

# NAIC 2019 Fall National Meeting

## Global Insurance Solutions

As of December 2019

ON DECEMBER 7-10, WE ATTENDED THE NAIC FALL 2019 NATIONAL MEETING IN AUSTIN, TX TO STAY INFORMED ON IMPORTANT REGULATORY ISSUES THAT ARE AFFECTING THE INSURANCE INDUSTRY TODAY. SUMMARIZED IN THIS ARTICLE ARE THE MOST RELEVANT SESSIONS AND DISCUSSIONS FROM THE CONFERENCE.

KEY SESSIONS AND TOPICS (Full details below)

- [Valuation of Securities Task Force starts looking at all leasing transactions with an adoption for Ground Lease Transactions \(GLTs\)](#)
- [Principal Protected Notes looks likely to have new specific guidance for 2020](#)
- [The Statutory Accounting Principles Working Group \(SAPWG\) focuses on more transparency and granularity](#)

### THE VALUATION OF SECURITIES TASK FORCE (VOSTF)

The VOSTF adopted guidance to add instructions to the P&P Manual for Ground Lease Transactions (GLTs). GLTs typically have two distinctive characteristics: 1 - a ground lease is a long lease agreement between the lessor who owns the land and the lessee who wishes to develop the land, and 2 - the lessee has intent to sublease out to tenants for business, hotel or warehouse facility use in an existing or newly constructed building. Because of this, the SVO can focus efforts on reviewing the underlying credit of the tenants and their ability to make rent payments as opposed to evaluating the physical property itself. Many GLTs are not rated by an NAIC Credit Rating Provider (CRP) and are structured as Special Purpose Vehicles (SPVs). These should be filed with the SVO for proper assessment, and if the SVO determines they are not eligible for an NAIC Designation, the GLT would be ineligible for Schedule D reporting and subsequent applicable Risk-Based Capital (RBC) charges.

**Exposed** items included:

Received and exposed for a 60-day comment period a proposal to the P&P Manual to remove the modeling instructions for RMBS/CMBS and direct staff to produce NAIC Designations and Designation categories. The Investment Analysis Office (IAO) will be tasked with providing this for year-end 2020, which will revert back to a singular NAIC Designation.

There were several staff report updates that were also given regarding:

- [Principal Protected Notes \(PPN; previously discussed during our Summer National Meeting summary\)](#) definition and review from the SVO to create NAIC Designation citing

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### FOR MORE INFORMATION

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that the NRSRO's review and rating of these instruments is within their prescribed parameters and methods, but that the CRP does not align with the underlying risks that the NAIC feels are within these assets. New guidance and the PPN definition will be coming in early 2020.

- Application delays for Japan Credit Rating Agency to be approved as a Credit Rating Provider – deferred until 2020.
- Integration of further security identifiers for the Filing Exempt Process – deferred until 2020.
- Add definition and VOSTF direction regarding characterizing Infrastructure Investments – more clarity coming in early 2020.
- Implementation for the electronic data feeds for Private Letter (PL) Ratings for Filing Exempt status. Fitch, DBRS and HR Ratings de Mexico, S.A. de C.V are not fully electronic yet, so those will need to be submitted manually.

## THE STATUTORY ACCOUNTING PRINCIPLES WORKING GROUP (SAPWG)

**Adopted** items included:

**Ref #2019-19:** Adding a SIRI disclosure to include the top 10 largest equity interests requiring “look through” for non-diversified funds. Excluded are the ETFs and other “Fixed Income Like” assets that the SVO determines have underlying fixed income like characteristics aligning with the previously adopted Comprehensive Fund Proposal earlier in 2019. Funds that meet the diversification criteria of the Investment Company Act of 1940 do not need to be assessed. This will be incorporated for year-end 2020 filing.

**Ref #2019-22 / SSAP-103R:** Wash Sales disclosure – clarifying language that only disclosures are required when the wash sale is sold prior to a reporting end period and then reacquired in the following reporting period.

**Ref #2019-18 / SSAP-86:** Other derivatives clarification that when a derivative is not used for Hedging, Income Generation or Replication, it is required to be reported at fair value and is a non-admitted asset per guidance in SSAP-86. NAIC staff will continue to monitor unintended consequences of this adoption and may re-examine this as interested parties provide additional feedback and examples.

**Exposed** items included:

**Ref #2019-04 / SSAP-32:** The Investment Classification Project – revised the definition for Preferred Stock leveraging U.S. GAAP guidance for clarity when the stock has redeemable or perpetual characteristics, as well as incorporating language for mandatory convertible preferreds. The new guidance will also take out references to a Preferred Stock as a “security,” and replace with “interest.”

**Ref #2019-20 / SSAP 2R & SSAP 103R:** Clarification and revisions to Rolling Short-Term Investments for the classification of certain investments as short term or cash equivalent. This incorporates clarity around classification for affiliated Bond (SSAP-26R) investments, all affiliated and non-affiliated Loan Backed and Structured Investments (SSAP-43R) and all affiliated and non-affiliated Schedule BA investments. The guidance clarifies intent regarding:

- Reasonable expectations that the investment will mature or terminate within 364 days
- The investment was previously reported as a short-term or cash equivalent investment
- The same or nearly identical asset was sold or matured where a subsequent identical investment was acquired within 1 year

This practice has a few major benefits:

- The asset is not required to be filed with the SVO or required to obtain an NRSRO rating
- There are more favorable Risk-Based Capital (RBC) charges for an entity
- Limited affiliate reporting

**Ref #2019-41 / SSAP-43R:** Loan Backed and Structured Securities (LBaSS) – Eliminate the multi-step modeling guidance for RMBS and CMBS for determination of NAIC Final Designation.

There were also some discussions to move areas of interest of agenda items to an “active” status, including:

**Ref #2019-32:** Clarification of a “Look Through” approach when a company has multiple entities as long as it complies with SSAP-97, Investments into Subsidiaries, Controlled and Affiliated Entities. This clarifies that more than a singular look through is permitted and documents the approach for the look through.

**Ref #2019-33 / SSAP-25:** Require further clarity regarding Affiliates and Other Related Parties to the reporting entity with enhanced disclosures. This targets situations where a controlling interest is approved by the state of domicile and the controlling interest grows by more than 10% of the insurance reporting entity with a 2020 year-end data capture, assuming the Blanks Working Group (BWG) can have final templates by mid-2020.

**Ref #2019-34 / SSAP 25:**

- add additional clarity around complicated ownership/business structures
- clarify full transparency of related parties identified under SEC reporting requirements
- clarify any non-controlling entity or related parties over 10%
- clarify impact of disclaimers of control
- proposal will reject several U.S. GAAP concepts regarding a Variable Interest Entity (VIE)

This is intended to give NAIC the full picture of related parties and affiliates that more aligns with the requirements of the SEC.

**Ref #2019-36:** Will require the further expansion of Managing General Agent (MGA) and Third-Party Administrator (TPA) relationships and disclose the applicable services that are provided to the insurance entity. This will also capture legal names, audit requirements and other criteria to allow regulators to create an aggregated assessment to their involvement and services provided.

**Ref #2019-39:** Adds reporting guidance and acceptable collateral for derivatives, and clarifies reporting of net initial and net variation margin positions.

## THE BLANKS WORKING GROUP (BWG)

The Blanks Working Group did not meet during the Fall National Meeting; however, they adopted a new item on the October 22 industry call regarding adding a new NAIC Designation Modifier for Schedules D, DL and BA to capture the NAIC Designation granularity framework and clarified this will be effective for annual reporting 2020, not the proposed first quarter 2020 date.

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