

NAIC Spring 2022 National Meeting Update





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NAIC Spring 2022 National Meeting Update



The National Association of Insurance Commissioners (NAIC) recently held its Spring 2022 National Meeting (Spring Meeting). The following summarizes certain activities of the Statutory Accounting Principles (E) Working Group (SAPWG) and the activities of other select working groups and task forces of the NAIC Financial Condition (E) Committee that took place during the Spring Meeting and on various WebEx Meetings since the conclusion of the Fall 2021 National Meeting (Fall Meeting) through May 25, 2022.

More information is available on the NAIC website at http://www.naic.org/cmte_e_app_sapwg.htm.

Cryptocurrency

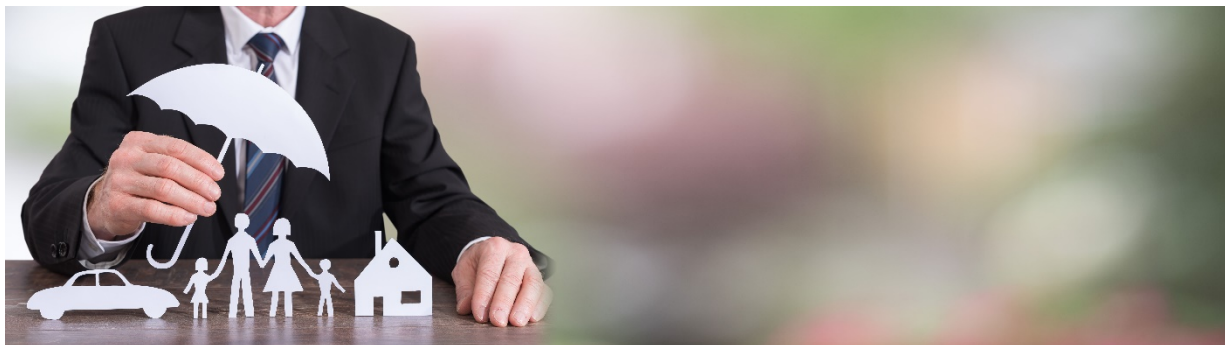


SAPWG submitted a proposal to the Blanks (E) Working Group (Blanks) regarding investments in cryptocurrency. The proposal requests changes to the general interrogatories to clarify the use or acceptance of cryptocurrency by a reporting entity. Proposed inquiries include if the reporting entity accepts cryptocurrency for payment of premiums, which cryptocurrencies are accepted, and whether they are held for investment or immediately converted to U.S. dollars. Interested Parties had no comment on this item. These changes were subsequently adopted by Blanks effective December 31, 2022.

Policy Statement Terminology Change



SAPWG received a referral from the Financial Condition (E) Committee to clarify the terms substantive and nonsubstantive in the NAIC Policy Statement on Maintenance of Statutory Accounting Principles. The Financial Condition (E) Committee suggested changing the term substantive to "New SAP Concept" and nonsubstantive to "SAP Clarification". SAPWG adopted these changes on a going forward basis only effective January 1, 2022. Previously adopted SSAPs, issue papers and agenda items will retain the old terminology as revising all previously issued literature for a terminology change would not be feasible. Interested Parties recommended eliminating the use of all terms to avoid confusion and instead evaluate the effective date of revisions to the statutory accounting framework based upon the complexity of each revision. SAPWG stated that the change to the new terminology is final but Interested Parties alternative approach could potentially be explored in a future agenda item.



Related Party Reporting



SAPWG adopted revisions to SSAP No. 25 “Affiliates and Other Related Parties” (SSAP No. 25) and SSAP No. 43R “Loaned Backed and Structured Securities”. These revisions along with Interested Parties’ feedback propose clarifying the identification and reporting requirements for affiliate transactions. These revisions include the addition of a new paragraph to SSAP No. 25 and SSAP No. 43R specifying the criteria for evaluating an affiliated investment and when direct or indirect control exists over an investment. This scope extends beyond voting control to control through common management or contractual relationships. Discussions also address reporting changes to the Annual Statement to add a new electronic only column to the investment schedules to identify affiliated investments. A corresponding code will be utilized in order to identify the type of affiliated investment held by a reporting entity. These revisions are effective with December 31, 2022 reporting. Relevant changes regarding these revisions were also adopted by Blanks.

Schedule D-6-1 Supplemental Reporting



SAPWG drafted a proposal for additional electronic data to be filed as a supplement to Schedule D-6-1 of the Annual Statement which captures investments and related values within scope of SSAP No. 97 “Investments in Subsidiary, Controlled and Affiliated Entities (SCA).” This electronic data will assist regulators in ensuring that NAIC SCA required filings are being submitted by reporting entities for proper confirmation of SCA reporting values and identify situations where the NAIC approved value varies significantly from the value reported on Schedule D-6-1. This proposal does not result in statutory accounting revisions. This proposal has been forwarded to and adopted by Blanks effective December 31, 2022.

Financial Modeling of Mortgage-Backed Securities



SAPWG discussed revisions to SSAP No. 43R as it pertains to changes adopted by the Valuation of Securities (E) Task Force (VOS) regarding the financial modeling of securities in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). Exposed revisions will either modify SSAP No. 43R to reflect any updates to the P&P Manual adopted by VOS or remove any financial modeling guidance from SSAP No. 43R and replace it with a reference to the P&P Manual. Interested Parties commented that industry preference would be for SSAP No. 43R be modified to reflect P&P Manual updates. As a result, SAPWG adopted relevant P&P manual changes into SSAP No. 43R. These revisions are effective immediately.



Leasehold Improvements

SAPWG continued discussions regarding exposed revisions to SSAP No. 19 “Furniture, Fixtures, Equipment and Leasehold Improvements” and SSAP No. 73 “Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities” to clarify that any remaining leasehold improvements will be immediately expensed when a lease terminates. Discussions and further analysis remain ongoing.

FASB ASU 2017-12



SAPWG discussed applicability of FASB ASU 2017-12 Derivatives and Hedging (Topic 815): “Targeted Improvements to Accounting for Hedging Activities” (FASB ASU 2017-12) to statutory accounting. As part of this discussion, SAPWG recommended with feedback from Interested Parties that certain aspects of SSAP No. 86 “Derivatives” be revised to conform with FASB ASU 2017-12 for purposes of aligning the determination of acceptable hedging strategies between U.S. GAAP and statutory accounting practices. Discussions of pertinent revisions are currently being evaluated and remain ongoing at this time.

Proposed Bond Definition



SAPWG continued deliberation of its proposed definition of a bond captured within the scope of either SSAP No. 26R “Bonds” or SSAP No. 43R and reported on Schedule D-1 of the Annual Statement. Discussions involved improved transparency and granularity reporting in the Annual Statement. SAPWG directed NAIC staff to proceed with drafting guidance addressing among other items no change in practice regarding the reporting of surplus notes, reporting options for affiliated investments and the creation of a new sub-schedule D-1 for the reporting of certain asset backed securities. Discussions of this matter remain ongoing.



U.S. GAAP Accounting Standard Updates

SAPWG rejected several items related to the non-applicability of the following U.S. GAAP Accounting Standard Updates to the NAIC statutory accounting framework:

1. FASB ASU 2021-03 Intangibles-Goodwill and Other (Topic 350): "Accounting Alternative for Evaluating Triggering Events"
2. FASB ASU 2021-04 Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): "Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options" (FASB ASU 2021-04)
3. FASB ASU 2021-05 Leases (Topic 842): "Lessors-Certain Leases with Variable Lease Payments"
4. FASB ASU 2021-06 Presentation of Financial Statements (Topic 205), Financial Services-Depository and Lending (Topic 942), and Financial Services-Investment Companies (Topic 946): "Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants"

Although SAPWG rejected FASB ASU 2021-04 regarding its applicability to statutory accounting, SAPWG did adopt certain provisions of FASB ASU 2021-04 to incorporate guidance regarding accounting for the changes in fair value in exchanges of free-standing equity-classified written call options into SSAP No. 72 "Surplus and Quasi-Reorganizations." Interested Parties supported these changes.

Additionally, SAPWG exposed for comment the rejection of the following U.S. GAAP Accounting Standard Updates as not applicable to the NAIC statutory accounting framework:

1. FASB ASU 2021-09 Leases (Topic 842): "Discount Rate for Lessees that Are Not Public Business Entities"
2. FASB ASU 2021-08 Business Combinations (Topic 805): "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"

Conceptual Framework



During 2021, the FASB issued two new chapters of its conceptual framework, FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting: Chapter 4, Elements of Financial Statements and Chapter 7, Presentation. SAPWG exposed changes to statutory guidance incorporating the concepts contained in these new chapters. Discussions and evaluation remain ongoing.

Premium Adjustments Allocated to Jurisdictions



SAPWG exposed proposed revisions to modify the instructions to Schedule T, the State Page and Accident and Health Policy Experience Exhibit (AHPEE) clarifying the guidance for premium adjustments. The revisions clarify that premium adjustments including those pertaining to the Affordable Care Act are allocated as premium in each respective jurisdiction. These revisions do not change statutory accounting. A referral for these revisions were sent to and subsequently adopted by Blanks effective December 31, 2022.

Freddie Mac When-Issued K-Deal (WI Trust) Certificates



SAPWG adopted INT 22-01 “Freddie Mac When Issued K-Deal (WI Trust) Certificates” specifying that investments in the Freddie Mac “When-Issued K-Deal” Program are within the scope of SSAP No. 43R. Interested Parties supported the conclusions reached in this interpretation.

Alternative Valuation of Minority Ownership Interests



SAPWG exposed revisions to SSAP No. 48 “Joint Ventures, Partnerships and Limited Liability Companies” (SSAP No. 48). Revisions propose eliminating the option to utilize U.S. tax basis audited equity as a permissible valuation method for purposes of supporting the admissibility of an investment or retain the valuation method but require it to be performed at the investee level. Discussions remain ongoing.

Government Assistance



SAPWG exposed revisions to SSAP No. 24, “Discontinued Operations and Unusual or Infrequent Items”, to incorporate certain disclosures from ASU 2021-10, Government Assistance (Topic 832): “Disclosures by Business Entities about Government Assistance”, that would supplement existing disclosures by requiring unusual or infrequent government assistance transactions to be identified as such, with a description of the terms and provisions of the assistance received.

Compensation



SAPWG exposed revisions to SSAP No. 104R “Share Based Payments” to incorporate the practical expedient for the current price input included in ASU 2021-17, Compensation - Stock Compensation (Topic 718): “Determining the Current Price of an Underlying Share”, which is a required component for option-pricing models utilized in the determination of fair value for share-based payments. The practical expedient is available for use when a reporting entity is not able to reasonably estimate the current fair value of its shares.



Other Activities



In addition to SAPWG, several other working groups and task forces of the Financial Condition (E) Committee met during the Spring Meeting and on various WebEx Meetings since the conclusion of the Spring Meeting. The following represents selected updates concerning the activities of some of these working groups and task forces.

Life Risk-Based Capital (E) Working Group



The Life Risk-Based Capital (E) Working Group (Life RBC Working Group) adopted recommendations by the American Academy of Actuaries regarding the C-2 Mortality Factor in the RBC calculation. The recommended factors include key changes such as expanding factors into additional categories to reflect the assumed current mortality rate risk exposure period over the remaining lifetime of an inforce block of business, adding three catastrophe components for terrorism, pandemics and the risk of an unknown event and combining certain categories into one category.

The Life RBC Working Group referred a proposal to Blanks to update the asset valuation reserve (AVR) factors to correspond with the after-tax RBC factors applicable to the expanded NAIC designation categories for bonds that were adopted for 2021 year-end reporting purposes. This proposal was subsequently adopted by Blanks effective December 31, 2022.



Health Risk-Based Capital (E) Working Group



The Health Risk-Based Capital (E) Working Group (Health RBC Working Group) discussed the American Academy of Actuaries work to analyze and review the underwriting risk (i.e. H2) component and managed care credit calculation in the Health Risk Based Capital Formula. Six options were proposed to better align the H2 risk factors to economic risk. These options included:

1. Refresh the factors based on updated insurer data
2. Develop factors at a more granular product level
3. Develop factors specific to more relevant block sizes and consider an indexing factor for cut points to change over time
4. Model risk factors over an NAIC-defined prospective time horizon with a defined safety level that can be refreshed regularly
5. Refresh the managed care credit formula and factors to be more relevant and representative of common contracting approaches and other risk factors associated with these contracting approaches
6. Analyze LTC insurance underwriting performance to create a more nuanced set of risk factors that consider pricing changes over time

The Health RBC Working Group also sent a referral to the Health Actuarial (B) Task Force asking the Health Actuarial (B) Task Force to clarify that reporting entities with long term care exposure and a reserve ratio of 95% or above are subject to the asset adequacy test regardless of the annual statement blank filed.

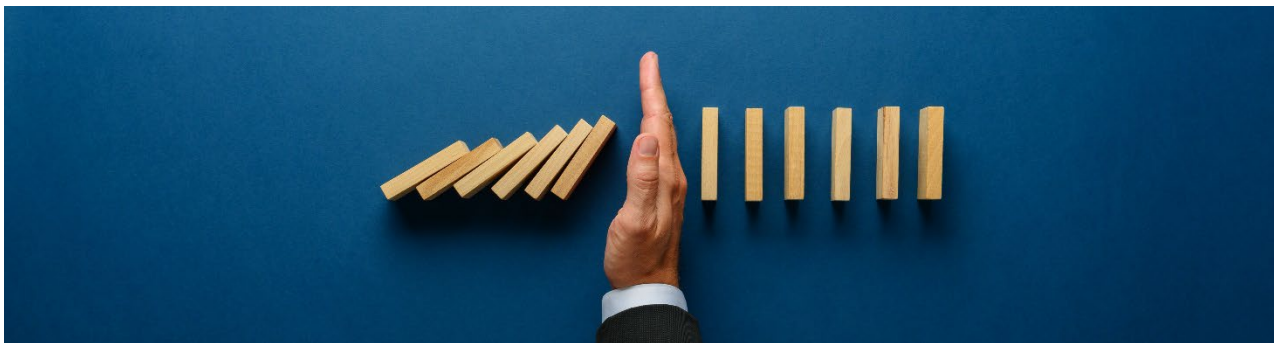
The Health RBC Working Group adopted revisions to the Health Risk Based Capital formula to provide benchmarking guidelines for evaluating the investment income adjustment to the underwriting risk factors on an annual basis. There were no changes proposed to the current investment income adjustment for 2022 year-end reporting purposes.

Property and Casualty Risk-Based Capital (E) Working Group



The Property and Casualty Risk-Based Capital (E) Working Group (Property and Casualty RBC Working Group) heard a report from the Catastrophe Risk (E) Subgroup (the Subgroup) which discussed the issue of potential double counting in the R5 component. The Property and Casualty RBC Working Group asked Interested Parties to review the current methodology and provide comments in the upcoming meetings.

The Subgroup also discussed the possibility of adding flood peril in the Rcat component. Interested Parties asked for consideration regarding the materiality issue with respect to whether the flood peril is warranted, given the exposure of the industry.



Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group



The Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group (Investment RBC Group) was newly formed under the direction of the Capital Adequacy (E) Task Force. The purpose of the Investment RBC Group is to identify and acknowledge uses of RBC beyond the purpose of the Risk-Based Capital (RBC) for Insurers Model Act (#312), assess the impact of potential changes in contributing to the identification of weakly capitalized companies and document the modifications made over time to each of the RBC formulas. The Investment RBC Group will closely work with other NAIC groups on investment related projects.

Reinsurance (E) Task Force




The Reinsurance (E) Task Force continued its discussion of approved and proposed revisions to the Uniform Checklist for Reciprocal Jurisdiction Reinsurers, completed its reviews of certified reinsurers and reciprocal jurisdiction reinsurers and received an update on the states' implementation of the 2019 revisions to the Credit for Reinsurance Model Law (#785), the Credit for Reinsurance Model Regulation (#786), and the implementation of the Term and Universal Life Insurance Reserve Financing Model Regulation (#787).

Valuation of Securities (E) Task Force



The Valuation of Securities (E) Task Force (VOS) discussed a proposal to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) regarding the definition of principal protected securities. The Securities Valuation Office (SVO) has seen new security transactions that don't precisely fit into the current definition of principal protected securities. Some of these securities have similar risk characteristics of principal protected securities and therefore an update to the definition of principal protected securities will assist in properly categorizing these investments. Interested Parties agreed with these comments and discussions remain ongoing.

VOS discussed a proposal to the P&P manual regarding the definition of other non-payment risk assigned a subscript "S". These investments have not specifically been included in the P&P Manual list of securities not eligible for filing exemption. An amendment to the P&P manual will include these securities to the ineligible filing exemption list. Discussions with Interested Parties on this matter remain ongoing.



VOS discussed a proposal to Part Three of the P&P manual to provide guidance related to the assignment of NAIC Designations to investments reported on Schedule BA with underlying bond or fixed income security characteristics. This proposed amendment would potentially make various types of assets eligible for an NAIC Designation which currently are not. Each asset would need to be individually assessed by the SVO for bond or fixed income characteristics. Discussions remain ongoing.

VOS adopted a proposal to allow the SVO to assign NAIC Designations to unrated subsidiaries of Working Capital Finance Investments with unguaranteed and unrated obligors if supported by an obligor's Parent who is rated by an NAIC Credit Rating Provider (CRP).

VOS and the SVO discussed concerns surrounding the NAIC's extensive reliance on rating agency ratings to assess investment risk for regulatory purposes. The SVO expressed concerns over the lack of oversight for the basis of ratings provided by CRPs. The SVO also does not monitor CRP ratings or their methodologies for consistency and applicability and the SVO has not been authorized to determine how and when a CRP rating should be used for NAIC purposes. This raises concerns regarding how the utilization of these ratings impacts the NAIC solvency framework. As part of its initiative to reduce regulator reliance on rating agencies, VOS proposed a referral to Blanks to add fixed income analytical measures to investments reported on Schedule D part 1 to the Annual Statement instructions. These analytical risk measures include current market yield, market price, purchase yield, weighted average life, spread to average life, option adjusted spread, effective duration and convexity. Discussions remain ongoing.

Connect With Us

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