OVERVIEW AGENDA

1. SAPWG Hearing – Adoption of Minutes—Dale Bruggeman (OH)

2. SAPWG Hearing – Review of Comments on Exposed Substantive Items—Dale Bruggeman (OH)
   - Ref #2016-18: Classification of Money Market Mutual Funds as Cash Equivalents 2-4
   - Ref #2016-35: Measurement Method for Money Market Mutual Funds 5
   - Ref #2016-03: Special Accounting Treatment for Limited Derivatives 6-8
   - Ref #2016-20: ASU 2016-13 – Credit Losses 9
   - Ref #2016-38: Guaranty Fund Credits for Short Duration Contracts 10

3. SAPWG Hearing – Review of Comments on Exposed Nonsubstantive Items—Dale Bruggeman (OH)
   - Ref #2016-34: Health Valuation Manual Updates 11-13
   - Ref #2016-36: Revisions to Appendix A-200 14
   - Ref #2016-37: Exclusion of Non-Admitted and Immaterial SCAs 15
   - Ref #2016-02EP: Editorial and Maintenance Process 16
   - Ref #2015-27: Quarterly Reporting of Investment Schedules 17
   - Ref #2015-51: Definition of Notional 18
   - Ref #2016-16: Repurchase and Reverse Repurchase Disclosures 19
   - Ref #2016-23: Receivables of Government Plans 20
   - Ref #2011-44: Pharmacy Rebates under Medicare Part D Gap Discount 21
   - Ref #2016-26: SSAP No. 23 - Foreign Currency Matters 22

4. SAPWG Meeting – Maintenance Agenda – Pending List—Dale Bruggeman (OH)
   - Ref #2016-39: Mortgage Loans with Multiple Lenders A
   - Ref #2016-40: Definition of LBSS B & C
   - Ref #2016-41: AVR/IMR in SSAP No. 26 D
   - Ref #2016-42: Appendix C Introduction E
   - Ref #2016-43: Inflation-Indexed Securities F
   - Ref #2016-44: Revisions to Appendix A-791 G
   - Ref #2016-45: ASU 2016-16 – Intra-Entity Transfers of Assets Other Than Inventory H
   - Ref #2016-46: ASU 2016-15 – Classification of Certain Cash Receipts and Cash Payments I
   - Ref #2016-47: ASU 2016-07 – Simplifying the Transition to the Equity Method of Accounting J

5. SAPWG Meeting – Maintenance Agenda – Active List—Dale Bruggeman (OH)
   - Ref #2010-08: Policy Statement on Coordination with Valuation Manual K

6. SAPWG – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)
   - SSAP No. 26—Bonds: Substantive Revisions and Issue Paper L
   - Review of Proposed ASU: Accounting for Long-Duration Contracts M & N
   - ASU 2015-09 – Disclosures about Short-Duration Contracts
   - Review of GAAP Exposures O
This page intentionally left blank.
SAPWG Hearing Agenda

Statutory Accounting Principles (E) Working Group
Hearing Agenda
December 10, 2016

ROLL CALL

Dale Bruggeman, Chair  Ohio  Judy Weaver  Michigan
Jim Armstrong, Vice Chair  Iowa  Patricia Gosselin  New Hampshire
Richard Ford  Alabama  Stephen Wiest  New York
Kim Hudson  California  Joe Dimemmo  Pennsylvania
Kathy Belfi  Connecticut  Doug Slape / Jamie Walker  Texas
Holly Conley/Dave Lonchar  Delaware  Doug Stolte / David Smith  Virginia
Eric Moser  Illinois  Tom Houston  Wisconsin
Stewart Guerin  Louisiana

REVIEW AND ADOPTION OF MINUTES

Hearing Tab – Attachments 1-5
The Working Group may elect to discuss the following minutes. (Attachment 1)


REVIEW of COMMENTS on EXPOSED SUBSTANTIVE ITEMS

The Working Group will consider each of the following items separately.
1. Ref #2016-18: Classification of Money Market Mutual Funds as Cash Equivalents
2. Ref #2016-35: Measurement Method for Money Market Mutual Funds
3. Ref #2016-03: Special Accounting Treatment for Limited Derivatives
4. Ref #2016-20: ASU 2016-13 – Credit Losses
5. Ref #2016-38: Accounting for Guaranty Fund Credits for Short Duration Contract

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement withExposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-18 SSAP No. 2 (Julie)</td>
<td>Classification of Money Market Mutual Funds as Cash Equivalents</td>
<td>2-4</td>
<td>Comments Received</td>
<td>IP-12 BlackRock-27 Federated-29</td>
</tr>
</tbody>
</table>

Summary:
On August 26, 2016, the Working Group concurrently exposed substantive revisions to statutory accounting including Issue Paper No. 15X—Classification of Money Market Mutual Funds as Cash Equivalents and substantively revised SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-term Investments, to classify money market mutual funds as cash equivalents, with prospective application as of Jan. 1, 2018.

On November 3, 2016, the Working Group deferred discussion on the effective date for classification of money market mutual funds as cash equivalents until the 2016 Fall National Meeting and directed NAIC staff to send referrals to the Blanks (E) Working Group and Capital Adequacy (E) Task Force requesting consideration of revisions/RBC factors if money market mutual funds are classified as cash equivalents.

Interested Parties’ Comments:
Interested parties believe that MMMF’s are cash equivalents and should be treated as such for statutory reporting purposes, consistent with our prior recommendations. In addition to the areas addressed in the exposure draft, we believe that the issue of state investment statute limitations on the holding of MMMF’s also requires the urgent
attention of this exposure draft by the Working Group. As an example, Colorado Revised Statutes, Title 10-3-242 provides for the following limitations on investments in MMMFs:

(1) For the purposes of this section, "money market fund" means an open-end, diversified management type of mutual fund, registered under the federal "Investment Company Act of 1940", 15 U.S.C. 80a-1 et seq., as amended, objectives of which include the maintenance of a stable net asset value of a specified dollar amount per share and the shareholders of which may withdraw the value of their shares by check, telephone, or mail. Domestic insurance companies may invest in the shares of any one or more money market funds subject to the following limitations:

(a) Domestic insurance companies may invest in money market funds that, at the time the investment is made, are either listed or meet the eligibility conditions for listing on the U.S. direct obligations exempt list, U.S. direct obligations/full faith and credit exempt list, or class I list, in the "purposes and procedures manual" of the securities valuation office of the national association of insurance commissioners. Investments in the shares of any one money market fund qualifying under this paragraph (a) shall not exceed ten percent of the domestic insurance company's total admitted assets.

(b) Investments in shares of any one money market fund not qualified under paragraph (a) of this subsection (1) shall not exceed five percent of the domestic insurance company's total admitted assets. The aggregate value of all shares that may be admitted assets under this paragraph (b) shall not exceed ten percent of the domestic insurance company's total admitted assets.

(c) At the time of an investment in a money market fund under this section, the aggregate value of a domestic insurer's investment in such money market fund shall not exceed five percent of the shares of such money market fund.

We believe that, in addition to the Colorado statute noted above, other states’ statutes may impose similar limitations that distinguish MMMFs formerly designated as “Class 1 Money Market Mutual Funds” from all other MMMFs. Therefore, unless the proposed change to classify MMMFs is not effected in the most immediate manner practicable, the potential for market disruption exists. We believe the proposed January 1, 2018 prospective application date is problematic and should be moved to an earlier effective date.

In summary, we urge the Working Group to take the following steps, using an expedited process if necessary, to classify MMMFs as cash equivalents in 2017:

- Prepare the necessary documentation in order for this change to be adopted by the Working Group no later than the NAIC 2016 Fall National Meeting.
- Send a referral to the Capital Adequacy Task Force, stating the intent to classify MMMFs as cash equivalents effective in 2017 and the reasons for the urgency of this change.
- Send a referral to the Blanks Working Group for a concurrent exposure of the Blanks changes necessary to reflect the classification of MMMFs as cash equivalents in 2017.

**BlackRock Comments:**

We recommend that the implementation date for classifying MMFs as cash equivalents under SSAP No. 2 which is currently proposed for January 1, 2018 be moved up to be implemented as early as possible in 2017. It is unclear at this point if the classification for prime MMFs as common stock under SSAP No. 30—Investments in Common Stock will require insurance companies to count these investments against statutory equity limitations; it is likely that this treatment will come down to a state-by-state interpretation. If insurance companies are required to count prime MMFs against their statutory equity limitations, we believe insurance companies would be
unlikely to use prime MMFs as a cash management tool. With prime MMFs being treated as cash equivalents it removes this issue for prime MMFs and allows insurance companies to be able to continue to invest in this asset class. With an earlier implementation date, cash equivalent status would eliminate any reporting issues in 2017 which insurance companies may be facing with the later implementation date.

Federated Investors:
Federated Investors applauds the SAP Working Group for its exposure draft to reclassify money market mutual funds (MMMF) from short-term investments to cash equivalents. This proposed reclassification is consistent with U.S. GAAP treatment of MMMF, as well as the SEC’s Rule 2a-7, and we are hopeful that the reclassification will be given final approval as soon as possible.

However, we are concerned that the proposed effective date of the reclassification, January 1, 2018, is too distant and leaves potential for market disruptions and unintended consequences in the interim, as explained below. We therefore submit the following comments on the above referenced exposure drafts, and request the opportunity to give an oral presentation to the Working Group as provided for in the exposure drafts. For the following reasons, we urge the Working Group to consider moving up the effective date to no later than the fourth quarter of 2016.

- Potential for Disruptions With Delayed Implementation

State insurance codes typically include limitations on certain types of investments, often with specific references to classes of investments described in the SVO’s Purposes and Procedures Manual. For present purposes, such statutes sometimes specifically refer to “Class 1 money market funds” as permissible investments. Such statutes have been rendered outdated due to the Working Group’s June 9, 2016 removal of references to this term. This can be problematic when state laws impose different investment limitations depending on how an investment is classified.

For example, Colorado’s Insurance Code provides that:

(a) Domestic insurance companies may invest in money market funds that, at the time the investment is made, are either listed or meet the eligibility conditions for listing on the U.S. direct obligations exempt list, U.S. direct obligations/full faith and credit exempt list, or class 1 list, in the "purposes and procedures manual" of the securities valuation office of the national association of insurance commissioners. Investments in the shares of any one money market fund qualifying under this paragraph (a) shall not exceed ten percent of the domestic insurance company's total admitted assets.

Colo. Rev. Stat.§ 10-3-242 (1)(a). However, other money market funds have a different limitation:

(b) Investments in shares of any one money market fund not qualified under paragraph (a) of this subsection (1) shall not exceed five percent of the domestic insurance company's total admitted assets. The aggregate value of all shares that may be admitted assets under this paragraph (b) shall not exceed ten percent of the domestic insurance company's total admitted assets.

Colo. Rev. Stat.§ 10-3-242 (1)(b). Thus, the old classification of an MMMF as a “Class 1 money market fund” required states with such cross-references to treat them in a certain way for purposes of investment limitations.

With the reference to “Class 1” money market funds now removed from the Purposes and Procedures Manual, a number of state statutes now have cross-references to a type of investment that no longer exists, as a technical legal matter. Accordingly, the state statutory/regulatory regimes that intended to accord certain treatment for such investments are arguably no longer operable, and this can have substantial unintended consequences.
In Colorado, as clear from the above statutory excerpt, for an MMMF that was properly classified as Class 1 prior to June 2016, there was a statutory limitation on investments of 10% of the company’s total admitted assets. Because the “Class 1” category no longer exists, however, Colorado could now plausibly impose a 5% limitation on the same investment pursuant to subsection (b) cited above, despite there being no change to the asset itself.

Such disruptions make it all the more important that the reclassification of MMMF to cash equivalents take effect as soon as possible. Ensuring consistent and fair accounting treatment of various assets is one of the principal goals of the Working Group, and that goal will remain elusive with respect to MMMF until the reclassification takes effect.

**Recommended Action:**
Staff recommends that the Working Group adopt substantive revisions to SSAP No. 2R to classify money market mutual funds as cash equivalents. However, if the Working Group would like additional time to consider, or if there is a desire to assess the proposed revisions being considered by the Blanks (E) Working Group and the Capital Adequacy (E) Task Force as a result of this reclassification before adopting, the Working Group could defer this item until the 2017 Spring National Meeting. Staff provides the following two options for consideration:

1) **Adopt the substantive revisions to SSAP No. 2R (and related Issue Paper) classifying money market mutual funds as cash equivalents with a December 31, 2017 effective date.** If adopted during the 2016 Fall National Meeting, the changes will be included in the 2017 AP&P Manual. Also, if adopted, the Blanks (E) Working Group and Capital Adequacy (E) Task Force will have the SAPWG final adopted guidance as a guide for exposing revisions and considering changes.

2) **Defer the substantive changes to SSAP No. 2R for consideration during the 2017 Spring National Meeting.** With this option, the actions by the Blanks (E) Working Group and the Capital Adequacy (E) Task Force can be reviewed prior to the Working Group’s adoption. However, with this action, although the adoption revisions will still be planned to have an effective date of December 31, 2017, the revisions will not be included in the 2017 AP&P Manual. (With the publishing deadlines, only items adopted through year-end are included in the publication.)

**Staff Note:** In electing whether to adopt or defer, the Working Group may want to give consideration to agenda item #2016-35, which proposes use of fair value (NAV) for all money market mutual funds.

In response to comments regarding state investment limitations, NAIC staff worked with the NAIC legal department to conduct a search of state statutes. The following information was received from that search:

- Two states have specific investment limits based on “Class 1” Money Market Mutual Funds (CO & SD)
- Four states have specific investment limits on Money Market Mutual Funds. (These are not limited to a “Class 1” distinction.) (NH, WY, MN and CA)
- 19 states identify “Class 1” and “Government” Money Market Mutual Funds as cash equivalents, but do not provide investment limitations. (AL, DC, GA, HI, IL, IN, IA, KY, LA, MD, MO, MT, NE, NJ, SC, TN, VT and WV)
- Five states reference Money Market Mutual Funds or “Government Money Market Funds” but do not provide specific guidance or investment restrictions. (KS, ND, OH and WA)

**It is recommended that the Working Group direct NAIC staff to communicate with all states, to inform of the elimination of the concept of a “Class 1” Money Market Mutual Fund (by the SVO effective 9/1/2016) and request all states to consider revisions to their state statutes as needed.**
Summary:
On November 3, 2016, the Working Group exposed substantive revisions to require all MMMF to be reported at fair value (NAV as a practical expedient) with any unrealized gains and losses being accounted for in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (AVR Filers) or recorded as a direct credit or charge to surplus (Non-AVR Filers).

Interested Parties Comments
Comments are due November 28, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group.

### Hearing Tab – Attachments 6-8

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-03</td>
<td>Special Accounting Treatment for Limited Derivatives (VAIWG)</td>
<td>6-8</td>
<td>Comments Pending</td>
<td>Additional Handout</td>
</tr>
</tbody>
</table>

Summary:
On August 26, 2016, the Working Group exposed an issue paper proposing special accounting treatment for certain limited derivatives related to variable annuity products for a 90-day exposure period, ending November 28, 2016, to correspond with an exposure on a related topic at the Variable Annuities Issues (E) Working Group. The issue paper incorporates several concepts that are different from the “initial staff proposal for discussion” detailed in this agenda item and exposed on April 3, 2016. Key concepts in the issue paper include:

- Location of Guidance: One concept that is proposed to be retained from the original exposure is that the special accounting provisions be separate and distinct from SSAP No. 86—Derivatives. The issue paper specifically indicates that the special accounting guidance is permitted only if all of the components of the issue paper are met, and the guidance shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance. *(As a related item, during the 2016 Summer National Meeting, the Accounting Practices and Procedures (E) Task Force requested that the Financial Condition (E) Committee change the charge to remove both the Jan. 1, 2017 effective date and reference to SSAP No. 86.)*

- Macro-Hedging: Portfolio of Variable Annuity Policies designated as hedged item. Portfolio is not required to be static, but can be revised to remove / add policies for continuous risk management.

- Dynamic Hedging Instrument: Hedging instruments permitted to be rebalanced in accordance with changes in the hedged item.

- Governance: Oversight provisions assist with regulator review (e.g., explicit approvals / certifications).
• Actuarial Guideline 43 - CARVM for Variable Annuities (AG 43): Requires compliance with provisions of AG 43, including Clearly Defined Hedging Strategy.

• Hedge Type: Hedges must qualify as “fair value hedges” using a prescribed method to determine effectiveness in which the fair values of the hedged item (AG 43 reserve) and the hedging instruments are used to determine effectiveness.

• Measurement: Derivatives are reported at fair value, but allows recognition of “deferred assets and deferred liabilities” to neutralize the volatility impact from fair value fluctuations. These deferred items are amortized into gains/losses over a finite amortization period, with provisions to allow companies to better match the amortization with the expected liability duration from the hedged item.

• Expiration of Derivatives: With rebalancing concept, guidance allows “expired” derivatives to continue amortization – if part of an highly effective hedging strategy – at the time of expiration, recognizing tenure differences between the hedged item and hedging instruments.

• Disclosures: Intended to result with a new schedule DB that specifically addresses the hedging strategies and related derivatives captured within the issue paper. Also anticipates a schedule for all hedging instruments with detailed information to provide clear, transparent information on the use and impact of this special accounting provision.

As detailed in the issue paper, there are several questions throughout the discussion section. These questions are intended to highlight key discussion points and/or potential concerns with the proposed guidance. With the issue paper exposure, responses to these questions from both regulators and interested parties are requested.

Interested Parties Comments
Comments are due November 28, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group.

Hearing Tab – Attachments 9-10

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-20 Various (Julie)</td>
<td>ASU 2016-13 – Credit Losses</td>
<td>9</td>
<td>Comments Pending</td>
<td>Additional Handout</td>
</tr>
</tbody>
</table>

Summary:
On August 26, 2016, the Working Group exposed this agenda item with an extended 90-day public comment period ending November 28, 2016. Comments were requested on how ASU 2016-13 should be considered for statutory accounting, and on the specific discussion points identified in the agenda item.

Interested Parties Comments
Comments are due November 28, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group.
Summary:
In order to provide timely guidance and certainty for preparers, this agenda item was exposed by email vote in November 2016 with a proposed effective date of January 1, 2017. Because this item is substantive and has an accelerated timeline, the Working Group elected to prepare amendments to Issue Paper 143—Prospective-Based Guaranty Fund Assessments, which discusses the prior adoption with modification of ASC 405-30, subsequent to the review of comments on this item.

This agenda item proposes revisions to modify SSAP No. 35 – Revised—Guaranty Fund and Other Assessments (SSAP No. 35R) to address the accounting for a guaranty fund assessment, and related assets recognized from future premium tax credits, by writers of short duration health insurance products. The revisions proposed intend to make the guidance comparable to writers of long-duration life products. This agenda item proposes changes to mitigate the disparate financial statement impact as result of a declaration of insolvency for a long-term care insurer. This change is needed because current information regarding the impending insolvency of a writer of long-term care indicates that short duration health products will be subject to assessments for losses on this long duration health product.

Both health insurers and life insurers subject to retrospective assessments will be required to accrue a guaranty fund assessment liability immediately on the declaration of insolvency of a long-term care insurer. As detailed in SSAP No. 35R, and as described below, assets for future tax credits are recognized from accrued liability assessments are determined in accordance with the type of guaranty fund assessment. For retrospective premium assessments for long-duration contracts, an asset is recognized if it is probable that accrued liability assessment will result in a recoverable amount. This guidance was adopted from U.S. Generally Accepted Accounting Principles (GAAP), and consistent with U.S. GAAP, excludes consideration of renewals for short-term contracts. As detailed below, this narrow and specific deviation from GAAP is being proposed to allow similar assets for entities subject to the same liability assessments.

The ability for an insurer with long-duration contracts to recognize an asset for expected renewals, with the disallowance of such ability to insurers with short-duration contracts results with in a disparate impact for insurers. Under current guidance, short-duration contracts are not permitted to recognize assets for expected renewals, but instead are limited to current business in-force. As a result, the corresponding asset for future premium tax credits for short-duration contracts are accrued in smaller increments over many accounting periods. On the other hand for long-duration contracts, the asset recognized for the premium tax credit, as they are allowed to consider expected renewals, would initially be larger and could be recognized in one accounting period, thereby significantly reducing the surplus impact of the liability accrual for the assessment. With the different accounting rules for short-duration and long-duration contracts, this will result in a larger capital decrease to a health insurer relative to a life insurer for similar insolvency assessments.

Interested Parties Comments: Comments are due December 7, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group. Based on the consensus of the discussion at that time, the Working Group should also consider whether to direct Staff to prepare amendments to Issue Paper No. 143.
REVIEW of COMMENTS on EXPOSED NON-SUBSTANTIVE ITEMS

The Working Group will consider each of the following items separately:

1. Ref #2016-34: Health Valuation Manual Updates
2. Ref #2016-36: Revisions to Appendix A-200
3. Ref #2016-37: Exclusion of Non-Admitted and Immaterial SCAs
5. Ref #2015-27: Quarterly Reporting of Investment Schedules
6. Ref #2015-51: Definition of a Notional
7. Ref #2016-16: Repurchase and Reverse Repurchase Disclosures
9. Ref #2016-26: SSAP No. 23 – Foreign Currency Matters

Hearing Tab – Attachments 11-13

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-34</td>
<td>Health Valuation Manual Updates</td>
<td>11-13</td>
<td>Yes</td>
<td>IP – 6, 37 Academy - 35</td>
</tr>
</tbody>
</table>

Summary:
On October 17, 2016 the Working Group exposed substantive revisions to SSAP No. 54—Individual and Group Accident and Health Contracts and re-exposed Issue Paper 15X—Implementation of Principle-based Reserving. The Issue Paper re-exposure incorporated documentation of the SSAP No. 54 changes which add references to the Valuation Manual for health reserving requirements. In addition, the Issue Paper was updated to refine the descriptions of principles-based reserving using the October 2016 recommended edits of interested parties and the Academy Tax Work Group of the American Academy of Actuaries Life Practice Council (See pages 6 and 35 of Attachment 23).

Interested Parties Comments:
Interested parties support the proposed changes in the exposure draft.

Recommended Action:
Adopt the revisions to SSAP No. 54 and the Issue Paper 15X—Implementation of Principle-based Reserving as exposed

Hearing Tab – Attachments 14-18

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-36</td>
<td>Revisions to Appendix A-200</td>
<td>14</td>
<td>Comments Pending</td>
<td>Additional Handout</td>
</tr>
</tbody>
</table>

Summary:
On November 3, 2016, the Working Group exposed nonsubstantive revisions to Appendix A-200, Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts, as detailed in the agenda item, with a January 1, 2017 effective date. The purpose of this agenda item is to update A-200 to reflect changes made to the Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts Model Regulation (Model #200) by the Life Actuarial (A) Task Force.
Interested Parties Comments:
Comments are due November 28, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group.

Summary:
On November 3, 2016, the Working Group exposed nonsubstantive revisions to SSAP No. 97 to provide filing exceptions for nonadmitted and immaterial SCA as well as to incorporate a few clarifying revisions on the filing process.

Interested Parties Comments
Comments are due November 28, 2016

Recommended Action:
For discussion at the Fall National Meeting, staff will provide an additional handout detailing comments received from industry and regulators (if applicable) and any recommended actions of the Working Group. As an additional note, from informal comments received on the filing of Sub-1s for all SCA entities, revisions will be incorporated to allow historical (pre-2016) acquired, nonadmitted SCAs to be filed in 2017 at no charge. This will allow the SCA Vision system to be as complete as possible on SCAs without causing companies to incur a charge for historically-acquired, nonadmitted SCAs. These “free” Sub-1 filings must be filed by September 30, 2017. If they are not filed by that time, the filing have the standard Sub-1 charge.

Summary:
Pursuant to the NAIC Policy Statement on Statutory Accounting Principles, editorial and maintenance updates provide revisions to the NAIC Accounting Practices and Procedures Manual related to editorial corrections, reference changes and formatting. On Oct. 17, 2016, the Working Group exposed the following revisions (additional detail is provided in the attachment):

- Change the Title “Appendices” (when referencing a SSAP’s own appendices) to “Exhibit”
- Add Relevant SSAPs and NAIC Model Laws/Regulations to Appendix A
- Add Relevant Appendix A Guidance to the Status Section of SSAPs

Interested Parties Comments
Interested parties have no comment on this item.

Recommended Action:
Adopt the Editorial and Maintenance Process Memorandum, 2016-02EP, as exposed.
Summary:
On August 26, 2016, the Statutory Accounting Principles (E) Working Group exposed alternatives for quarterly investment reporting, expanded from previously exposed options (detailed in the April 3, 2016 update), to include a mid-year collection of Schedule D investment information as a data-only (non-PDF) submission. This mid-year collection proposal would include all Schedule D investments with information on CUSIP, par value, book/adjusted carrying value and fair value to be received with the second quarter statutory financial statements.

History:
• On June 17, 2015, the Working Group moved this item to the nonsubstantive active listing and initially exposed the agenda item requesting comments on the prospect to collect full investment schedule information (or perhaps limited details of all investments) in the quarterly financial statements. It was noted that the AP&P Manual does not prescribe guidance limiting the investment schedules to the annual financial statements, but this change, if supported, would be implemented by Blanks (E) Working Group changes. Although no changes to the AP&P Manual would be anticipated, soliciting comments from the members, interested regulators and interested parties of the Statutory Accounting Principles (E) Working Group is desired as they are responsible for the accounting guidance pertaining to the related investments.

• On August 15, 2015, the Working Group identified the interested parties’ concerns regarding this proposal, and the cost considerations that should occur if quarterly information is requested. The Working Group also recognized the regulatory benefits that could be obtained – such as earlier identification of industry investment changes or trends – if select quarterly investment information was received. As a result of the discussion, the Working Group exposed this agenda item with a request for quarterly investment proposals identifying what should be captured, and the form of such submissions, that considers both cost concerns and the regulatory benefits.

• On November 19, 2015, the Statutory Accounting Principles (E) Working Group exposed a proposal for reporting entities to provide quarterly, electronic-only data as an NAIC supplemental filing that includes the CUSIP, par value, book adjusted carrying value and fair value for Schedule D investments. As a result of this exposure, interested parties submitted three alternatives for consideration.

• On April 3, 2016, the Statutory Accounting Principles (E) Working Group exposed three alternatives received from interested parties with regards to obtaining more information quarterly on investment holdings. With the exposure, comments are specifically requested from regulators regarding the third alternative and whether full Schedule D information on investments held should replace quarterly acquisition/disposition information.

Interested Parties’ Comments:
As noted in prior letters, interested parties do not support any additional quarterly investment reporting, primarily due to the cost/benefit of providing additional information versus what is currently provided today. We would, however, like to understand more detail on the response to our comments on the possibility of hiring a consultant to help NAIC staff aggregate investment data as detailed below from our May 20, 2016 interested party letter:
Hire A Consultant to Help NAIC Staff Aggregate Investment Data
Interested parties continue to believe that this is the best alternative for the aggregation of any additional investment data. We note that we had first highlighted this alternative in our February 5, 2016 comment letter but we received no feedback on it. There are many advantages associated with this alternative including:

- As all data currently resides electronically with the NAIC, any programming needed would be a “one and done” effort.
- The NAIC office in Kansas City has a large information technology (IT) infrastructure. If there is a desire not to utilize an outside consultant, perhaps current NAIC IT staff can do the necessary programming.
- As all of the macro investment information could be gathered from the NAIC database, individual effort by every company will be eliminated.
- The impact on small and medium-sized companies would be minimized. Although large companies would still have some issues complying, requiring additional quarterly investment data will have an onerous impact on small and medium sized companies from both a resource and cost perspective. Small and medium sized companies have smaller resources (i.e., staff) currently devoted to producing investment data. Additionally, for those that outsource the production of current required investment data, any additional requirements will increase the cost.

In the NAIC meeting materials that were discussed in San Diego on August 20 the following was the response to our recommendation on hiring a consultant:

*Although industry favors an automatic, electronic only function at the NAIC to calculate current information (using the provided information for acquisitions and dispositions), such an approach is anticipated to take a significant amount of time (and cost) to establish.*

We had the following questions concerning the broad response above:

- Is there any idea as to the actual time required and or the cost to establish? Please keep in mind that requiring quarterly investment reporting beyond what is required today would also have a significant, material time and cost impact on industry.

- In terms of the most recent exposure for a limited mid-year electronic data only filing due August 15, we believe this would require some programming at the NAIC to yield useful data. Has this been thought through in terms of the additional effort required beyond that to do a wholly “once and done” programming effort via NAIC staff or a consultant?

- The limited mid-year electronic data only filing exposed on August 20 requires an electronic filing of four Schedule D columns. We are concerned about future “column creep” of this proposal, i.e., what are the guardrails for preventing additional columns to be continually added so that, a few quarters down the road, we are not filing a mid-year Schedule D electronic-only filing of 20+ columns?

In summary, interested parties continue to question the cost/benefit of providing additional investment data on a quarterly basis; furthermore, we still believe programming any additional information required via the NAIC database is the best possible option if additional quarterly or semi-annual investment data is mandated. If the Working Group decides to move forward with this item, interested parties recommend that, since this is a policy decision, the issue should be referred to the Accounting Practices and Procedures Task Force so that more states will have a vote in the final outcome.
Recommended Action:
Although NAIC staff understands the interested parties’ desire to have an automated system, at this point in time, there is a desire for more-timely investment information, and a second-quarter, electronic-only, limited-detail reporting structure has been identified as a feasible compromise. Although interested parties have communicated support for a programming change, comments received were not specific to the exposed second-quarter compromise position.

As noted within the exposure detail, this proposal is only to include a mid-year collection of Schedule D investment information as a data-only (non-PDF) submission. This mid-year collection proposal would include all Schedule D investments with information on CUSIP, par value, book/adjusted carrying value and fair value to be received with the second quarter statutory financial statements.

As previously discussed, obtaining more-frequent investment information does not require a SAP change. Rather, this change will require the Blanks (E) Working Group to implement a blanks proposal. It is recommended that the Working Group direct staff to proceed with developing a referral to the Accounting Practices and Procedures (E) Task Force, which details the Working Group past discussions and exposures, noting support for the Task Force to make a policy change that facilitates collection of second-quarter, electronic-only limited investment information (as exposed by the SAPWG during the 2016 Summer National Meeting). If the Working Group supports this recommendation, staff will prepare the necessary referral (with historical documentation) for submission to the Task Force in the interim so that it can be considered during the 2017 Spring National Meeting. (The Task Force will receive notice of this impending referral during this National Meeting.)

If the Task Force agrees with this recommended policy change, the SAPWG will recommend that the Task Force make a referral to the Blanks (E) Working Group to incorporate the change in the policy. Staff highlights the earliest this change will be incorporated in the second-quarter 2018 financial statements.

It is noted that the discussion of this policy change has previously occurred at the AP&P TF and the VOSTF in order to bring attention of this discussion and solicit comments from a large-group of regulators and interested parties. Excerpts have been provided below from the minutes of the AP&P TF and the VOSTF highlighting the prior identification of this topic at those groups.

Excerpt of AP&P TF Discussion from the 2016 Summer National Meeting:

The Working Group exposed alternatives for more frequent investment reporting to include the mid-year collection of investment data and a data-only (non-PDF) submission of Schedule D investments, with information detailing identification number, par value, book/adjusted carrying value and fair value to be received with the second-quarter statutory financial statements. Mr. Bruggeman noted that more frequent investment reporting would not be a direct change to statutory accounting; however, it would have costs for companies and affect regulatory reporting. Therefore, the Working Group has been discussing it as a policy issue. Mr. Hudson noted that quarterly reporting has had a lot of discussion; he noted what is exposed is a compromise, and asked that the Task Force engage with its staff and the industry on investment reporting needs. Comments should be submitted to the Working Group.

Excerpt of AP&P TF Discussion from the 2016 Spring National Meeting:

Mr. Bruggeman noted that because of the costs involved and because this is getting into a policy issue, he wants the Task Force to be aware that the Working Group exposed three alternatives for quarterly investment reporting that were offered by interested parties. The Working Group would like broader regulator input into this issue. Each of the alternatives has a cost, but as the chair of the Financial Analysis (E) Working Group noted, volatility in investments is the new normal. Alternatives include: 1) hiring a consultant to aggregate NAIC investment data; 2) expanding time to complete electronic-only supplemental investment information; and 3) replacing quarterly acquisition and
disposition schedules with a schedule of owned holdings. **Mr. Hudson asked the Task Force members to engage with their staff and industry on investment reporting needs.** He noted that comments should be submitted to the Working Group.

Excerpt from the VOSTF 2016 Summer National Meeting Minutes:

> At this national meeting, the Working Group re-exposed the topic of investment reporting schedules, with the inclusion of a new alternative to collect investment information semiannually instead of the original quarterly proposal. **This is a blanks change; however, notification of the project and solicitation of discussion and input of regulators and interested parties is being requested at various groups prior to making a formal recommendation to the Blanks (E) Working Group.**

Excerpt from the VOSTF 2016 Spring National Meeting Minutes:

> The Working Group has discussed making a change to the investment information received in the quarterly financial statements; currently, only acquisitions and dispositions are reported. There is discussion on whether staff should receive more information on all the investments that are held on each financial statement reporting date. The Working Group exposed some industry-provided alternative options to having the full investment schedules or the quarterly acquisition schedules. **The Working Group specifically seeks feedback from state insurance regulators and the industry on the matter.**

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-51</td>
<td>SSAP No. 86 (Julie) Definition of a Notional</td>
<td>18</td>
<td>Comments Received</td>
<td>8</td>
</tr>
</tbody>
</table>

Summary:
On November 19, 2015, the Working Group exposed nonsubstantive revisions to SSAP No. 86 to incorporate a definition of “notional principal.” In exposing the proposed definition, it was identified that subsequent consideration would need to occur on the impact that the definition ultimately adopted has on the existing guidance and Annual Statement Instructions, but it was requested that the focus first occur on establishing an appropriate definition. Additionally, the involvement of those in derivative transactions was specifically requested in reviewing the proposed definition, and in subsequent review of the impact to SSAP No. 86 and the reporting instructions. On April 3, 2016, the Working Group exposed proposed revisions to define “notional amount” as recommended by interested parties. Furthermore, on August 26, 2016, the Working Group exposed two approaches to define “notional amount.” As detailed in the agenda item, Option 1 is consistent with the prior exposure from April 3, 2016, with notional determined based on the type of contract. Option 2 is a new approach, with notional determined based on the type of underlying item:

**Interested Parties’ Comments:**
Interested parties reviewed the proposed options to define notional amounts for derivatives contracts. In summary, considering the two options above, we believe Option 1 provides more relevant information to end users and would be significantly easier to implement; however, we would prefer some amendments to the language to clarify certain areas where interpretations by industry were divided or unclear. The reasoning behind the changes along with the amended language is provided below.

Interested parties prefer Option 1 over Option 2 primarily because we do not believe shifting to a definition based on the derivative underlying would be operationally feasible, and would cause more confusion and more diversity in practice than currently exists. It appears the intention of the proposal is to establish consistency in practice and develop a notional amount for each trade type that is static in nature, to allow regulators to track trade volume period over period and compare volume among companies. We also believe diversity in practice only exists for a
few types of derivative instruments, so changing the basis on which all instruments are reported would be unnecessary. In addition, many derivative instruments already have a contractually stated static notional regardless of their underlying, so modifying the definition would not have any practical effect. Lastly, we believe using the underlying as the basis for notional construct could be problematic for certain complex derivative instruments and portfolio or macro hedges.

Accordingly, we believe Option 1 would be a better definition of notional with the following language amendments (highlighted with underlining):

(Staff Note - The IP letter has been modified to show the proposed deletions.)

“Notional amount” is defined as the face value of a financial instrument in a derivatives transaction as of a reporting date which is used to calculate future payments in the reporting currency. Notional amount may also be referred to as notional value or notional principal amount. The notional amount reported should remain static over the life of a trade unless the instrument is partially unwound or has a contractually amortizing notional. The notional amount shall apply to derivative transactions as follows:

a. In a non-futures derivative instrument, notional amount is either (1) the amount to which interest rates are applied in order to calculate periodic payment obligations, (2) the contractually stated notional amount or (3) the contract quantity amount multiplied by applicable inception strike and currency rates. The term is also referred to the contract amount, the reference amount, and the currency amount. For derivative instruments other than futures contracts (e.g., options, swaps, forwards), the notional amount is either the amount to which interest rates are applied in order to calculate periodic payment obligations or the amount of the contract value used to determine the cash obligations. Non-US dollar contracts must be multiplied or divided by the appropriate inception foreign currency rate.

b. For futures contracts, with a U.S. dollar-denominated contract size (e.g., Treasury note and bond contracts, Eurodollar futures) or underlying, the notional amount is the number of contracts at the reporting date multiplied by the contract size multiplied by the par value of the underlying (typically 100) — (value of one point multiplied by par value).

c. For equity index and similar futures, the number of contracts at the reporting date is multiplied by the value of one point multiplied by the transaction price. Non-US dollar contract prices must be multiplied or divided by the appropriate inception foreign currency rate.

We believe the amended Option 1 language as noted above would result in a consistent and static notional amount for derivative reporting purposes. Making paragraph “a.” more general and eliminating the three categories would eliminate any confusion for instruments that may not fit perfectly into a particular category. This language more closely resembles the NAIC’s original language for paragraph “a.” We believe a general point “a.” with the addition of the lead-in language that states notional should be reported on a static basis would eliminate the possibility that some companies interpret “a,” “b,” or “c.” as allowing them to use reporting date strike or index prices for notional calculations. For example, under this language equity option or equity TROR notional would be based on inception date strikes or initial prices and not fluctuate based on index price movements between trade date and reporting date. The amendment to bullet point “b.” is to clarify contract size and eliminate the reference to “typically 100.” The language as originally proposed caused some confusion among industry participants as to whether the value of one point should be multiplied by par and then also 100 based on the original language.

Recommended Action:
It is recommended that the Working Group adopt the definition of notional as suggested by interested parties, with additional revisions to clarify that the definition represents the “principal / intent” of determining notional. (Staff highlights that derivative agreements can be tailored differently, therefore in the
event that an agreement is difficult to apply under the definition, identifying that the definition represents the principal / intent of the term, should assist with entities consistently applying the intent of the definition.) It is noted that by adopting the definition, the guidance can be included in the 2017 AP&P Manual. As there is no definition in SSAP No. 86 for notional, including in the AP&P Manual should assist with having more consistent reporting in notional across different reporting entities. (The reporting of notional does not impact financial solvency assessments, but is used as a volume measure for derivative activities.)

Rather than adopting, the Working Group could elect to expose the interested parties’ proposed notional definition. From preliminary discussions with other NAIC staff, there is some initial uncertainty regarding how the interested parties’ revised definition will be applied to equity derivatives. This is particularly noted as there is a “static” intent to the notional value. Despite this uncertainty, staff recommends proceeding with adoption, clarifying that the definition reflects the principal / intent of the notional definition.

Staff understands that with the variety of derivative transactions, different underlyings, etc.; it may not be feasible to construct a definition that specifically encompasses all scenarios. As there is limited information for determining “notional” – and as it is used as a key volume measure for derivatives – incorporating guidance, even if reflecting a principle concept for notional, is anticipated to improve comparability with how notional is determined and reported.

The following identifies the initial comments from other NAIC staff on the definition:

- The use of the term “point value” in paragraph (b) for futures may not result in a static notional value, since it will change based on both common market usage of that term and how it is used in the Annual Statement Instructions. Point Value is a function of a number of different variables in the derivatives market – interest rates, volatility assumptions, the value of the underlying and the difference between a strike price and the current price as of the reporting date.

- It is uncertain how paragraphs (a) and (b) would be applied all situations in which the underlying is a derivative related to equities, or where the underlying security is an equity, particularly with the intent to have a static notional value. (Equity has no recognizable par value, nor does it involve interest rates.)

Proposed Definition for SSAP No. 86 – Reflects IP Comments and the Additional Footnote

13. “Notional amount” is defined as the face value of a financial instrument in a derivatives transaction as of a reporting date which is used to calculate future payments in the reporting currency. Notional amount may also be referred to as notional value or notional principal amount. The notional amount reported should remain static over the life of a trade unless the instrument is partially unwound or has a contractually amortizing notional. The notional amount shall apply to derivative transactions as follows:

a. In a non-futures derivative instrument, notional amount is either (1) the amount to which interest rates are applied in order to calculate periodic payment obligations, (2) the contractually stated notional amount or (3) the contract quantity amount multiplied by applicable inception strike and currency rates. The term is also referred to the contract amount, the reference amount, and the currency amount. For derivative instruments other than futures contracts (e.g., options, swaps, forwards), the notional amount is either the amount to which interest rates are applied in order to calculate periodic payment obligations or the amount of the contract value used to determine the cash obligations. Non-US dollar contracts must be multiplied or divided by the appropriate inception foreign currency rate.

b. For futures contracts, with a U.S. dollar-denominated contract size (e.g., Treasury note and bond contracts, Eurodollar futures) or underlying, the notional amount is the number of contracts at the reporting date multiplied by the contract size multiplied by the par value of the underlying (typically 100) / (value of one point multiplied by par value).
For equity index and similar futures, the number of contracts at the reporting date is multiplied by the value of one point multiplied by the transaction price. Non-US dollar contract prices must be multiplied or divided by the appropriate inception foreign currency rate.

New Footnote 1: The definition in paragraph 13 is intended to be a principle for determining notional for all derivative instruments. To the extent a derivative type is not explicitly addressed in 13.a-13.c, notional should be reported in a manner consistent with this principle.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-16 SSAP No. 103R (Julie)</td>
<td>Repurchase and Reverse Repurchase Disclosures</td>
<td>19</td>
<td>Comments Received</td>
<td>10</td>
</tr>
</tbody>
</table>

Summary:
On August 26, 2016, the Working Group received this agenda item, as a referral from the Restricted Asset (E) Subgroup, and exposed proposed revisions to SSAP No. 103R as shown above in the June 21, 2016 recommended revisions from the Restricted Asset (E) Subgroup. The Working Group also exposed proposed repo disclosure templates (separate documents) recommended from the Restricted Asset (E) Subgroup. (Upon adoption, these disclosure templates would be referred to the Blanks (E) Working Group and would not be duplicated in the SSAP.)

Interested Parties’ Comments:
Interested Parties offer the following comments on the proposed changes to SSAP 103:

Average Book/Adjusted Carrying Value

The proposed disclosures in paragraph 28.ii.a and 28.iv.a ask for the average daily book/adjusted carrying value and fair value of securities sold under an agreement to repurchase. Investment systems do not calculate book/adjusted carrying value on a daily basis so we recommend modifying the requirement to only require average fair value. Additionally, the average daily book/adjusted carrying value for securities subject to reverse repurchase agreements would be zero because the securities are not recorded on-balance sheet for these transactions.

Since the purpose of this disclosure is to provide volume information on repurchase agreement transactions, providing the average daily fair value would accomplish the same goal as the average book/adjusted carrying value, so we do not believe both items are necessary. Similarly, we would not be able to provide the average book/adjusted carrying value of securities requested in paragraphs 28.iii.b, 28.v.a and 28.v.b but could provide the average fair value.

Number of Bilateral and Tri-Party Repo Trades

We do not believe the number of trades provides useful information and that sufficient information on the volume of repurchase agreement transactions can be closely approximated from other data elements. The number of trades could be potentially misleading if, for example, Insurer A has a large number of small trades while Insurer B has a small number of large trades. In this example the insurer with a small number of trades could have greater risk due to the size of the trades but the number of transactions would not convey that risk. Another issue is that repurchase agreement transactions typically renew or “roll” daily and every day would be considered a new trade, potentially resulting in a distortive gross-up of the number of transactions. The average daily balance when
compared to the minimum, maximum and ending balances should provide a good measure of trading activity by itself and would not be enhanced by the disclosure of the number of trades.

Footnote Placement

The existing repurchase agreement disclosures are located in both Notes 5 and Notes 17 of the annual statement blank. We recommend that any referral to the Blanks Working Group house all of the newly required disclosures in one location, preferably Note 5.

Effective Date

We suggest making the changes to SSAP No. 103 effective December 31, 2017 which should allow enough time for the related Blanks exposure (and data capture requirements) to be adopted with the same date.

Recommended Action:
Staff recommends that the Working Group adopt revisions to SSAP No. 103, with an effective date of December 31, 2017, revised from the exposure as identified below, to incorporate enhanced disclosures for repurchase and reverse-repurchase transactions. With this action, staff recommends that the Working Group sponsor a proposal to the Blanks (E) Working Group to incorporate disclosures illustrations and instructions within a single note location. Staff highlights that the disclosure templates previously exposed by SAPWG will be modified by the Blanks (E) Working Group to fit specifications (column / row limits).

With the proposed effective date of December 31, 2017, if preferred by the Working Group, the proposed revisions could be re-exposed and considered either during an interim call, or at the Spring National Meeting. If re-exposed, staff would recommend that the Working Group proceed with the Blanks proposal to ensure the blanks changes are ready for year-end 2017.

Proposed Revisions to the Exposure:

1. Pursuant to the interested parties’ comments, revisions clarify that the average daily balance does not include the book adjusted carrying value. Rather, the BACV shall be provided as an “end” (position) balance only. (As detailed in the templates, flow-data is collected to highlight the extent of activity throughout a reporting period, with position-data to detail the amount outstanding as of a reporting date. The average daily balance of BACV will be removed from the “activity” (flow-data) information (with fair value retained), but the BACV will be captured (along with fair value) for the outstanding activity (position data) at each reporting date. If the security was removed from the financial statements (in a repo accounted for as a sale), the information collected will be the BACV at the time the security was derecognized. Noted revisions are identified in paragraphs: 28.ii.a, 28.iii.b, 28.iv.a, 28.v.a, 28.v.b

2. Also pursuant to the interested parties’ comments, staff agrees that attempts to define how to determine the “number of trades” has been difficult. Although staff believes this information may be beneficial to regulators, with the “rolling” of repurchase and reverse-repurchase agreements, the information that may be collected may be difficult to review and compare across companies. As such, staff does not object to the removal of the disclosure that requests the number of trades. As this disclosure was capturing information on bilateral and tri-party repos, revisions are proposed to simply identify the type of repos that the insurer engages in. (See revisions in paragraph 28.a.i.)
Disclosures

28. A reporting entity shall disclose the following:

   a. For Repurchase and Reverse Repurchase Agreements:
      i. If the entity has entered into repurchase or repurchase agreements, information regarding the company policy or strategies for engaging in repo programs, policy for requiring collateral, as well as whether transactions have been accounted for as secured borrowings or as sale transactions. This disclosure shall include the terms of reverse repurchase agreements whose amounts are included in borrowed money. The following information shall be disclosed by type of agreement:
         (a) Whether repo agreements are Number of bilateral and/or tri-party repo trades.

      As Secured Borrowing Transactions:
      
         ii. For repurchase transactions accounted for as secured borrowings, the average daily balance (along with minimum and maximum amounts), and the end balance as of each reporting period (quarterly and annual) for the following:
             (a) Book adjusted carrying value and Fair value of securities sold. (Book adjusted carrying value shall be provided as an end balance only.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with identification of nonadmitted assets. Although legally sold, as a secured borrowing, these assets are still reported by the insurer and shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.

         iii. For reverse repurchase transactions accounted for as secured borrowings, the average daily balance (along with minimum and maximum amounts), and the end balance as of each reporting period (quarterly and annual) for the following:
             (a) Fair value of securities acquired. This information shall be reported in the aggregate, and by type of security categorized by NAIC designation, with identification of whether acquired assets would not qualify as admitted assets.

---

1 All repurchase and reverse repurchase transactions and securities borrowing and securities lending transactions shall be reported gross for disclosure purposes and when detailed on the respective investment schedules. However, repurchase and reverse repurchase transactions and securities borrowing and securities lending transactions may be reported net in the financial statements (pages 2 and 3 of the statutory financial statements) in accordance with SSAP No. 64—Offsetting and Netting of Assets and Liabilities (SSAP No. 64) when a valid right to offset exists. When these transactions are offset in accordance with SSAP No. 64 and reported net in the financial statements, the disclosure requirements in SSAP No. 64, paragraph 6, shall be followed.

2 For secured borrowing repurchase transactions, the insurance reporting entity is selling a security, and receiving collateral (generally cash) in an exchange that does not qualify as a sale.

3 For secured borrowing reverse repurchase transactions, the insurance reporting entity is buying a security, and providing collateral (generally cash) in an exchange that does not qualify as a sale.
(b) Cash collateral and the fair value and book adjusted carrying value of security collateral (if any) provided. [If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.] Disclosure shall identify the book adjusted carrying value of any nonadmitted securities provided as collateral. For collateral pledged, the aggregate allocation of the collateral by the remaining contractual maturity of the reverse-repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90-days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

As Sale Transactions:

iv. For repurchase transactions accounted for as a sale, the average daily balance (along with minimum and maximum amounts), and the end balance as of each reporting period (quarterly and annual) for the following:

(a) Book adjusted carrying value and Fair value of securities sold (derecognized from the financial statements). (Book adjusted carrying value shall be provided as an end balance only, reflecting the amount derecognized from the sale transaction.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with information on the book adjusted carrying value of nonadmitted assets sold.

v. For reverse repurchase transactions accounted for as a sale, the average daily balance (along with minimum and maximum amounts), and the end balance as of each reporting period (quarterly and annual):

(a) Book adjusted carrying value and Fair value of securities acquired and recognized on the financial statements. (Book adjusted carrying value shall be provided as an end balance only.) This information shall be reported in the aggregate, and by type of security categorized by NAIC designation. The disclosure also requires the book adjusted carrying value of nonadmitted assets acquired.

(b) Cash collateral and the fair value and book adjusted carrying value of security collateral (if any) provided. [If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.] Disclosure shall also identify whether any nonadmitted assets were provided as collateral (derecognized from the financial statements).

---

4 For sale repurchase transactions, the insurance reporting entity sold a security, and received “proceeds” in exchange. With a sale transaction, the insurer removes the asset from their financial statements and recognizes the proceeds from the sale. This transaction requires recognition of a forward repurchase commitment.

5 For sale reverse repurchase transactions, the insurance reporting entity has purchased a security and provided “proceeds” in exchange. With a sale transaction, the insurer reports the acquired asset in their financial statements and removes the proceeds provided. This transaction requires recognition of a forward resale commitment.
Summary:
On August 26, 2016, the Working Group exposed revisions to SSAP No. 84, as illustrated in the agenda item, to clarify that receivables must originate from the government in order to be past 90-days due and remain an admitted asset. With exposure of the SSAP No. 84 revisions, the Working Group also requested comments on whether a longer timeframe is needed to allow for collection of performance network rebate receivables relating to government plans (e.g., Medicare Part D plans), which do not originate from the government, before nonadmittance. If supported, responders are requested to provide information on what the timeframe should be (e.g., 120 days), and what parameters should exist (e.g., payment under CMS established timeframe) to qualify for a longer timeframe.

Furthermore, with the discussion of this agenda item, the Working Group also re-exposed agenda item 2011-44, Pharmacy Rebates under Medicare Part D Gap Discount. Discussion of agenda item 2011-44 is anticipated to occur separately from the consideration of this agenda item.

Interested Parties’ Comments:
This proposal pertains to performance network rebate programs for pharmacies participating in Medicare Part D plans. Apparently, some companies have been considering receivables from this program as government receivables and, thus, not subject to the 90-day nonadmission rule.

The NAIC staff has concluded that these receivables are not receivables from the government and are subject to the 90-day admission rule. Interested parties agree with this conclusion.

In addition, the NAIC staff requested input on whether a longer timeframe is needed for the collection of performance rebate receivables (e.g. 120 days). This was discussed within the health insurance industry and it was concluded that there is no need to extend the admission period from 90 to 120 days.

SilverScript Insurance Company
In 2014 SSIC implemented a pay-for-performance program in which all retail pharmacies in the CVS/caremark Medicare Part D networks for SSIC could participate. The pharmacies' performance was monitored for the 2015 calendar year, and the performance payment, if applicable, was paid near the end of first quarter 2016. The performance payment depended on the volume of SSIC members who utilized a pharmacy and that pharmacy’s average performance score in six different areas.6

For 2016, CMS guidance required a change to the way this pay-for-performance program operated. Beginning with the 2016 plan year, this pay-for-performance program was changed from a program that was based on two parts, performance effort and performance outcome, to a program solely focused on performance outcome. As under the prior pay-for-performance program, under new performance network rebate program the annual performance outcome payment, if applicable, is based on the volume of participating members who utilize your pharmacy and on your pharmacy’s average performance score. However, the network performance rebate is now calculated in a completely retrospective manner after claims are processed and pharmacy performance measurement occurs. The retrospective calculation is based on looking back at blocks of four months at a time, calculating the performance network rebate, and then collecting the rebate from the pharmacy after each trimester period.

6 Those 6 areas were: 1) ACE/ARB Adherence, 2) Statin Adherence, 3) Diabetes Adherence, 4) % 90 day Stars RXs, 5) CMR Completion Rate (MTM) and 6) % High Risk Meds (HRMs)
As a result of these changes, SSIC would like to comment on Exposure Ref #2016-23 ("exposure") that was recently exposed for comment by the SAPWG. In the exposure, SAPWG is seeking comments on a non-substantive change to SSAP No. 84 to clarify that receivables under government insured plans must originate from the government in order to be past 90-days due and remain an admitted asset. Further, the exposure is also seeking comment on whether a longer timeframe is needed to allow for collection of performance network rebate receivables relating to government plans before non-admission, what the timeframe should be (e.g., 120 days), and what parameters should exist (e.g., payment under CMS established timeframe) to qualify for a longer timeframe.

SSIC would like to propose that the performance network rebate for pharmacies participating in Medicare Part D plans should be accounted for under the provisions of SSAP No. 84, Paragraph 20 that relate to risk-sharing receivables. SSIC believes that this treatment is appropriate based on the structure of the performance network rebate program.

In order for the performance network rebate program to qualify under SSAP No. 84, Paragraph 20, it must be considered a risk-sharing receivable. SSAP No. 84 defines risk-sharing agreements as "contracts between reporting entities and providers with a risk-sharing element based upon utilization." SSAP No. 84 goes on to state that the "compensation payments for risk-sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation."

The SSIC performance network rebate is a risk-sharing agreement with the pharmacies that participate in SSIC's pharmacy network. Under the performance network rebate program, pharmacies that participate in SSIC's network receive payment from SSIC for providing pharmacy services to SSIC's Part D enrollees. Pharmacies are rated annually based on their performance and those pharmacies with a lower performance score must return up to 5.5% of their payment to SSIC. If a pharmacy receives a higher score, then that pharmacy may return as little as 3.5% of its payment to SSIC. Such a pay-for-performance payment model constitutes a risk-sharing element necessary for the performance network rebate program to be considered a risk-shifting agreement.

The performance measures used to evaluate a participating pharmacy are largely based on SSIC enrollee adherence to prescribed medication. Pharmacies that ensure greater adherence are awarded a higher overall score. If an enrollee is strictly adhering to their prescription, then that enrollee's pharmacy utilization will increase. So, the performance measure in the performance network rebate program is based on utilization.

Further, SSIC is a reporting entity and the participating pharmacies are providers of pharmacy services. So, the performance network rebate program is a contract between reporting entities and providers with a risk-sharing element based upon utilization.

---

7 Specifically, RASA adherence, Statin adherence and Diabetes adherence make up 75% of the criteria to measure performance. The other performance measurement criteria are 10% drug therapy gap, 5% CMR completion rate, 5% high-risk medications and 5% formulary compliance.

8 Prescription drugs affect people's health and their need for medical services. Therefore, policy changes that influence Medicare beneficiaries' use of prescription drugs, such as those altering the cost-sharing structure of the Part D prescription drug benefit, probably affect federal spending on their medical services. After reviewing recent research, the Congressional Budget Office (CBO) estimates that a 1 percent increase in the number of prescriptions filled by beneficiaries would cause Medicare’s spending on medical services to fall by roughly one-fifth of 1 percent. That estimate, which applies only to policies that directly affect the quantity of prescriptions filled, represents a change in the agency’s estimating methodology, which until now has not incorporated such an effect. Congressional Budget Office. Offsetting effects of prescription drug use on Medicare’s spending for medical services. November 2012. Available at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/43741-Medical-Offsets-11-29-12.pdf.
Finally, the performance network rebate is derived retrospectively using each pharmacy’s performance score for that measurement period and is calculated by Part D plan, by network for each network in which your pharmacy participates. The measurement data for the measurement periods ending April 2016, August 2016, and December 2016, are considered the final measurements utilized to determine each pharmacy’s individual performance score for the respective trimester. The measurement will be based on a six-month look-back for the first period ending April 2016, then the measurement will be based on a year-to-date score for periods two and three.

For the first trimester period, in addition to the six-month look back, the measurement will look at applicable claims during the months January, February, March and April of 2016. In May and June of 2016, the amount of the performance network rebate was calculated based on the measurement data. For the months of July, August and September of 2016, SSIC collected the performance network rebate payments from the pharmacies.

For the second trimester period, in addition to the first trimester measurement data, the measurement will look at applicable claims during the months May, June, July and August of 2016. In September and October of 2016, the amount of the performance network rebate will be calculated based on the measurement data. For the months of November and December of 2016 and January of 2017, SSIC will collect the performance network rebate payments from the pharmacies.

For the third trimester period, in addition to the first and second trimester measurement data, the measurement will look at applicable claims during the months September, October, November and December of 2016. In January and February of 2017, the amount of the performance network rebate will be calculated based on the measurement data. For the months of March, April and May of 2017, SSIC will collect the performance network rebate payments from the pharmacies.

At all times during the measurement periods, the calculation periods and the collection periods, SSIC will have at least six months of actual claims experience on which to rely when calculating the performance network rebate.

Since the performance network rebate program meets the definition of a risk-sharing agreement under SSAP No. 84, SSIC believes that it is appropriate for the performance network rebate program to be accounted for under SSAP No. 84, Paragraph 20.

Recommended Action:
It is recommended that the Working Group adopt the exposed revisions to SSAP No. 84 as exposed. As noted above, interested parties agree with the conclusion for the application of paragraph 23. Also, consistent with the interested parties’ comments, it is recommended that the Working Group forego discussion on extending the admission period from 90 to 120 days.

Staff highlights that the comment letter from Silverscript pertains to the application of guidance between paragraph 10 of SSAP No. 84 (Pharmaceutical Rebate Receivables) and paragraph 20 of SSAP No. 84 (Risk-Sharing Receivables.) As detailed in their comment letter, Silverscript indicates that their performance network rebate program meets the definition of a risk-sharing agreement and should be accounted for under that guidance. Staff understands that this request is being made because contracts captured within paragraph 20 are provided a longer timeframe for billing, which helps mitigate concerns on possible nonadmittance:

- **Paragraph 10 (Pharmaceutical Rebate Receivable)** - Billed amounts for an estimated amount must be invoiced or confirmed within 2 months of the estimated amount to be admitted. Amounts not collected within 90 days of the invoice date or confirmation date are nonadmitted.

- **Paragraphs 6 and 20 (Risk-Sharing Receivable)** – Risk-sharing agreements are contracts between reporting entities and providers with a risk-sharing element based upon utilization. The compensation payments for risk-sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used...
in estimating the monthly compensation. Risk-sharing receivables and payables shall be recorded when reasonably estimated. Determination of risk-sharing balance shall commence no later than 6 months following the close of such annual period, and the balance shall be invoiced no later than 8 months following close of the annual period. Risk-sharing receivables that have not been collected within 90-days of the date of billing shall be nonadmitted.

With the SSAP No. 84 guidance, if the Silverscript program is considered a pharmaceutical rebate receivable, there is a greater risk of nonadmittance, as the amount must be billed within 2 months, with the 90-day timeframe beginning at the time of invoice. If considered a risk-sharing receivable, the billing can be delayed (up to 8 months), therefore allowing the “90-day countdown” to start later, ultimately allowing more time to pass before nonadmitting the recorded amount.

Staff requests comments from the Working Group on whether specific review should occur to address the issue identified in the Silverscript comment letter. It is staff's initial opinion that the state of domicile should be final authority regarding the substance of actual contracts to determine the appropriate statutory accounting guidance. However, if the Working Group would like to consider this issue, perhaps if it is a shared issue among states, then staff recommends that the Working Group direct staff to prepare a separate agenda item to address this issue.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
<th>Agreement with Exposed Document?</th>
<th>Comment Letter Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-44</td>
<td>Pharmacy Rebates under Medicare Part D Gap Discount</td>
<td>21</td>
<td>Comments Received</td>
<td>1</td>
</tr>
</tbody>
</table>

Summary:
On August 26, 2016, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item with a request for information on whether the issues originally documented still need to be addressed for statutory accounting, and/or if there are other issues involving Medicare pharmacy rebates that require consideration. This agenda item was exposed as part of the discussion on agenda item 2016-23: Receivables of Government Plans, but the two agenda items are anticipated to be considered separately.

Interested Parties’ Comments:
Interested parties believe that no additional guidance is needed and the Medicare Part D Gap Discount programs should follow the existing pharmacy rebate accounting guidance in SSAP No. 84.

Recommended Action:
Based on the comments from interested parties, NAIC staff recommends that the Working Group move agenda item 2011-44 to the disposed listing without statutory accounting revisions.

Summary:
On August 26, 2016, the Working Group moved exposed revisions to SSAP No. 23, to adopt with modification ASU 2013-05, and incorporate guidance on when a parent reporting entity shall realize foreign currency translation changes with their investment in a foreign entity.

© 2016 National Association of Insurance Commissioners
Interested Parties’ Comments:
Since statutory accounting follows the equity method for all SSAP No. 48 investments in foreign entities, it would be more consistent with US GAAP and with the statutory accounting for other types of foreign currency denominated assets, to allow a pro-rata share of the foreign currency translation to be realized when there is a partial sale regardless of whether there is a change in control. We also do not believe it would be appropriate to realize the entire foreign currency translation balance when an insurer gains control of a SSAP No. 48 entity for the same reasons.

We do not have any issues with applying the proposal to SSAP No. 97 entities, as a gain or loss of control would change the accounting model from the equity method to fair value (e.g., as required by SSAP No. 30) or vice versa, and it would not be appropriate to maintain the unrealized foreign currency translation balance in these cases. However, we suggest the proposal clarify the definition of control to be as defined in SSAP No. 97, which generally results in a lower threshold for control than US GAAP. We also suggest that consistency with GAAP be maintained and a pro rata share of the foreign currency translation balance be recognized rather than the entire balance.

The proposed changes do not address the situation where the investee (whether accounted for under SSAP No. 48 or SSAP No. 97) substantially liquidates the assets/business, and the investor’s ownership does not change. This may result in a situation where an unrealized foreign currency translation balance is not realized on a timely basis. We suggest that language be added that would indicate that when an investee is substantially liquidated, the entire unrealized foreign currency translation balance is to be realized.

Recommended Action:
After considering interested parties’ comments, Staff recommends that the Working Group either adopt, with the revisions noted below (shaded), or re-expose the proposed revisions. The revisions from the exposure reflect the interested parties’ comments; therefore the Working Group may prefer to consult with industry on whether re-exposure is needed.

Fall NM Proposed Revisions to SSAP No. 23 (Shaded Text Shows Revisions from Summer NM Exposure)

7. All other foreign currency transactions shall be accounted for as follows:

a. Assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate;

b. Changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Additionally, in situations in which the reporting entity has an investment in a foreign entity (such as an investment in a joint venture under SSAP No. 48 or an investment in subsidiary under SSAP No. 97), the parent reporting entity shall realize foreign currency translation changes when the parent loses control of the foreign entity, the parent entity derecognizes the entire equity method investment, or the parent entity acquires control in a foreign entity when the parent previously only held a noncontrolling interest (step acquisition). Upon partial sale or acquisition of control of a foreign entity, the parent reporting entity shall realize a pro-rata share of foreign currency translation changes. Upon settlement, or the situations previously described, all previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss. When a foreign entity investee is substantially liquidated the entire unrealized foreign currency translation balance is to be realized;
c. Transactions involving settlement in cash, such as purchases, payment of expenses, sales, and receipt of income, shall be recorded at their U.S. dollar equivalent value based on the foreign currency exchange rate as of the transaction date. Any foreign currency exchange gains or losses on purchases, payment of expenses, sales, maturities or changes in income or expense accruals shall be recorded as a capital gain or loss realized on the purchase, sale or maturity.

9. This statement adopts, with modification, ASU 2013-05 – Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. Modifications within this statement reflect the statutory accounting definition of controlling interest, as specified in SSAP No. 97 and SSAP No. 25, as well as the reporting specified in this statement.

NOTE: The 38 pages of comment letters are included as Attachment 23.
This page intentionally left blank.
A. Consideration Of Maintenance Agenda – Pending List

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-39</td>
<td>SSAP No. 37 (Julie) Mortgage Loans with Multiple Lenders</td>
<td>A</td>
</tr>
</tbody>
</table>

Summary:
The Investment Classification Project (detailed in agenda item #2013-36) supported a review of the investment SSAPs to address a variety of application questions, mostly focusing on definitions and scope limitations of each of the noted SSAPs. In response to an industry inquiry, SSAP No. 37—Mortgage Loans was included within the Investment Classification Project, with a specific focus to consider whether a partial interest in a mortgage loan (in which there is one borrower, with more than one lender identified in a single lending agreement, and all lenders are secured with the same real estate) should be in scope of SSAP No. 37, and reported in a similar manner as other mortgage loans on Schedule B.

The mortgage loan structures intended to be the focus of this agenda item are investments when the reporting entity/ investor is a “participant in a mortgage loan.” This focus intends to consider standard mortgage loan agreements (with principal and interest payments) in which the mortgage loan agreement identifies more than one lender providing the funds to a sole borrower in a single loan agreement. These generally occur for larger commercial mortgage loans. The use of the term “participant” to identify these mortgage loan structures shall not be interpreted as encompassing “participating mortgages.” In a “participating mortgage” the lender is entitled to share in the rental or resale proceeds from the property by the borrower, generally as a certain percentage of the cash flows generated from the real estate acquired with the mortgage loan. Furthermore, this agenda item is not intended to encompass an interest in a “fund” with underlying real estate assets (such as a Real Estate Investment Trust—REIT).

A scenario of the structure intended to be captured within this agenda item is listed below:

- Five reporting entities each provide a $400,000 commercial mortgage loan to a single borrower.
- Mortgage loan is secured by a single $2,000,000 commercial real estate structure.
- None of the lenders can foreclose on the borrower without all lenders agreeing to foreclose.
- This is not a “securitization” in which the lenders are issued a security representing an interest in cash flows, supported by the real estate collateral held in trust. Instead, the five lenders are all identified as lenders in the single loan agreement (“as participants in a mortgage loan”).

From comments originally received, these transactions reflect “loan participation agreements” backed by real estate, in which a mortgage loan is made by multiple lenders to a single borrower. It has been communicated that the key difference between this “participant” agreement and a standard mortgage loan (one lender) is that the reporting entity is unable to unilaterally foreclose on the loan. Instead, all lenders identified as a “participant” in the group transaction must agree to foreclose on the mortgage loan. This structure appears to be similar to a bank loan acquired through a syndication, except that the loan is secured with real estate collateral. (Bank loans are captured within SSAP No. 26—Bonds; the Investment Classification Project revisions currently being considered for that SSAP would clarify that bank loans are not securities, but are fixed-income investments specifically noted for inclusion in SSAP No. 26. Definitions for bank loans acquired by assignment, participation or syndication are also proposed with the current exposures under the Investment Classification Project.)
Although this “group mortgage loan” issue was requested to be considered by the Working Group as part of the Investment Classification Project, the Annual Statement Instructions already include guidance which implies that “loans subject to a participation agreement” would be captured in Schedule B – Part 1.

The intent of this agenda item is to clarify which SSAP should address these transactions, and the appropriate reporting schedule for consistency purposes. Based on the substance of these items, as well as the current guidance in Schedule B-Part 1, **initial proposed revisions (detailed in the staff recommendation) propose to clarify the inclusion of these agreements in SSAP No. 37—Mortgage Loans.** However, the Working Group could consider other SSAPs / reporting structures. Regardless of the SSAP identified, it is anticipated that revisions would be needed to clarify the inclusion of these items within that SSAP.

**Recommendation:**
Staff recommends that the Working Group move this item to the active listing, classified as nonsubstantive, and expose revisions to clarify that a reporting entity providing a mortgage loan as a “participant in a mortgage loan agreement” shall consider the mortgage loan in scope of SSAP No. 37. As defined in this Form A - reflecting one borrower, with more-than-one lender in a mortgage agreement is not a “securitization of assets.” In addition to clarifying that these mortgage loans are not securities and in scope of SSAP No. 37, revisions are proposed to clarify the impairment assessment for these mortgage loans and incorporate disclosures for these structures.

Upon adoption of revisions to clarify the accounting and reporting for these “participant in a mortgage loan” structures (whether in SSAP No. 37 or in a different SSAP), it will be recommended that the Working Group send a referral to the Blanks (E) Working Group to clarify the annual statement reporting instructions, with inclusion of a new characteristic code to identify whether the reporting entity is a “participant in the mortgage loan” on Schedule B, as well as a referral to the Capital Adequacy (E) Task Force to review and clarify the RBC instructions to ensure the “group” lending arrangement (e.g., inability to foreclose outside of the group) is given appropriate risk consideration.

**Inquiry – As detailed in the Form A summary, this agenda item is not intended to capture “participating mortgages” or “real estate funds.” SSAP No. 40—Real Estate provides guidance if the reporting entity is the borrower in a participating mortgage (recognition of liability), but there is no guidance in SSAP No. 37 if the reporting entity is the lender entitled to cash flows (or appreciation of the real estate’s fair value) from a participating mortgage. Also, NAIC staff often receives questions on whether real estate trusts are captured in SSAP No. 37. It is staff’s interpretation that REITs are outside the scope of SSAP No. 37 (as a security), but there is no specific guidance addressing these investments. If preferred by the Working Group, this agenda item (or a separate agenda item) could consider these issues. If desired, this agenda item could request comments on these items to see if they are topics that industry supports addressing.**

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-40</td>
<td>Definition of LBSS</td>
<td>B: Agenda Item C: Referral</td>
</tr>
</tbody>
</table>

**Summary:**
The Investment Classification Project (detailed in agenda item #2013-36) supported a review of the investment SSAPs to address a variety of application questions, mostly focusing on definitions and scope limitations of each of the noted SSAPs. **SSAP No. 43R—Loan-backed and Structured Securities (SSAP No. 43R)** was originally identified as a SSAP to review within the Investment Classification Project. Pursuant to the original project focus, the assessment of SSAP No. 43R is intended to include a review of definitions for the investments within scope, and to verify whether investments are being appropriately included (or excluded) from that standard.
As the SAPWG initially focused on revisions to SSAP No. 26—Bonds under the Investment Classification Project in 2016, the Valuation of Securities (E) Task Force undertook a project to assist with reviewing the definitions for loan-backed and structured securities (LBSS) captured in SSAP No. 43R. In initiating this review, the Task Force identified that they have significant interest in SSAP No. 43R and would propose revised definitions, which may address industry concerns, pursuant to the SVO and Structured Securities Group (SSG) perspective.

On June 10, 2016, the Task Force submitted a referral to the Working Group proposing definition changes for SSAP No. 43R investments. The proposed definitions focus on the collateral pool as the source of dynamic cash flow. As detailed in the referral, the Task Force recommends a change for SSAP No. 43R securities, broadly referred to as “structured finance securities,” to recognize that a dynamic cash flow pattern is the result of a specific structural construct, which includes all of the following:

- Legal isolation and pooling of a finite number of cash generating assets.
- Each cash generating asset from a different obligor,
- Cash generating assets are held in a trust,
- Cash flows from the cash generating assets are used to pay the security holders.

In developing the recommended definition, the Task Force first exposed their proposed definition for comment in April 2016. The Task Force’s adopted definition, detailed in the June 2016 referral, reflects the exposed definition modified to incorporate comments received by the ACLI. Upon adoption of the definition, the Task Force agreed to recommend the proposed definition to the Statutory Accounting Principles (E) Working Group for consideration into SSAP No. 43R. In drafting this agenda item, the SAPWG staff has proposed revisions to the Task Force’s proposed definition for inclusion in SSAP No. 43R. These revisions are detailed in the agenda item.

Recommendation:
Staff recommends that the Working Group receive the referral from the Valuation of Securities (E) Task Force, move this agenda item to the active listing, categorized as substantive, and expose revisions to SSAP No. 43R (with limited revisions to other SSAPs). As further detailed, this agenda item requests comments on the overall proposed change, and the securities that will be impacted if these revisions are adopted.

Key revisions reflected in the initial exposure include:

1. Revised definitions for investments within scope of SSAP No. 43R.
2. A title change of SSAP No. 43R as well as a broad change from LBSS to “structured finance security” throughout the SSAP.
3. Revisions to clarify admitted asset requirements.
4. Revisions to update the “effective” date guidance – removing explicit guidance on transition from the adoption of the 2009 SSAP No. 43R substantive revisions.
5. Update to the Q&A to remove outdated guidance, mostly pertaining to the 2009 transition, but also removing issues subsequently addressed or revised in the SSAP.

Under the proposed definition, it is intended that securities with a single-obligor will no longer be in scope of SSAP No. 43R, but will instead be captured within SSAP No. 26. Comments are requested on this proposed change, whether the proposed definition adds or removes other securities from the scope of SSAP No. 43R, and if there are any unintended consequences from incorporating the revised definition into SSAP No. 43R. Comments are also requested on other aspects of SSAP No. 43R that should be reviewed under the Investment Classification Project, with a specific inquiry on the continued inclusion of past effective date / transition guidance as well as the Q&A Implementation Guide.

- Commenters providing information on the impact to securities from the proposed definition are requested to provide detailed information on the security, including where it was previously reported (if not

© 2016 National Association of Insurance Commissioners
previously in scope) or where it would subsequently be captured (if no longer in scope) if the proposed definition for SSAP No. 43R is adopted.

- Commenters are requested to provide information regarding the need to retain effective date and transition guidance from initial application of the 2009 substantive revisions, and whether there are concerns with the proposed deletion of transition-related questions from Appendix A - Question and Answer Implementation Guide in SSAP No. 43R.

With exposure of the proposed revisions to SSAP No. 43R, staff recommends a referral to the Structured Securities Group (SSG) to verify that the inclusion of the proposed definition will not impact the scope of securities captured within the financial modeling process. If the revised definition is adopted, referrals to the Blanks (E) Working Group and the Valuation of Securities (E) Task Force would be recommended so that the terminology is updated in all NAIC publications.

As the proposed revisions will result with some securities being classified to a different SSAP, staff has proposed for the revisions to be considered substantive. To facilitate initial discussion, proposed revisions are shown in the agenda item for initial exposure. However, staff recommends that the Working Group direct NAIC staff to draft an issue paper for historical documentation.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-41</td>
<td>AVR and IMR in SSSAP No. 26 (Julie)</td>
<td>D</td>
</tr>
</tbody>
</table>

Summary:
In reviewing the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) guidance included within SSAP No. 26—Bonds, as part of the Investment Classification Project, NAIC staff identified potential inconsistencies with the existing AVR/IMR guidance in the SSAP and the AVR/IMR guidance in the annual statement instructions. Furthermore, NAIC staff has also identified possible interpretation differences on how the other-than-temporary impairment (OTTI) guidance is being applied. Although these questions were identified when developing the issue paper proposing revisions to SSAP No. 26 under the Investment Classification Project, this AVR/IMR discussion is proposed to be addressed as a separate agenda item, with subsequent updating of the SSAP No. 26 issue paper, if needed, based on whether revisions are proposed to SSAP No. 26.

From preliminary information obtained, guidance in the annual statement instructions may be given higher priority than the SSAP No. 26 guidance for the allocation of gains and losses between AVR and IMR when an OTTI has been recognized. This has been particularly noted in situations in which there was a more-than-one designation change and/or the investment had an NAIC 6 designation. In these situations, reporting entities may be taking the entire realized loss to AVR (or IMR), rather than dividing between credit-related OTTI (AVR) and interest-related OTTI (IMR) as required in SSAP No. 26, paragraph 12.

An agenda item was presented in 2010 (Ref # 2010-16), in response to a referral from the Rating Agency (E) Working Group, which proposed to incorporate guidance for AVR/IMR allocation directly into the SSAPs (instead of the A/S instructions). This referral requested the Working Group to analyze whether it is appropriate to continue to use changes in NAIC designations to determine if realized capital gains and losses are to be classified as interest rate gains or losses. Although the agenda item recommended revisions to incorporate AVR/IMR guidance within the SSAPs, this agenda item was disposed without revisions; with a SAPWG referral response indicating that the bifurcation between the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) did not present a solvency concern. In the referral response, it was noted that research regarding the existing approach to bifurcate between the two reserves, as well as research into possible different bifurcation methods was not proposed by the SAPWG unless a specific issue was identified. This SAPWG referral response also identified that SSAP No. 43R—Loan-Backed and Structured Securities had guidance requiring bifurcation
between AVR and IMR based on interest and non-interest factors, but noted that this guidance was specific to SSAP No. 43R, as a cash flow analysis for determining interest and non-interest declines is a key component of that SSAP for recognizing impairment. Although this statement regarding SSAP No. 43R was accurate at the time of the referral response, bifurcation of OTTI losses between AVR/IMR is no longer specific to SSAP No. 43R, and is included in SSAP No. 26, paragraph 12. Inclusion of the AVR/IMR OTTI bifurcation in SSAP No. 26 occurred with the adoption of agenda item 2010-18, on November 29, 2010. Agenda item 2010-18 superseded SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment, and incorporated guidance from that SSAP into SSAP No. 26, SSAP No. 32 and SSAP No. 34.

The explicit AVR/IMR guidance from SSAP No. 26 and the annual statement instructions is included in the agenda item, however, key excerpts are duplicated below:

SSAP No. 26:

- Realized capital gains and losses from the sale of bonds - follow SSAP No. 7 (Annual Statement instructions).
- Unrealized capital gains and losses - follow SSAP No. 7 (Annual Statement instructions).
- Credit related other-than-temporary impairment (OTTI) shall be recorded as AVR and Interest-related OTTI shall be recorded as IMR (SSAP No. 26, paragraph 12).
- In addition to recognizing OTTI when it is probable a reporting entity will be unable to collect all contractual amounts due, **SSAP No. 26 requires OTTI recognition when a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value.**

AVR / IMR Annual Statement Instructions – Debt Securities:

- IMR – Include realized capital gains/losses for debt securities whose designation at the end of the holding period is not different from the NAIC designation at the beginning of the period by more than one designation. Realized gains or losses for any debt security with an NAIC 6 designation at any time is excluded from IMR.
- AVR - Include all realized capital gains/losses for debt securities whose designation at the end of the holding period is different from the NAIC designation at the beginning of the period by more than one designation. Realized gains or losses for any debt security with an NAIC 6 designation at any time is included in AVR.
- Although guidance is also included in the AVR instructions to require divisions between AVR and IMR for OTTI based on credit and interest related factors, this is contradictory to the guidance in the IMR instructions. The IMR instructions indicate that realized capital gains/losses must be classified as either interest (IMR) or credit (AVR) related, and not a combination except as specified in SSAP No. 43R. (This guidance is also inconsistent with SSAP No. 26 as that guidance requires bifurcation with an OTTI.)

Recommendation:

**Staff recommends that the Working Group move this item to the active listing, initially classified as substantive, and expose this agenda item requesting regulators and industry to provide information on the current practices of allocating gains and losses between AVR/IMR, as well as information on the recognition of OTTI (and division between AVR/IMR) if the security is sold in the same reporting period in which the OTTI is first identified.** In order to move forward with understanding current practice / regulator interpretations, staff requests comments on the following scenarios and identified situations:

1) Recognized OTTI for Security with NAIC 6 Designation.
2) Impaired Security Sold for Realized Loss (In the Same Reporting Timeframe as the Decision to Sell) with No NAIC Designation Change.

3) Impaired Security Sold (In the Same Reporting Timeframe as the Decision to Sell) with a Two NAIC Designation Change.

4) Sold OTTI Securities before Maturity for less than Carrying Value

5) Negative OTTI on Schedule D – Part 4

(Staff requests comments from regulators as to whether a review of sold investments - to identify whether they were recognized as OTTI - is something that is considered beneficial as part of a regulatory review.)

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-42</td>
<td>Appendix C Introduction</td>
<td>E</td>
</tr>
</tbody>
</table>

Summary:
This agenda item recommends updates to the introduction page of Appendix C - Actuarial Guidelines in the Accounting Practices and Procedures Manual to promote consistent application of the Actuarial Guidelines. The proposed revisions add language noting that various Statements of Statutory Accounting Principles (SSAPs) incorporate the Actuarial Guidelines by reference into the accounting standard. Additionally, the updates provide information regarding the applicability of actuarial guidelines after the operative date of the Valuation Manual (1/1/2017).

Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to the introduction section of Appendix C – Actuarial Guidelines of the Accounting Practices and Procedures Manual.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-43</td>
<td>Inflation-Indexed Securities</td>
<td>F</td>
</tr>
</tbody>
</table>

Summary:
In addition to being in-scope of SSAP No. 26—Bonds, inflation-indexed securities backed by the full faith and credit of the United States government are provided additional accounting guidance, as detailed in INT 01-25: Accounting for U.S. Treasury Inflation-Indexed Securities. As detailed in INT 01-25, Treasury inflation-indexed securities are direct obligations of the United States government, and are backed by the full faith and credit of the government. The principal is protected against inflation as the security is indexed to the Consumer Price Index and grows with inflation. Therefore, the investor is guaranteed that the real purchasing power of the principal will keep pace with the rate of inflation. Although deflation could cause the principal to decline, Treasury will pay at maturity an amount that is no less than the par amount as of the date the security was first issued. NAIC staff has received questions regarding whether foreign inflation-indexed securities, such as the United Kingdom’s Index-Linked Gilt, should be allowed to follow the guidance in INT 01-25, since these securities are also backed by the full faith and credit of their respective foreign government.

Recommendation:
Staff recommends that the Working Group move this item to the active listing, categorized an nonsubstantive and expose revisions to INT 01-25: Accounting for U.S. Treasury Inflation-Indexed Securities to restrict foreign inflation-indexed securities from using the guidance in INT 01-25 and require the
security to follow the applicable SSAP (e.g., SSAP No. 26) without recognition of unrealized gains or losses based on the inflation factor. As part of this exposure, Staff is requesting specific input from industry on the volume of foreign inflation-indexed securities held by insurance reporting entities and whether they believe specific statutory accounting guidance should be developed for these securities. Further information on the filing and designation process for foreign securities is detailed within the P&P Manual, with the applicable sections referenced in the Form A.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-44 A-791 (Fatima/Robin)</td>
<td>Revisions to Appendix A-791</td>
<td>G</td>
</tr>
</tbody>
</table>

**Summary:**
During a review of jurisdictions for accreditation, it was identified that the 1992 revisions to add Section 5(C) of the Life and Health Reinsurance Agreements Model Regulation (#791), which is a required element for accreditation, was not incorporated into Appendix A-791, Life and Health Reinsurance Agreements. Upon review of A-791, the guidance within paragraphs 4-5 is interpreted from the language in Section 5(A) and 5(B) of Model #791. As the context of paragraphs 4-5 (Written Agreements) is consistent with the language in Section 5 of Model #791, NAIC staff is of the opinion that including the guidance in Section 5(C) of Model #791 to A-791 is appropriate.

**Recommendation:**
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to A-791, as detailed in the agenda item.

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-45 SSAP No. 101 (Fatima)</td>
<td>ASU 2016-16 – Intra-Entity Transfers of Assets Other than Inventory</td>
<td>H</td>
</tr>
</tbody>
</table>

**Summary:**
During October 2016, the FASB issued ASU 2016 - Intra-Entity Transfers of Assets Other than Inventory to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory. As detailed in the ASU, Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in U.S. GAAP. Through discussions with stakeholders it was identified that the limited amount of authoritative guidance about this exception has led to diversity in practice and is a source of complexity in financial reporting, particularly for an intra-entity transfer of intellectual property. Stakeholders also expressed that this exception results in an unfaithful representation of the economics of an intra-entity asset transfer because the exception requires deferral of the income tax consequences of the transfer, including income taxes payable or paid. After consideration, FASB has determined that an entity should recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs.

**Recommendation:**
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 101—Income Taxes to adopt with modification, ASU 2016-16, as detailed in the agenda item.
### ASU 2016-15: Classification of Certain Cash Receipts and Cash Payments

**Summary:**
FASB issued *ASU 2016-15 – Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* in August 2016. This ASU was developed to reduce the existing diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows, and it is applicable to all entities that are required to present a statement of cash flows. Statutory accounting principles require that the statement of cash flows be prepared using the direct method. Specific instructions for the classification of items are provided in the Annual Statement Instructions. The ASU amendments target specific cash flow activities for which there is no GAAP guidance, or the guidance is unclear, and are summarized below.

**Recommendation:**
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 69—Statement of Cash Flow to adopt ASU 2016-15. Staff recommends that this ASU be adopted for statutory accounting to improve consistency in SAP reporting, as well as to minimize differences between SAP and U.S. GAAP with cash flow classifications. Although staff notes a few of the items in the ASU may be more applicable to the insurance industry, Staff has proposed for ASU 2016-15 to be adopted in its entirety. Comments are requested from industry and regulators on whether there are concerns with adopting the entire ASU by reference in SSAP No. 69, or if specific details (for select amendments) should be detailed in SSAP No. 69.

### ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting

**Summary:**
In March 2016, the FASB issued *ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting* (Update) to eliminate the requirement to adjust the investment, results of operations and retained earnings retroactively when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. An entity that has an available-for-sale equity security that subsequently qualifies for the equity method of accounting will recognize the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment qualifies for the equity method accounting treatment. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Detailed below is applicable GAAP guidance from the Accounting Standards Codification.

**Recommendation:**
Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP Nos. 30, 48 and 97 to adopt ASU 2016-07 with modification to reflect statutory terms including the definition of control and statutory reporting concepts. Additional proposed revisions for when an insurance reporting entity gains an interest in an investment or loses control of an investment are detailed in the agenda item.
Summary:
NAIC staff was recently consulted by a state regarding derivatives with a “deferred premium” or “financing premium” and how derivative contracts with these provisions should be reported on Schedule DB.

- Deferred Premium: Payment for the derivative is deferred until the end of the contract.
- Financed Premium: Payment for the derivative occurs throughout the derivative term.

The key issue is whether the “gross” presentation of the derivative should reflect consideration of the reporting entity’s amount due (future cash outflow) for the derivative. After discussing this issue, the reporting entity has communicated the intent to sponsor a Form A. Although the deadline for new submissions has passed, the Chair of the SAPWG has provided additional time for submission of this agenda item to allow for initial discussion at the National Meeting. This agenda item is expected by Noon (Central) on November 22.

Recommendation:
NAIC staff will review the submitted agenda item once received and provide a staff recommendation.

B. Consideration of Maintenance Agenda – Active Listing

Summary:
Currently, the Valuation Manual has a policy statement on updating the Valuation Manual that clearly indicates that coordination with the Statutory Accounting Principles (E) Working Group is required. There is currently no a specific policy statement in the NAIC Accounting Practices and Procedures Manual (AP&P Manual) on the Valuation Manual. Although Statements of Statutory Accounting Principles are at the top of the statutory accounting hierarchy, it is also important that statutory guidance be coordinated. The Valuation Manual has the potential to create inadvertent conflicts with statutory accounting guidance; therefore, it is important that these two publications be consistent.

In October 2010, the Statutory Accounting Principles (E) Working Group deferred action on the proposed policy statement on coordination with the Valuation Manual planned for inclusion within Appendix F of the AP&P Manual to allow the Life and Health Actuarial (A&B) Task Force to work on the referral to incorporate corresponding revisions in the Valuation Manual.

Recommendation:
Staff recommends that the Working Group expose the Policy Statement on Coordination with the Valuation Manual for inclusion within Appendix F of the AP&P Manual, as detailed in the agenda item. The recommended language is consistent with the language previously adopted by the Life Actuarial (A) Task Force in June 2014. In addition, the Life Actuarial (A) Task Force should be notified of the exposure.
C. **ANY OTHER MATTERS**

a. *SSAP No. 26—Bonds: Substantive Revisions and Issue Paper (Attachment L)*
   
   Preliminary Discussion on Comments Received

b. *Review of Proposed ASU: Accounting for Long-Duration Contracts (Attachment M & N)*
   
   Discussion of Comments Received on Proposed SAPWG Comment Letter

   NAIC staff received verbal comments from representatives of the ACLI and Allstate. After considering these comments, revisions have been incorporated within the comment letter. It is recommended that the Working Group adopt the revised comment letter, with a request that the letter be provided to the Chair of the Accounting Practices and Procedures (E) Task Force and the Chair of the Financial Condition (E) Committee for their approval. Upon receiving those approvals, NAIC staff will submit the comment letter to the FASB.

c. *ASU 2015-09 – Disclosures about Short-Duration Contracts - Industry Update*

d. *Review of GAAP Exposures (Attachment O – Fatima)*

<table>
<thead>
<tr>
<th>Exposed FASB Guidance</th>
<th>Comment Deadline &amp; Initial Staff Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Correction to Update No. 2016-14, (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities—Endowment Reporting</td>
<td>Nov. 11, 2016 - Review under Maintenance Process</td>
</tr>
<tr>
<td>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</td>
<td>Nov. 22, 2016 - Review under Maintenance Process</td>
</tr>
<tr>
<td>Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities</td>
<td>Nov. 28, 2016 - Review under Maintenance Process</td>
</tr>
<tr>
<td>Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts</td>
<td>Dec. 15, 2016 - Comment Letter Anticipated</td>
</tr>
<tr>
<td>Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services</td>
<td>Jan. 06, 2017 - Review Under Maintenance Process</td>
</tr>
</tbody>
</table>

Comment deadline for exposed and new items is **February 10, 2017**.