

2018 Summer National Meeting  
Boston, Massachusetts

**STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP**  
**Saturday, August 4, 2018**  
**9:00 – 11:30 a.m.**

**Meeting Summary Report**

The Statutory Accounting Principles (E) Working Group met Aug. 4, 2018. During this meeting, the Working Group:

1. Adopted its May 24 minutes, which included adoption of eight nonsubstantive agenda items and exposure of four substantive and nine nonsubstantive agenda items. (Detail of agenda items adopted May 24 begins on Page 3.)
2. Adopted the following nonsubstantive revisions to statutory accounting guidance:
  - a. *Statement of Statutory Accounting Principle (SSAP) No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures and Appendix A-001—Investments of Reporting Entities*: Revisions align the reporting schedule lines to the investment schedules, allowing for cross-checks and less manual allocations to develop with a Jan. 1, 2019 effective date. With adoption, the related Blanks (E) Working Group proposal will be updated. (Ref #2018-16)
  - b. *SSAP No. 21—Other Admitted Assets*: Revisions, as modified during the meeting, restrict the guidance when a reporting entity is the owner and beneficiary of a life insurance contract to require that the life insurance policy be in compliance with Internal Revenue Code §7702 and to require disclosures of the underlying investment vehicles. The Working Group agreed not to incorporate language to address products that are not compliant with §7702 (including variable annuities), noting that under SSAP No. 4—*Assets and Nonadmitted Assets*, these items would be nonadmitted. If further consideration is preferred, industry should submit a proposal. (Ref #2018-08)
  - c. *SSAP No. 49—Policy Loans and SSAP No. 56—Separate Accounts*: Revisions clarify the reporting of policy loans, and specify that policy loans that originate from separate account policies must be “funded” to the general account in order for the policy loan to be admitted. A Blanks (E) Working Group proposal will request removal of the “contract loan” line from the Separate Account blank. (Ref #2017-35)
  - d. *Interpretation (INT) 05-05—Accounting for Revenues Under Medicare Part D Coverage*: Revisions provide guidance that the Coverage Gap Discount Program payments are reported as uninsured plans. (Ref #2018-14)
  - e. *INT 18-03—Additional Elements Under the Tax Cuts and Jobs Act*: Adopted INT 18-03 to address the Repatriation Transition Tax (RTT), the Alternative Minimum Tax (AMT) Credit, and the Global Intangible Low-Taxed Income (GILTI) Tax from the Tax Cuts and Jobs Act with revisions discussed during the meeting. (Ref #2018-15)
3. Exposed the following substantive revisions to statutory accounting guidance:
  - a. *SSAP No. 22R—Leases*: Exposed a proposed issue paper and substantively revised SSAP No. 22R in response to *Accounting Standards Update (ASU) 2016-02, Leases*. Although the proposed statutory accounting revisions reject the U.S. generally accepted accounting principles (GAAP) guidance for operating leases, the revisions incorporate various aspects from the ASU and clarify provisions for lease accounting. (Ref #2016-02)
  - b. *SSAP No. 30R—Unaffiliated Common Stock*: Exposed a proposed issue paper and substantively revised SSAP No. 30R to improve the common stock definition and include closed-end funds and unit-investment trusts within scope. With this action, the Working Group directed referrals to the Valuation of Securities (E) Task Force, the Capital Adequacy (E) Task Force and the Blanks (E) Working Group identifying support for incorporating a column on Schedule D-2-2 for reporting NAIC designations for equity investments that can be reviewed and assigned a designation by the Securities Valuation Office (SVO). (Ref #2017-32)
  - c. *SSAP No. 62R—Property and Casualty Reinsurance*: Revisions incorporate guidance from *EITF 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* and from *EITF D-035, FASB Staff Views on Issue No. 93-6*. (Ref #2017-28)

- d. *New SSAP/Issue Paper—Special Accounting Treatment for Limited Derivatives Hedging Variable Annuity Guarantees*: Exposed a proposed issue paper and draft SSAP to prescribe specific accounting and reporting guidance for derivatives that hedge interest rate risk of variable annuity guarantees. (Ref #2016-03)
4. Exposed the following nonsubstantive revisions to statutory accounting guidance:
- a. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments, SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, and SSAP No. 86—Derivatives*: Revisions indicate that structured notes, except for mortgage-referenced securities, for which the contractual principal amount to be paid at maturity or the original investment amount is at risk for other than failure of the borrower to pay the contractual amount due, shall be reported as derivatives within the scope of SSAP No. 86. The revisions note that mortgage-referenced securities will be in scope of SSAP No. 43R. (Ref #2018-18)
  - b. *SSAP No. 4*: Revisions identify that items reported as invested assets acquired as part of “regulatory transactions” as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*, that meet the definition of an asset, shall only be admitted with approval of the domestic state insurance department as a permitted or prescribed practice. (Ref #2018-06)
  - c. *SSAP No. 15—Debt and Holding Company Obligation and SSAP No. 25—Affiliates and Other Related Parties*: Revisions reference existing guidance in other SSAPs for proper accounting treatment when there has been a forgiveness of an amount owed. (Ref #2018-20)
  - d. *SSAP No. 21*: Revisions propose accounting and reporting guidance for structured settlement income streams acquired by insurers as investments. Comments on whether this issue should be considered substantive, rather than nonsubstantive, were requested during the exposure period. (Ref #2018-17)
  - e. *SSAP No. 22—Leases*: Revisions reject *ASU 2018-01, Leases—Land Easement Practical Expedient for Transition to Topic 842*. (Ref #2018-25)
  - f. *SSAP No. 37—Mortgage Loans*: Revisions clarify that a mortgage loan acquired through a mortgage loan participation agreement is limited to a single mortgage loan agreement with a sole borrower. (Ref #2018-22)
  - g. *SSAP No. 41R—Surplus Notes*: Revisions intend to prevent situations in which an issued surplus note can be linked to a reported asset or agreement and still qualify for surplus note reporting. Rather, if a surplus note is linked to a reported asset or agreement that results with the surplus note not meeting the subordinate requirements or that circumvents the insurance commissioner’s control, it shall be reported as debt. (Ref #2018-07)
  - h. *SSAP No. 43R*: Revisions concurrently exposed with the Valuation of Securities (E) Task Force, eliminate the modified filing exempt process in determining the NAIC designation. With the exposure, notification was directed to the Blanks (E) Working Group to allow concurrent consideration of the impact to the Annual Statement reporting instructions. (Ref #2018-19)
  - i. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*: Revisions add disclosures to capture information for when an entity’s share of losses results in a negative equity position. (Ref #2018-27)
  - j. *SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions add life liquidity disclosures and expand the variable annuity liquidity disclosures for year-end 2019. (Ref #2018-28)
  - e. *SSAP No. 61R and Appendix A-791—Life and Health Reinsurance Agreements*: Revisions propose disclosures, with comments requested regarding whether the proposed disclosures adequately address the Financial Analysis (E) Working Group referral. In addition, proposed revisions update the question-and-answer guidance to clarify the applicability of A-791. (Ref #2017-28)
  - k. *SSAP No. 68—Business Combinations and Goodwill*: Revisions clarify that scenarios in which the ownership (stock) of a subsidiary, controlled or affiliated (SCA) is cancelled, with the parent entity directly reporting the SCA assets and liabilities on their financial statements, should be considered statutory mergers. (Ref #2018-23)

- l. *SSAP No. 72—Surplus and Quasi-Reorganizations*: Revisions incorporate accounting guidance for when a reporting entity provides a distribution that represents a return of capital. (Ref #2018-21)
  - m. *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions clarify the existing reporting requirements when an SCA is in a loss position. (Ref #2018-26)
  - n. *Appendix A-820—Minimum Life and Annuity Reserve Standards* Revisions remove the phrase “good and sufficient reserve” as it is not consistent with the related NAIC *Standard Valuation Law Model 820*. (Ref #2018-29)
5. Exposed the following editorial revisions to statutory accounting (Ref #2018-24EP):
- a. SSAP No. 86: Removes the reference to the 2017 effective date.
  - b. SSAP No. 97: Revisions remove old paragraph numbers, which are not applicable in the current SSAP.
  - c. *Appendix A-010—Minimum Reserve Standards for Individual and Group Health Insurance Contracts*: Revisions update a paragraph reference and an incorrect date to be consistent with Model #10.
6. Deferred discussion on the following projects:
- a. Reporting NAIC Designations as Weighted Averages under SSAP No. 43R: Deferred discussion until agenda item 2018-19 on the modified filing exempt designation approach has been addressed. (Ref #2018-03)
  - b. Bank Loan Referral from Valuation of Securities (E) Task Force: Deferred discussion and directed NAIC staff to conduct further analysis on borrowing base loans and debtor-in-possession financing. (Ref #2018-04)
  - c. Discussed provisions from *ASU 2017-12, Derivatives and Hedging*, noting the intent to consider the documentation revisions as a nonsubstantive change in the interim, with a separate agenda item to consider potential substantive revisions to the accounting and reporting of derivatives. (Ref #2017-33)
7. Received an update on the following projects and referrals:
- a. Received information on the Financial Accounting Standards Board’s (FASB) discussion of the Long-Term Insurance Contracts project. NAIC staff will review this ASU immediately after issuance.
  - b. Received an update on agenda item 2016-20 for credit losses, noting plans for NAIC staff to work with industry before subsequent Working Group discussion. (Ref #2016-20)
  - c. Received an update on the Vital Source/BookShelf Product, which will be used as the electronic source of the *Accounting Practices and Procedures Manual* (AP&P Manual) beginning in 2019.
  - d. Received an update that as part of *Valuation Manual* coordination efforts that NAIC staff and / or members of Life Actuarial (A) Task Force expect to undertake a project regarding consistency between *Appendix A—Excerpts of Models Laws* and related model laws.
  - e. Received an update on current U.S. GAAP exposures, noting that no comments by the Working Group are planned.
  - f. Received information on articles that incorrectly referenced the changes adopted to SSAP No. 26R in 2017. The discussion reiterated that the 2017 revisions focused on the measurement of exchange-traded funds (ETFs) captured in scope of SSAP No. 26R, and did not modify the extent to which ETFs were captured in SSAP No. 26R.
8. May 24 Conference Call—Detail of Agenda Items Adopted:
- a. SSAP No. 1 and *SSAP No. 32—Preferred Stock*: Revisions reflect the revised reporting approach and remove duplicative language. (Ref #2018-05)
  - b. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 41R*, *SSAP No. 52*, and *SSAP No. 62R*: Revisions reflect editorial revisions to SSAP Nos. 5R, 41R, 52 and 62R. (Ref #2018-13EP)

- c. *SSAP No. 26R, SSAP No. 30, SSAP No. 32, SSAP No. 43R, SSAP No. 86, SSAP No. 100R*: Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*. (Ref #2018-12)
  - d. *SSAP No. 56*: Revisions incorporate separate account disclosure of non-U.S. Securities and Exchange Commission (SEC) registered products issued by insurers initially in the year-end 2018 financial statements. (Ref #2018-08)
  - e. *SSAP No. 97*: Revisions incorporate disclosures when a reporting entity's share of losses in an SCA exceed its investment in the SCA. (Ref #2018-09)
  - f. *SSAP No. 101—Income Taxes*: Revisions reflect changes in response to the Tax Cuts and Jobs Act including the addition of footnotes and explicit reporting guidance. (Ref #2018-01)
  - g. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject *ASU 2017-15, Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995* as not applicable. (Ref #2018-11)
  - h. *Appendix B Interpretations of Statutory Accounting Principles* and *Appendix H Superseded Statements...*: Revisions provide guidance for the 2019 moratorium and future moratoriums for the federal Affordable Care Act Section 9010 fee in *INT 18-02—ACA Section 9010 Assessment Moratoriums* and update *INT 16-01—ACA Section 9010 Assessment 2017 Moratorium* to remove reference to fee accruals payable in 2019 with approved nullification of *INT 16-01* at year-end 2018. (Ref #2018-10)
9. The comment deadline for new and other exposed items is Oct. 5, 2018.

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