investments; 2) expand the SSAP No. 69 disclosure to include non-cash operating items; and 3) send a referral to the Blanks (E) Working Group to incorporate instructions to the Cash Flow Worksheets to further clarify that adjustments are needed to remove non-cash items. Mr. Houston made a motion, seconded by Mr. Hudson, to direct NAIC staff to draft the revisions. The motion passed.
Mr. Bruggeman noted that the Working Group was tasked with Agenda Item 2014-25: Holders of Surplus Notes. Ms. Marcotte noted that the Working Group had previously requested comments on the examples and proposals to clarify the existing surplus notes guidance and whether to revise the thresholds used when applying a statement factor for valuation of surplus notes. Richard Barnhart (MassMutual), representing interested parties, recommended the continued treatment of surplus notes with the equivalent of an NAIC 1 designation to continue to be valued at amortized cost similar to a highly rated corporate bond. Mr. Barnhart noted that surplus notes were widely held by insurers.

In addition, he noted that outstanding surplus notes tend to have an attractive interest rate and, therefore, are often traded at a premium. If the lesser of amortized cost or outstanding face value were applied as a new requirement, and premium was required to be written off at the time of purchase, then the investment would be less attractive to all insurer investors. Mr. Barnhart also noted that under the International Association of Insurance Supervisors (IAIS) work stream, mutual insurers are continuing to advocate for surplus notes to be counted as part of core capital for issuers and that they would not want to weaken that position.

Mr. Bruggeman noted that per information gathered by NAIC staff, approximately two-thirds of surplus notes held by insurers were the equivalent of NAIC 1, and the other one-third were less than NAIC 1 or unrated.

Steven Burrows (Eagle Investment Systems) noted that he had minor corrections to the nonrated illustrations in the agenda item, which he would share with NAIC staff.

Mr. Hudson made a motion, seconded by Mr. Houston, to direct NAIC staff to draft revisions to clarify existing guidance around non-rated surplus notes and surplus notes with a designation below an NAIC 1 for a subsequent exposure. The motion passed. In addition, the Working Group affirmed that surplus notes with an NAIC 1 designation should be reported at amortized cost, without applying the lower-of concept to outstanding face value. The Working Group indicated that it was not interested in pursuing changes to the threshold statement factor at this time. The Working Group also noted that NAIC staff should keep the Valuation of Securities (E) Task Force staff informed of the recommended changes.

i. Agenda Item 2014-27

Mr. Bruggeman directed the Working Group to Agenda Item 2014-27: Medicare Advantage and Medicare Part D Risk Adjustment Premium Receivables, noting that the Working Group had requested comments regarding whether the current reporting guidance for contracts subject to redetermination in SSAP No. 54—Individual and Group Accident and Health Contracts (SSAP No. 54) should be revised. Ms. Marcotte noted that the SSAP No. 54 guidance requires receivables from contracts subject to redetermination to be reported in aggregate write-ins for other than invested assets amounts. The contracts subject to redetermination guidance includes balances resulting from Medicare Part D and Medicare Advantage, as well as the risk adjustment program under the Federal Affordable Care Act (ACA).

Max McGee (AHIP), representing interested parties, recommended that continuing to report these items in the aggregate write-in for other than invested assets is not preferred. Mr. McGee noted that this is also relevant to the risk adjustment program for the ACA. He added that the liabilities side of the discussion may be more challenging. Interested parties would be willing to work with the regulators and staff to develop a specific recommendation.

Mr. Bruggeman noted that he agreed with having an informal group of regulators work with staff and industry to develop a recommendation on the future reporting and possible disclosure.

Mr. Bruggeman noted that there was also a comment letter received from AGI, which recommended that Medicare and ACA risk adjustment receivables and payables should more clearly be included in the scope of the Statement of Actuarial Opinion. Annual statement instructions explain that the scope of the opinion should include any other actuarial liabilities or assets, but there is not clear guidance to include risk adjustment receivables and payables as specified actuarial items. Michigan and Connecticut volunteered to work with AGI, AHIP and Blue Cross Blue Shield Association (BCBSA).

Mr. Hudson made a motion, seconded by Ms. Walker, to direct NAIC staff to work with Working Group members and the industry to develop a recommendation on the reporting for contracts subject to redetermination amounts resulting from Medicare Part D and Medicare Advantage, and risk adjustment receivables under the ACA. The motion passed. In addition, related reporting guidance is also to be developed for the Blanks (E) Working Group. Included in the motion was a joint referral to the Health Actuarial (B) Task Force and the Life Actuarial (A) Task Force to clarify the Statement of Actuarial Opinion treatment regarding the receivables and payables from risk adjustment programs under the ACA and Medicare.
j. **Agenda Item 2014-28**

Mr. Bruggeman directed the Working Group to agenda item 2014-28: Asbestos and Pollution Reinsurance Reporting Exception. Mr. Bruggeman noted that two reporting options were exposed for comment and that CNA and American International Group (AIG) jointly provided two comment letters. Mr. Bruggeman noted that first item was to add columns that identify collateral associated with the original reinsurers to the proposed reinsurance supplemental schedule. Mr. Bruggeman noted that the reinsurance supplemental schedule was the same under either reporting option and that the additional columns in the supplement retained valuable information in his view. The second item was to note that the reinsurance supplemental schedule would be public information. Mr. Bruggeman noted that having the information in the annual statement blank and public was always intended. The change that was exposed for paragraph 66 was also not under dispute.

Jeff Alton (CNA) noted that their first comment letter advocated for reporting option 2 and provided some wording suggestions for areas that, in their view, went beyond the model law. The second letter was to address some comments received from regulators on requiring the supplement to be public and a comment from the Reinsurance Association of America (RAA) regarding retaining collateral information. The most significant item in the second letter is that CNA continues to disagree with the requirement to disclose the use of the commissioner’s discretion for the use of collateral as a prescribed practice under the credit for reinsurance model law. Mr. Alton noted that there are other uses of commissioner discretion in the *Accounting Practices and Procedures Manual* that do not require the disclosure of a prescribed practice. Mr. Alton provided the example in the *SSAP No. 72—Surplus and Quasi-Reorganizations*, which allows capital contributions received subsequent to the balance sheet date to be counted as capital if they meet certain criteria and have commissioner approval. The second comment letter provides additional wording that, in their view, would accomplish the accounting changes without disclosing this use of commissioner’s discretion as a prescribed practice.

Mr. Hudson noted that he had the opportunity to review the most recent comment letter, and he thought the permitted practice disclosure was appropriate for the provision for reinsurance liability decrease and the manner being provided. Mr. Hudson noted that he was supportive of adding the additional columns and reinforcing this as a public document. Ms. Marcotte noted that staff supported two of the technical edits to paragraph 68 that are from the first letter. Mr. Bruggeman noted that both options provided the same provision for reinsurance benefit.

Mr. Bruggeman described both reporting options, noting option one provides more detail than option two. He noted that the supplemental information provides the same level of detail in both versions. Mr. Armstrong indicated a preference for option one. Mr. Alton acknowledged that option two is a departure from the normal preparation of reinsurance Schedule F; however, he feels it is more reflective of the economics of the transaction.

Mr. Armstrong made a motion, seconded by Mr. Stolte, to expose revisions to *SSAP No. 62R—Property Casualty Reinsurance* to change the amounts to be included in Schedule F related to an asbestos and environmental reinsurance reporting exception for retroactive counterparties, along with updates for the proposed reporting to add the columns and the other edits discussed during the meeting using reporting option one. The motion passed.

k. **Agenda Item 2014-12**

Mr. Bruggeman directed the Working Group to agenda item 2014-12: Accounting for the Risk-Sharing Provisions of the Affordable Care Act. Ms. Marcotte noted that the current exposure draft reflected several changes that were directed during the Summer National Meeting. Comments were received from AHIP and BCBSA that indicated support for the overall direction of the exposure draft and provided a few technical recommendations, including a few consistency comments. In addition, consistent with the comments provided for agenda item 2014-27, the commenters indicated a willingness to provide future input regarding the annual statement reporting of risk adjustment receivables. Ms. Marcotte noted that staff had prepared a discussion draft, which illustrated proposed revisions to the exposed issue paper and a new statement of statutory accounting principle for review. Mr. Bruggeman inquired if interested parties had any issues related to the wording in paragraph 56b regarding sufficient information for the determination of the estimate for the risk corridors program. Mr. Bruggeman noted that this was the main difference from the commenters’ recommendation in the discussion draft. Mr. McGee noted that the additional language in paragraph 56b was accurate and appropriate. Mr. McGee noted that AHIP/BCBSA were fine with the other technical and consistency edits in the issue paper discussion draft.
Ms. Weaver made a motion, seconded by Mr. Hudson, to adopt Issue Paper No. 150—Accounting for the Risk-Sharing Provisions of the Affordable Care Act (Attachment One-L), which included technical edits and revised language in paragraph 56b and expose SSAP No. 107—Accounting for the Risk-Sharing Provisions of the Affordable Care Act. The motion passed. Revisions provide guidance on the three risk-sharing provisions known as risk adjustment program, transitional reinsurance program and temporary risk corridors program, with a shortened comment deadline ending Dec. 8, 2014.

3. Considered Maintenance Agenda – Pending Listing

Mr. Bruggeman referred the Working Group to the Maintenance Agenda – Pending Listing (Page 1 of Attachment One-M).

a. Agenda Item 2014-29

Mr. Bruggeman directed the Working Group to agenda item 2014-29: ASU 2014-15: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. Mr. Bruggeman noted that this GAAP item requires management to identify and disclose when there is substantial doubt about the entity’s ability to continue as a going concern in the audited financial statements. He noted that as regulators, he expected to be informed of such situations before the audited statements are released, but he was supportive of the disclosure. The recommendation is to adopt ASU 2014-15 incorporating the requirement for the disclosure, but also to make additional changes to statements of statutory accounting principles to require that audited financial statements used to support the valuation of investments (e.g., accounting for investments using the GAAP equity method) would reflect these assets as nonadmitted investments if the audited notes include a management assessment noting substantial doubt regarding the ability to continue as a going concern. Mr. Bruggeman requested that the Working Group vote separately on the two recommendations.

Mr. Hudson made a motion, seconded by Ms. Weaver, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures to adopt ASU 2014-15 and incorporate the requirement for a reporting entity to evaluate and disclose whether there is substantial doubt on the entity’s ability to continue as a going concern in the audited financial statements. The motion passed.

Mr. Hudson made a motion, seconded by Mr. Houston, to expose revisions to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, SSAP No. 68—Business Combinations and Goodwill and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities to require that audited financial statements used to support the valuation of investments (e.g., accounting for investments using the GAAP equity method) would nonadmit investments that have an audited note that includes a management assessment noting substantial doubt regarding the entity’s ability to continue as a going concern. Mr. Bruggeman requested that the Working Group vote separately on the two recommendations.

b. Agenda Item 2014-30

Mr. Bruggeman directed the Working Group to agenda item 2014-30: ASU 2014-04: and ASU 2014-14 – Classification of Mortgage Loans Upon Foreclosure and advised that ASU 2014-04, Receivables – Troubled Debt Restructuring by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure (ASU 2014-04) provides guidance on when a reporting entity is considered to have foreclosed on a mortgage loan, and should derecognize the loan receivable and recognize the real estate property. Ms. Marcotte also advised that ASU 2014-14, Receivables – Troubled Debt Restructuring by Creditors – Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure (ASU 2014-14) provides guidance to clarify the derecognition of a government guaranteed mortgage loan, with recognition of a separate other receivable for the amount expected to be received from the guarantor. Ms. Marcotte stated that the recommendation proposes revisions to SSAP No. 37—Mortgage Loans and SSAP No. 40—Real Estate Investments to adopt with modification ASU 2014-04 and adopt ASU 2014-14 to prescribe accounting and reporting for foreclosed mortgage loans collateralized by real estate and foreclosed mortgage loans guaranteed by a government sponsored program. She advised that the modification proposed to ASU 2014-04 would remove the restrictions limiting the guidance to residential real estate with a consumer mortgage loan, and would require a lower-of valuation method for the real estate recognized from a foreclosure to prevent a gain from moving the asset between the two investment schedules (mortgage loan to real estate). Mr. Hudson made a motion, seconded by Ms. Walker, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to adopt with modification ASU 2014-04 and to adopt ASU 2014-14 with an effective date of 2015 in accordance with the recommendation. The motion passed.

c. Agenda Item 2014-31
Mr. Bruggeman directed the Working Group to agenda item 2014-31: Disclosure Related to PBR Framework Implementation. Mr. Bruggeman also noted that the Principle-Based Reserving Implementation (EX) Task Force recently adopted Actuarial Guideline XLVIII (AG 48). Mr. Bruggeman noted that he had sent a request for clarification regarding the charge to develop an audited note. The Working Group received a response from the Principle-Based Reserving Implementation (EX) Task Force confirming that the reference to AG 48 within the Notes disclosure, as well as the reference to the XXX/AXXX Reinsurance Model Regulation or any state variation from those standards, is consistent with the intent of the charge sent by the Task Force. Ms. Marcotte noted that the proposed revisions require disclosure for the annual audited financial statements indicating compliance with AG 48 or the XXX/AXXX Reinsurance Model Regulation. In addition, NAIC staff recommended adding quantity to the illustrated disclosure.

Mr. Hudson made a motion, seconded by Mr. Stolte, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions as amended during the meeting to SSAP No. 61R — Life, Deposit-Type and Accident and Health Reinsurance to add the disclosure related to the principle-based reserving (PBR). The motion passed.

d. Agenda Item 2014-32

Mr. Bruggeman directed the Working Group to agenda item 2014-32: Protected Cell Reporting and advised that this item recommends technical revisions to SSAP No. 74—Accounting for the Issuance of Insurance-Lined Securities Issued by a Property and Casualty Insurer Through a Protected Cell to update the references from aggregate write-in lines to specific designated lines on the blanks. Mr. Hudson made a motion, seconded by Mr. Houston, to move this to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 74 per the recommendation. The motion passed.

e. Agenda Item 2014-33

Mr. Bruggeman directed the Working Group to agenda item 2014-33: Move INT 13-03 Guidance into Applicable SSAPs and advised that this agenda item proposes revisions to move the guidance from INT 13-03— Clarification of Surplus Deferral in SSAP No. 92 and SSAP No. 102 into the applicable SSAP Nos. 92 and 102. He advised that this is a placement change for the previously adopted guidance, and INT 13-03 would be nullified once the guidance is moved. Mr. Hudson made a motion, seconded by Ms. Weaver, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 92— Accounting for Postretirement Benefits Other Than Pensions and SSAP No. 102— Accounting for Pensions as recommended. The motion passed.

f. Agenda Item 2014-34

Mr. Bruggeman directed the Working Group to agenda item 2014-34: ASU 2014-13 — Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity and advised that this ASU was issued to address diversity in practice in accounting for the measurement difference of the fair value of financial assets and the fair value of financial liabilities of a consolidated collateralized financing entity. As this ASU is specific to consolidated financial statements, he advised that the recommendation is to reject ASU 2014-13 as not applicable to statutory accounting because statutory accounting does not allow consolidation. Mr. Houston made a motion, seconded by Mr. Hudson, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to Issue Paper No. 99 to reject ASU 2014-13 as not applicable to statutory accounting. The motion passed.

g. Agenda Item 2014-35

Mr. Bruggeman directed the Working Group to agenda item 2014-35: SSAP No. 11 Disclosures. Ms. Marcotte advised that this agenda item was drafted per the direction of the Working Group with the adoption of agenda item 2014-07: SSAP No. 11— Clarification of Adopted GAAP to review the SSAP No. 11— Postemployment Benefits and Compensated Absences disclosures in a separate agenda item. Ms. Marcotte advised that the recommendation proposes to delete the duplicate disclosures from SSAP No. 11 that pertain to defined benefit and defined contribution plans, with a reference to complete the disclosures in SSAP No. 92, as applicable, if the reporting entity is providing special or contractual termination benefits. The recommendation also suggests a referral to the Blanks (E) Working Group to incorporate instructions on when to complete the related financial statement disclosure note based on this guidance. Mr. Moser made a motion, seconded by Mr. Hudson, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 11 and to communicate with the Blanks (E) Working Group as recommended. The motion passed.

h. Agenda Item 2014-36
Mr. Bruggeman directed the Working Group to agenda item 2014-36: *ASU 2013-06 – Not-For-Profit Entities – Services Received from Personnel of Affiliate* and advised that this ASU was issued to address diversity in practice regarding the recognition of services provided by the personnel of an affiliate, when those services are provided at no-charge to a not-for-profit affiliated entity. He advised that the ASU requires the recipient not-for-profit entity to recognize all services received from the personnel of an affiliate that directly benefit the recipient not-for-profit entity at the cost recognized by the affiliate for the personnel providing those services, or if that amount will significantly overstate or understate the value of services received, at fair value. Mr. Bruggeman stated that revisions have been recommended to reject ASU 2013-06 in *SSAP No. 25—Accounting for and Disclosures About Transactions with Affiliates and Other Related Parties* as guidance regarding reasonable charges is detailed in the *Insurance Holding Company System Regulatory Act* (#440). Revisions are proposed to incorporate references and disclosures for services provided by related parties. Mr. Houston made a motion, seconded by Mr. Hudson, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions as recommended. The motion passed.

i. **Agenda Item 2014-37**

Mr. Bruggeman directed the Working Group to agenda item 2014-37: *ASU 2014-16 – Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. Ms. Marcotte advised that this ASU does not change current GAAP criteria for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. Rather, the amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. She advised that revisions are recommended to reject ASU 2014-16 in *SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions* as the concept of separating embedded derivatives from host contracts has previously been rejected for statutory accounting. Mr. Hudson made a motion, seconded by Mr. Houston, to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 86 to reject ASU 2014-16. The motion passed.

4. **Considered Maintenance Agenda – Nonsubstantive Listing**

Mr. Bruggeman referred the Working Group to the Maintenance Agenda – Nonsubstantive Listing (Page 4 of Attachment One-M).

a. **Agenda Item 2014-24**

Mr. Bruggeman directed the Working Group to agenda item 2014-24: *ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects*. Ms. Marcotte noted that guidance had been prepared as directed by the Working Group, which prohibits the elective proportional amortization method and net reporting. Ms. Marcotte noted that interested parties did provide comments on the direction of the Working Group, which indicated a preference for the elective net income statement reporting methodology permitted by GAAP. Ms. Marcotte noted that the GAAP criterion to apply the net presentation methodology requires that the investor lack significant influence and the investment meets specified economic criteria. Therefore, GAAP net presentation methodology applies to a narrower scope of assets than the scope of *SSAP No. 93—Accounting for Low Income Housing Tax Credit Property Investments* (SSAP No. 93).

Mr. Hudson made a motion, seconded by Mr. Houston, to expose nonsubstantive revisions to SSAP No. 93 to adopt with modification *ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects*. The motion passed. The modifications would prohibit the elective proportional amortization method with net reporting that is allowed in ASU 2014-01. The proposed revisions also include terminology updates, guidance to improve clarity of existing guidance, new disclosures and other technical revisions.

5. **Considered Any Other Matters**

a. **Coordination with Principle-Based Reserving Implementation (EX) Task Force**

Mr. Bruggeman directed the Working Group to agenda item 2014-31 and noted that the Principle-Based Reserving Implementation (EX) Task Force recently adopted Actuarial Guideline XLVIII (AG 48). Mr. Bruggeman noted that the definition of primary security that was adopted in AG 48 did not include letters of credit but did include funds withheld, mortgage policy loans and specific derivatives that hedge the underlying policies. In addition, the Principle-Based Reserving
Implementation (EX) Task Force confirmed that the reference to AG 48 within the Notes disclosure, as well as the reference to the XXX/AXXX Reinsurance Model Regulation or any state variation from those standards, is consistent with the intent of the charge provided by the Task Force. Mr. Bruggeman noted that the charge to this Working Group would be updated accordingly. Ms. Marcotte noted that the other charge from the Task Force is to coordinate on the development of a definition of primary security with the Reinsurance (E) Task Force as it develops the XXX/AXXX Reinsurance Model Regulation, and the drafting group would seek input from the Working Group in the future.

b. Adopted its Oct. 24, Sept. 2 and Aug. 16 Minutes

Mr. Bruggeman directed the Working Group to the interim minutes, noting that Oct. 24 (Attachment One-N) and Sept. 2 (Attachment One-O) were e-votes to expose items, and the Aug. 16 minutes were the Summer National Meeting minutes (See NAIC Proceedings – Summer 2014, Accounting Practices and Procedures (E) Task Force Aug. 17, 2014, minutes). Mr. Armstrong made a motion, seconded by Mr. Hudson, to adopt its Oct. 24, Sept. 2 and Aug. 16 minutes. The motion passed. The Working Group also met jointly with the Emerging Accounting Issues (E) Working Group in regulator-to-regulator session Nov. 5 and Nov. 15 pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance, including, but not limited to, annual and quarterly statement blanks and instructions, the Accounting Practices and Procedures Manual, and similar materials) of the NAIC Policy Statement on Open Meetings.

c. Received an Update on the Restricted Asset (E) Subgroup

Ms. Stock provided an update on the Restricted Asset (E) Subgroup, stating the results of the repurchase agreements survey to date to see if the states were interested in allowing longer repurchase agreements to be permitted as admitted assets. Nineteen states indicated that they were not interested in allowing repurchase agreements greater than one year. Eight states indicated that they were interested in considering permitted repurchase agreements for periods longer than one year, with responses ranging from 18 months to five years. Ms. Stock noted that the survey results would be discussed by the Subgroup. Mike Monahan (American Council of Life Insurers—ACLI) inquired if the survey was going to contact the other states. Ms. Stock indicated the survey was being kept open to allow for additional responses. Ms. Stock indicated that data from the Federal Home Loan Banks (FHLB) disclosures for first and second quarter filings have been distributed to the Subgroup. For a significant portion of companies, FHLB activity is minimal in relation to their assets or capital and surplus. However, a small minority of companies seem to have excessive borrowing amounts compared to assets and/or capital and surplus. Ms. Stock noted that the Federal Housing Finance Agency (FHFA) is proposing to revise its regulations governing FHLB membership, which will have an impact on reporting entities.

d. Reviewed GAAP Exposures

Mr. Bruggeman advised that NAIC staff have reviewed the current GAAP exposures, and provided brief summaries of the exposures for review (Attachment One-P). He advised that NAIC staff do not believe that the exposures require Working Group assessment during the comment period and would recommend review under the maintenance process once the final standards are released.

Mr. Bruggeman noted that the comment deadline for agenda items 2013-17: Single Member and Single Asset LLCs, Underlying Asset is Real Estate and 2014-12: Accounting for the Risk-Sharing Provisions of the Affordable Care Act is Dec. 8, 2014. The comment deadline for all other items is Jan. 16, 2015. The deadline to submit new items is Feb. 12, 2015. Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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