



NAIC Summer 2022 National Meeting Update





Table of Contents

NAIC Summer 2022 National Meeting Update	1
Related Party Reporting	1
Leasehold Improvements	1
FASB ASU 2017-12.....	2
Proposed Bond Definition.....	2
Collateral For Loans	3
U.S. GAAP Accounting Standard Updates.....	3
Conceptual Framework	3
Alternative Valuation of Minority Ownership Interests.....	3
Government Assistance	4
Compensation	4
Other Activities	4
Life Risk-Based Capital (E) Working Group	4
Health Risk-Based Capital (E) Working Group	5
Property and Casualty Risk-Based Capital (E) Working Group	5
Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group	6
Reinsurance (E) Task Force.....	6
Valuation of Securities (E) Task Force.....	6
Connect With Us.....	7



NAIC Summer 2022 National Meeting Update



The National Association of Insurance Commissioners (NAIC) recently held its Summer 2022 National Meeting (Summer 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 Summer Meeting and on various WebEx Meetings leading up to the Summer Meeting.

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

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” (SSAP No. 43R). These revisions 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. New reporting codes in the investment schedules of the annual statement blank identifying investments acquired through or in related parties was also incorporated. These revisions are effective with December 31, 2022 reporting. SAPWG exposed an exemption to these requirements for foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction.

Additionally, SAPWG exposed its intent to nullify Interpretation (INT) 3-02 “Modification to an Existing Intercompany Pooling Arrangement” (INT 3-02) as such guidance conflicts with SSAP No. 25 regarding transfers of assets and liabilities for purposes of settling economic transactions with related parties. INT 3-02 allows the use of statutory book value which is contradictory to SSAP No. 25.

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 but allows for a specific exclusion for reporting entities that provide direct healthcare for certain leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate.



FASB ASU 2017-12



SAPWG adopted revisions to SSAP No. 86 “Derivatives” (SSAP No. 86) in order to align the determination of acceptable hedging strategies with FASB ASU 2017-12 Derivatives and Hedging (Topic 815): “Targeted Improvements to Accounting for Hedging Activities” (FASB ASU 2017-12) to statutory accounting. Revisions are effective January 1, 2023 with early application permitted with clarification that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance. SAPWG also sponsored a Blanks (E) Working Group proposal to incorporate new electronic Schedule DB reporting to capture the new disclosures for excluded components effective for December 31, 2023 reporting. Reporting entities that early adopt are required to capture the disclosures in narrative form and detail the adoption as a change in accounting principle as part of its year-end 2022 reporting.

Additionally, SAPWG exposed further revisions to SSAP No. 86 incorporating certain guidance on portfolio layer method and partial-term hedges from FASB ASU 2017-12 and FASB ASU 2022-01 Derivatives and Hedging (Topic 815): “Fair Value Hedging - Portfolio Layer Method.” Proposed incorporated revisions are limited to hedged assets with planned discussions on hedged liabilities to take place in the future. An issue paper will also be prepared for all recent and upcoming derivative revisions.

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 the current version of the principles-based bond definition and an issue paper detailing past discussions and concepts in developing the definition. A discussion regarding consideration for the classification and treatment of investments in feeder funds also took place. The proposed revisions change the name of SSAP No. 43R to “Asset-Backed Securities” and reorganizes and updates its content to address various revisions to authoritative guidance resulting from this project. SAPWG also exposed revisions to improve the transparency and granularity of investments reported on Schedule D-1 including a new schedule to separate and capture information specific to issuer credit obligations and asset-backed securities with revised reporting lines and instructions for investment classification. Discussions of this matter remain ongoing with a target adoption date of January 1, 2024.



Collateral For Loans

SAPWG exposed revisions to SSAP No. 21 “Admitted Assets” to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

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 2021-09 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”

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

1. FASB ASU 2022-02 Financial Instruments - Credit Losses (Topic 326): “Troubled Debt Restructurings and Vintage Disclosures”

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 adopted changes to statutory guidance incorporating the concepts contained in these new chapters. These revisions are effective immediately.

Alternative Valuation of Minority Ownership Interests



SAPWG adopted revisions to SSAP No. 48 “Joint Ventures, Partnerships and Limited Liability Companies”. Revisions clarifies and retains that use of U.S. tax basis audited equity is a permissible valuation method for purposes of supporting the admissibility of an investment or retain the valuation method but require the audit to reside at the investee level. Revisions are effective immediately.



Government Assistance



SAPWG adopted 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 with a description of the terms and provisions of the assistance received. Revisions are effective immediately.

Compensation



SAPWG adopted 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. Revisions are effective immediately.

Other Activities



In addition to SAPWG, several other working groups and task forces of the Financial Condition (E) Committee met during the Summer Meeting and on various WebEx Meetings leading up to the Summer 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) revised factors derived by the American Academy of Actuaries regarding the C-2 Mortality Factor in the RBC calculation. The revisions implement updates to the assumed current mortality rate risk exposure period over the remaining lifetime of an enforce block of business. The RBC requirement is calculated as a percentage of the net amount at risk across different size bands applicable to the total amounts for individual and industrial life products.



Health Risk-Based Capital (E) Working Group



The Health Risk-Based Capital (E) Working Group (Health RBC Working Group) exposed a letter from the American Academy of Actuaries (the Academy) work to analyze and review the underwriting risk (i.e., H2) component and managed care credit calculation in the Health Risk Based Capital Formula. Recommendations to improve the underwriting risk factors are as follows:

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 Academy provided a timeline with plans to proceed with its analysis and comprehensive review that will take between eighteen and twenty-eight weeks to complete.

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

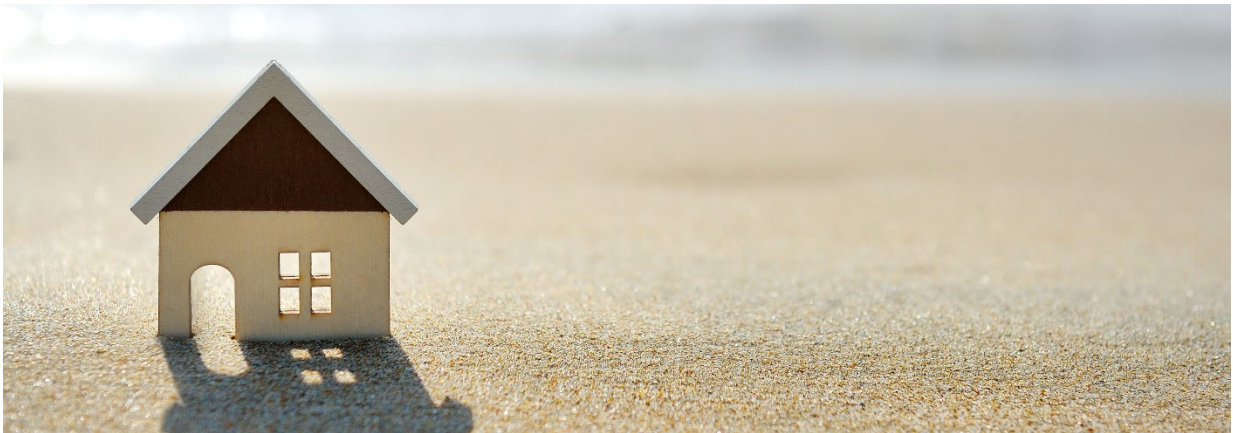


The Property and Casualty Risk-Based Capital (E) Working Group (Property and Casualty RBC Working Group) heard an update on current projects in process with intent to issue a complete report and associated recommendations related to the following:

1. The method used to credit premium and reserve risk RBC amounts for anticipated investment income prior to payout.
2. Updated adjustment of proposed premium risk factors (line 4) for catastrophes
3. Alternative safety margins for consideration
4. An analysis of the combined impact of these changes

The Property and Casualty RBC Working Group also discussed the possibility of convective storms being considered for inclusion in the Rcat and is looking for a subject matter expert to help develop that part of the formula.

The Property and Casualty RBC Working Group adopted a proposal to include 2013 to 2021 wildfire events to the U.S. and non-U.S. catastrophic events list and issued two exposures to modify the lines of business categories in PR035 in order to provide consistency in the lines of business categories used in Underwriting and Investment Exhibit, Part 1B and revised instructions on obtaining permission for an insurer to use its own model for the preparation of the Rcat.



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. Discussions remain ongoing regarding the direction of this working group including the development of a risk-based capital scheme to address collateralized loan obligation tranches and the establishment of appropriate risk-based capital charges for residual tranches of all types of securitizations.

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) adopted 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.



VOS exposed a revised amendment 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.

VOS exposed an NAIC staff memorandum on alternatives to add fixed income analytical risk measures to investments reported on Schedule D, Part 1, including current market yield, market price, purchase yield, weighted average life, spread to average life, option adjusted spread, effective duration and convexity.

VOS exposed NAIC staff responses regarding the risk assessment of structured securities including collateralized mortgage obligations (CLOs). VOS directed NAIC staff to draft revisions to the P&P manual for discussion and referred the matter to Investment RBC.


Connect With Us

If you would like additional information, please contact:

Art Salvadori

Partner

Crowe LLP

 +1 860 470 2117

 arthur.salvadori@crowe.com