

# NAIC Spring National Meeting

## Global Insurance Solutions

As of April 2019

ON APRIL 6-9, WE ATTENDED THE 2019 NAIC SPRING NATIONAL MEETING IN ORLANDO 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)

- **Comprehensive Fund Proposal has been adopted providing clarity around Schedule BA assets**
- **The Statutory Accounting Principles Working Group labels Current Expected Credit Loss (CECL) reporting and guidance as “On Perpetual Deferral”**
- **The Blanks Working Group exposes 17 new proposals for 2019**

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

VOSTF have previously expressed some concerns around insurers’ assignment of NAIC Designations and reporting classifications of various investments typically found on the Schedule BA. Over the past year, there have been several clarifying guidance drafts and modifications to add clarity and transparency for reporting these assets and will be incorporating those efforts into the 2019 Purposes and Procedures (P&P) Manual. This project has been labeled as the Comprehensive Fund Proposal which has now been adopted by the VOSTF. The intent was broken into 3 sections:

1. Brings guidance for bond exchange-traded funds (ETFs), money market funds, and private funds all together.
2. Private funds would no longer be able to use credit ratings for NAIC designations. The SVO considers regulatory issues when it reviews funds. There is a “grandfathering” provision for private funds acquired prior to January 1, 2019.
3. Bond mutual funds are now incorporated into SSAP No. 30 and more classes of funds are now being permitted on the equity schedule too.

This was further clarified to include funds issued by the US Securities and Exchange Commission (SEC) regulated companies organized as closed end investment management companies and unit investment trusts.

Private Funds are still to be reported under the guidance of SSAP-48 and captured on Schedule BA, but are no longer permitted to use an NAIC designation based on the Filing Exempt (FE) process. Annual filing instructions will still permit life and fraternal insurers

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### FOR MORE INFORMATION

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to report an NAIC designation under fixed income investments. Funds with “fixed income-like characteristics” seeking favorable RBC treatment will need to obtain NAIC designations directly from the SVO.

The VOSTF has made a referral to the Capital Adequacy Task Force (CATF) that it conduct a review of all the funds and what the appropriate RBC changes they would recommend. The goal is to balance the credit risk of a fund in and equalize the RBC treatment for similar credit risks within fund structures.

**Other adopted** items included:

- Identify investments and transactions that are not eligible for Filing Exemption (FE) and consolidate the guidance within the P&P Manual. The Task Force has also been instructed to take a deeper look into the various types of lease structures which will be a separate amendment forthcoming.

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

- Status of the application for Japan Credit Rating Agency to be added as the 10th CRP. This looks to be a 2020 implementation.
- Integration of the various security identifiers to be used in the Filing Exempt process, including Private Placement Number (PPN) and International Securities Identifier Numbers (ISINs).
- Status update to the electronic feeds from the Credit Rating providers to the SVO regarding Private Letter Ratings. As of now, it appears 3 CRP's will not be ready by year end 2019 and this insurers will need to submit the Private Letter rating directly to the SVO.
- Update on Working Capital Finance Investments and modifications to SSAP 105 to ease the technical requirements making the investment more attractive to insurers.
- Update from NAIC Structured Securities Group (SSG) staff on the year-end process for modeled residential mortgage-backed securities and commercial mortgage-backed securities.

## THE STATUTORY ACCOUNTING PRINCIPLES WORKING GROUP (SAPWG)

**Adopted** items included:

Language to remove the modified filing exemption (MFE) process and language for determining future NAIC designations with a March 31st 2019 effective date.

**SSAP-2R:** Derivatives are not to be reported as cash, cash equivalents or short term assets regardless of their maturity date.

**SSAP-26R:** Structured notes are excluded from scope within the definition.

**SSAP-30R:** revisions to clarify FHLB pledged assets on behalf of an affiliated member shall be non- admitted under SSAP-4. Additionally, the guidance will now clarify that foreign open ended fund investments are captured within this guidance, and include within the Supplemental Investment Reporting Interrogatory (SIRI) and to add a new disclosure for investments with various fund managers.

**SSAP-86:** Structured notes that are excluded from the guidance in SSAP-43R shall be considered as derivative instruments and be included within this guidance.

**Exposed** items included:

**Ref #2018-22 / SSAP-37:** Mortgage Loans (*this item was re-exposed from previous guidance*).

- Clarify mortgage loans include loans acquired or obtained through assignment, participation or syndication.
- Clarify the definitions of a single loan agreements and a bundled mortgage loan.
- Incorporate language to clarify participating interests.

**Ref #2018-32 / SSAP 26R:** Prepayment Penalties (this item was re-exposed from previous guidance). Provide clarity and accounting treatment and reporting of investment income, realized gains/(losses) or fees when bonds are prepaid for consideration that results in a loss.

**Ref #2018-34 / SSAP 30R:** revisions to include foreign mutual funds in the scope of common stock and asks for clarity on domestic versus foreign as well as diversification of underlying investments which have been directed for review by Capital Adequacy and Valuation of Securities Task Forces.

## OTHER ITEMS FROM SAPWG

**Ref #2019-04:** Investment Classification Project - drafted to consider preferred stocks to be in scope and SAPWG will seek further information for future draft revisions to SSAP-32.

**Ref #2018-03:** Reporting NAIC Designations as Weighted Averages is not permitted. In the event of acquiring multiple lots of the same security, an insurer has 2 reporting options:

- Report a single line item using the lowest NAIC designation.
- Report each lot with its own purchase date, cost basis and applicable rating.

**Ref #2018-04:** VOSTF Bank Loan referral - continued industry and interested parties add proposed language revisions to clarify collateral loans be more appropriately in scope for SSAP 21 versus SSAP 26R.

**Ref #2016-20:** Credit Losses - Credit Loss guidance relating to CECL has been put on “perpetual deferral” from NAIC guidance and implementation.

## THE BLANKS WORKING GROUP (BWG)

**Adopted** 8 new items for 2019 including:

**Ref #2018-24BWG:** Adjust the asset valuation reserve (AVR) factors for those insurers where the related Risk Based Capital (RBC) factors changed from the Federal Tax Cuts and Jobs Act.

**Ref #2018-31BWG:** Add two new categories for unit investment trusts and closed end funds to the common stock categories on Schedule D, with appropriate additions to the Summary Investment Schedule and the Schedule DL. Also incorporate appropriate definitions for both as well as a modification to the definition of a mutual fund.

**Exposed** 17 items including: (industry and interested party comment deadline is May 21, 2019):

**Ref #2019-03BWG:** Add designation column for mutual funds to the annual Schedule D2.2 as well as add applicable columns and instructions for the quarterly reporting on Schedule D3 and D4.

**Ref #2019-04BWG:** Remove reference to Life and Fraternal only for Schedule BA instructions regarding investments with characteristics of bonds or fixed income. Also remove reference regarding CUSIP and NAIC designation columns. Add Lines for Fixed or Variable Interest Rate Investments that have underlying characteristics of a bond, mortgage loan or other fixed interest rate investment. Add categories to distinguish between which ones have /have not been approved by the Securities Valuation Office (SVO).

**Ref #2019-05BWG:** Add new instructions and illustrations for life policies where the reporting entity is the owner and beneficiary or has obtained the rights to control the policy.

**Ref #2019-07BWG:** Modify instructions for Note 20 - Fair Value to reflect changes to SSAP- 100R.

**Ref #2019-12BWG:** Add a code for foreign mutual funds for Schedule D2.2, column 3. Add instructions for foreign open ended funds to be included as mutual funds.

**Ref #2019-13BWG:** Add disclosure of top 10 fund managers.

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