

NAIC Fall National Meeting

Global Insurance Solutions

As of November 2018

ON NOVEMBER 15-18, WE ATTENDED THE 2018 NAIC FALL NATIONAL MEETING IN SAN FRANCISCO TO STAY INFORMED ON IMPORTANT REGULATORY ISSUES THAT ARE AFFECTING THE INSURANCE INDUSTRY TODAY. SUMMARIZED IN THIS DOCUMENT ARE THE MOST RELEVANT SESSIONS AND DISCUSSIONS FROM THE CONFERENCE.

KEY SESSIONS AND TOPICS (Full details below)

- **Statutory Accounting Principles Working Group**
 - Made several language revisions to commonly used SSAP guidance
- **Valuation of Securities Task Force**
 - Has deferred a few key initiatives including the “Comprehensive Fund Proposal”
- **Blanks Working Group**
 - Adopted three new items for 2018

THE STATUTORY ACCOUNTING PRINCIPLES WORKING GROUP (SAPWG)

There were several adoptions of both substantive and non-substantive language to various wordings within the guidance, including the following adopted items:

SSAP No. 21: *Other Admitted Assets* detailing that period certain structured settlements acquired are admitted assets with a Dec 31, 2018 effective date, where Life contingent structured settlements not acquired within state and federal laws are non-admitted assets

SSAP No. 30R: *Unaffiliated Common Stock* to include SEC registered closed-end funds and unit investment trusts, to be reported on Schedule D2.2 with an effective date of Jan. 1, 2019

SSAP No. 43R: *Loan Backed and Structured Securities* to remove the Modified Filing Exempt (MFE) process for determination of NAIC designations with a March 31, 2019 effective date

SSAP No. 48: *Joint Ventures, Partnerships and Limited Liability Companies:* revisions in loss tracking disclosures effective Dec 31, 2018 when the entity’s share of losses exceeds the investment in the entity

SSAP No. 51: *Life Contracts:* adding liquidity disclosures for Dec 31, 2019

SSAP No. 72: *Surplus and Quasi-Reorganizations:* clarify when a reporting entity provides a distribution identified as a Return of Capital (RoC)

SSAP No. 86: *Derivatives:* revisions to required hedge effectiveness documentation with an effective date of Jan 1, 2019, with early adoption permitted. Entities that are also US GAAP filers can only early adopt if they have early adopted ASU 2017-12

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FOR MORE INFORMATION

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SSAP No. 108: *Derivatives Hedging Variable Annuity Guarantees* gives guidance specific to derivatives that hedge interest rate risk with an effective date of Jan 1, 2020, with early adoption permitted for Jan 1, 2019

Exposed items included:

Ref #2018-32 / SSAP No. 26R: determines prepayment penalty for called bonds when proceeds is less than par

Ref #2018-22 / SSAP No. 37 - Mortgage Loans: clarify mortgage loans specific to a participation agreement are limited to single mortgage loans and exclude bundled mortgage loans

Ref #2018-33 / SSAP No. 30R: clarifying language that assets pledged to a Federal Home Loan Bank on behalf of an affiliate shall be non-admitted in conjunction with *SSAP No. 4 (Assets and Non Admitted Assets)*. Comments were requested from the industry and interested parties on activities when the reporting entity is an FHLB member

Ref #2018-34 / SSAP No. 30R: revisions to include foreign mutual funds

Ref #2018-36 / SSAP No. 100R: modifications of fair value disclosures in accordance to amendments in US GAAP - ASU 2018-13

THE VALUATION OF SECURITIES TASK FORCE (VOSTF)

VOSTF discussed several items and heard a presentation on the status of receiving the various NRSRO¹ data feeds, which has been dubbed the “FE² Logic Process”. There were also some key deferrals to be exposed and revisited in 2019, including a joint project with the North American Securities Valuation Association (NASVA) to create an electronic process consistent with the intent of filing exemption that will identify and build logic mapped to current credit rating symbols. This meeting also formalized interim conference calls held by the Securities Valuation Office (SVO) on September 4, 2018 and October 11, 2018, as well as the outstanding items from the Credit Rating Providers (CRPs) providing the Private Letter (PL) ratings to the SVO electronically, where the SVO directed private letter rating securities be reported as filing exempt for Dec 31, 2018.

Adopted items included:

- Move the description of financial modeling to the Structured Securities Group (SSG) website

- Add the FE Mission to be within the description of SVO operations
- Change the administrative symbol from NR (Not Rated) to ND (Not Designated) to eliminate the word “rating” based on its legal definition under federal securities law with an effective date of Dec 31, 2019.
- Align notching guidance within the NAIC designation framework to correlate with Risk Based Factor (RBC) implications
- New formatting and organizational alignment for the Purposes and Procedures (P&P) Manual to consolidate and make groupings more reader friendly and concise

Deferred until 2019 are a few larger projects, including:

- A comprehensive framework around various fund investments
- Expansion of the P&P Manual to expand and improve disclosures on securities not eligible for Filing Exemption (FE)
- An amendment to the P&P Manual to delete a procedure for publically rated securities under regulatory review

P&P MANUAL PROPOSAL

The NAIC’s proposal to add comprehensive instructions for fund investments to the P&P Manual is a tall and multi-faceted task, ultimately aiming to standardize various types of Schedule BA fund investments. An outline of the proposal, along with several industry and interested party comment letters, can be found [here](#).

THE BLANKS WORKING GROUP (BWG)

Most of the adopted changes for the 2018 Blanks filings were included in our [NAIC Summer National Meeting](#) publication.

In addition, three new items were also adopted for 2018:

Ref #2018-02BWG: update rows within investment categories column on the Summary Investment Schedule to correspond to various investment schedules (crosschecks on Annual Statements)

Ref #2018-22BWG: add columns to Life/Fraternal Analysis of Operations and Reserves for type of life insurance (individual life, group life, individual annuity, and group)

¹ Nationally Recognized Statistical Rating Organization

² Filing exempt

Ref #2018-26BWG: add Analysis of Operations by line of business and modify the appropriate crosschecks

Exposed items included (*industry and interested party comment deadline is March 6, 2019*):

Ref #2018-23BWG: add questions 34.1 and 34.2 to the General Interrogatory for Fraternal Benefit Societies along with instructions for question 34.2

Ref #2018-24BWG: adjust Asset Valuation Reserve (AVR) factors due to related RBC changes due to the Federal Tax Cuts and Jobs Act (FTCJA)

Ref #2018-31BWG: add two new categories - unit investment trusts and closed ended funds - to the Common Stock categories on Schedule D. This would include added definitions and line items within the Summary of Investments schedule, and Schedule DL Parts 1 and 2. Also included is a modification to the definition of a mutual fund.

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