



## NAIC 2018 Fall Meeting Newsletter

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The following represents a summary of the key decisions made by the National Association of Insurance Commissioners (NAIC) during the 2018 Fall National Meeting.

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### Executive Committee

The Executive (EX) Committee met in open session at the Fall National Meeting. The committee received a report on the NAIC State Ahead strategic plan implementation efforts. The NAIC State Ahead plan was adopted in February 2018 and is intended to further advance the services the NAIC provides to state regulators. Currently, it is comprised of 96 projects, 13 of which are completed, 47 of which are active, and 36 of which are planned to start in 2019 and 2020. A significant element of NAIC *State Ahead* is moving NAIC applications and data storage solutions to the cloud in order to facilitate a more efficient data intake and analysis as well as offer

more tools to membership and consumers. The report noted Phase I of the NAIC's transition to the Cloud was completed and Phase II was underway.

The committee received a status report of ongoing model law development efforts.

- The Health Actuarial (B) Task Force closed the request for amendments to *Health Insurance Reserves Model Regulation* (#10) because the original request has been completed with the adoption and implementation of AG 51.
- The Life Insurance and Annuities (A) Committee exposed amendments to *Suitability in Annuity Transactions Model Regulation* (#275) with a comment period deadline of Feb. 15, 2019.
- The Reinsurance (E) Task Force adopted revisions to *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). As discussed more fully in the Reinsurance (E) Task Force section, the Executive Committee deferred adoption.

Other ongoing model law development efforts include:

- *Accident and Sickness Insurance Minimum Standards Model Act* (#170) and *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) (Regulatory Framework (B) Task Force);
- *Annuity Disclosure Model Regulation* (#245) (Life Insurance and Annuities (A) Committee);
- *Life Insurance Disclosure Model Regulation* (#580) (Life Insurance and Annuities (A) Committee);
- *Life Insurance Illustrations Model Regulation* (#582) (Life Insurance and Annuities (A) Committee);
- *Mortgage Guaranty Insurance Model Act* (#630) (Financial Condition (E) Committee).

Ongoing model law development efforts for new model laws include:

- Real Property Lender-Placed Insurance Model (Property and Casualty Insurance (C) Committee)

## Property & Casualty Updates

The Property and Casualty Insurance (C) Committee met at the Fall National Meeting. The committee adopted an extension for revisions to the proposed Real Property Lender-Placed Insurance Model Act as the model law is under ongoing discussions within the Lender-Placed Insurance Model Act (C) Working Group. The Committee disbanded the Medical Professional Liability (C) working group as the working group has completed its charge. The Committee adopted "Guidelines on Nonadmitted Accident and Health Coverages" developed by the Surplus Lines (C) Task Force meant to provide assistance to states updating laws and establishing procedures for allowing accident and health coverage to be procured in the nonadmitted market either independently or through surplus lines brokers. The committee also exposed a white paper on pet insurance with a public comment period ending Dec. 21.

## Catastrophe Insurance (C) Working Group

The working group met at the Fall National Meeting and discussed recent catastrophic events and private flood insurance. The working group also received an update from drafting group to create a private flood insurance framework or best practices tool kit to be used by state regulators. The intention of the framework or tool kit is to aid the regulation of the growing private flood insurance market. The working group indicated NAIC staff are in process of creating a draft to share with the working group for consideration on a future conference call.

## Financial Condition (E) Committee Updates

### Capital Adequacy (E) Task Force – Investment Risk-Based Capital (E) Working Group

The working group did not meet at the Fall National Meeting. Instead, the working group held an interim meeting via conference call on Oct. 23.

During this session, the working group received comments from the Property & Casualty and Health Working Group regarding bond RBC factors for P&C and health insurers. Interested parties from the P&C industry noted their approval of the working group's decision regarding the following:

- Utilization of a liability run-off (5 years) model instead of the credit-cycle (10 years) model found in life RBC. This time horizon is used to determine default rates, recovery rates and economic analysis.
- Use of a “market-risk” model for bonds valued at the lower of cost or market (NAIC 3-5) rather than the bond-default model used for life RBC.

Interested parties from the health industry expressed their approval on the points noted above. However, concern was expressed that the RBC model did not provide a risk-offset for investment income. The Academy of Actuaries (Academy) noted that there is a risk-offset in the P&C model which reduces overall underwriting risk charges. The Academy noted that given the impact of H1 factors to the health RBC model that the most practical approach to addressing the industry’s concern would be to provide an investment income offset similar to that found in the P&C model.

The working group discussed the impact of the revised risk premium assumption/bond portfolio adjustment. Interested parties expressed concern that the revisions to the bond portfolio adjustment will disproportionately impact smaller insurers as its impact is more significant under the current model. Concern was also expressed that the slope of the bond portfolio factors are too flat relative to other capital models. The Academy noted that the portfolio adjustment is used to ensure that RBC factors require an insurer to hold sufficient capital to achieve a 96% confidence level. The Academy also noted that the reason for the flatness of the portfolio adjustments is primarily due to the rating agencies having a shorter default time horizon that does not capture the lower recovery rates observed by the Academy. The Academy also noted that rating agencies have the ability to change the rating of bonds held by insurers.

#### **Capital Adequacy (E) Task Force – Health Risk-Based Capital (E) Working Group**

The working group did not meet at the Spring National Meeting. Instead, the working group held an interim meeting via conference call on Oct. 29.

During the Summer National Meeting, the working group engaged the Academy to evaluate the impact of the Tax Cuts and Jobs Act (TCJA) on the health RBC model. During the October conference call, the working group heard a report from the Academy, which stated that the health RBC model does not incorporate any tax adjustments into the RBC charges assessed, therefore, the Academy did not propose any changes to the RBC model. The working group accepted the Academy’s report and passed a motion to remove consideration of the TCJA from their working agenda.

The working group referred a letter to the Investment RBC working group which supports the inclusion of a bond portfolio adjustment in the health RBC model. The portfolio adjustment would reduce bond RBC charges, thus acknowledging portfolio diversification, by reflecting the average bond portfolio of a health insurer in the base RBC factors. This approach differs from the P&C and life models, where the portfolio adjustment varies by the number of bonds held by an insurer.

#### **Capital Adequacy (E) Task Force – Life Risk-Based Capital (E) Working Group**

The working group did not meet at the Fall National Meeting. Instead, the working group held an interim meeting via conference call on Oct. 31 to discuss the “*Interpretation of 2018 Life Risk-Based Capital Results in Light of the 2017 Tax Cuts and Jobs Act*,” which is a document intended to provide financial examiners and other state regulators with an overview of the impact that the TCJA had on the life RBC model. The document was exposed with a comment period ending Oct. 26.

#### **Capital Adequacy (E) Task Force – Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe (E) Subgroup**

The working group and subgroup met in a joint session on Nov. 16.

During the Fall National Meeting, the working group adopted agenda item 2018-15-CR, which approves the 2018 U.S. and non-U.S. Catastrophe Event list used to determine the RCAT charge.

The working discussed agenda item 2018-16-P which considers an update to the underwriting risk factors found in PR017 and PR018A line 4. The new factors are a byproduct of the Academy’s 2017 review of the current factors. The proposal would cap the capital charge on commercial insurance, medical professional liability, and all other commercial lines at 35%; while the factors for personal lines and reinsurance business would be uncapped. The proposal was exposed for a 60-day comment period ending Jan. 18, 2019.

The working group discussed pending charges related to the implementation of the Covered Agreement. Specifically, the working group discussed the potential impact to the R3 – Credit-Related Assets – charge in the P&C RBC model as a result of implementing the Covered Agreement. The current R3 charge varies depending upon a reinsurer’s financial strength rating as well as their status within the U.S. regulatory system. The current factors are, in part, based

upon the rating methodology of Standard & Poors (S&P). However, the NAIC places a limit on the R3 charge assessed for uncollateralized reinsurance receivables due from unrated reinsurers while the S&P's credit risk charge is not capped. The working group noted that they must consider 1) whether the R3 factor for all uncollateralized reinsurance recoverables due from unrated reinsurers should be the same as the factors assessed for authorized, unauthorized, certified and reciprocal reinsurers and 2) whether the R3 factors should be uncapped in response to the reduced collateral requirements required by the Covered Agreement to conform to the S&P model.

The working group discussed the impact of the TCJA on the P&C RBC model. The working group noted that the impact is deemed insignificant as RBC factors are largely on a pre-tax basis; therefore, no additional consideration was deemed necessary.

### Group Capital Calculation (E) Working Group

Since the Summer National Meeting, the working group met two times via conference call and then at the Fall National Meeting. During these meetings the working group discussed the initial draft of the field testing template and instructions, with the group emphasizing the fact that it is the initial draft for field testing only and does not represent a final product. The template has been developed from proposals and comments discussed over the last two years. The template is input focused in order to facilitate analysis of many different calculation options. Inputs include numerous attributes and financial information for each entity. The template also includes qualitative questions which serve to help regulators understand certain decisions a company makes or to obtain further information of certain inputs such as intra-group items, contractual relationships, other adjustments, etc. The template was exposed by the working group for 75 days with a comment deadline of Jan. 30, 2019. The template and instructions are currently available for download on the working group's committee page of the NAIC website.

The next steps for the working group are to begin field testing which the working group noted they have seen interest from many volunteers to participate. The current goal is to use 2018 data for field testing with a target date of March 31 to coincide with the annual statement filing.

### Reinsurance (E) Task Force

The Reinsurance Task Force met on Nov. 17. During the meeting, the task force discussed revisions to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). These revisions are intended to

incorporate the provisions of the Covered Agreement and incorporate language to extend the benefits of the Covered Agreement to Qualified Jurisdictions located outside of the European Union. Interested parties provided feedback on the revisions, which included concern over language in Model #785 which states that "credit may be taken only for reinsurance agreements entered into, renewed, or amended on or after the date the commissioner has determined that the assuming insurer is eligible for credit, and may not be taken for reinsurance of losses incurred or reserves reported before that date." As the provision relates to the reduction of collateral requirements afforded by the Covered Agreement, concern was expressed that retrospective agreements may not benefit from the reduction in collateral. The task force adopted the changes to Model Law #785 and Model Regulation #786; however, during the Executive Committee action was deferred until the Plenary session so that the task force could consider the concern noted above. On Dec. 19, the revisions to the Model Law and Model Regulation were adopted during the Plenary session.

### Valuation of Securities (E) Task Force

Since the Summer National Meeting, the working group met two times via conference call on Sep. 4 and Oct. 11. During the interim meetings, the task force adopted amendments to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to implement changes to delete the Modified Filing Exempt process for SSAP No. 43R securities and delete administrative symbols RP (redeemable perpetual) and P (perpetual) for preferred stock.

During the Fall National Meeting the task force adopted the following amendments to the P&P Manual:

- Removal and transfer of the description of the financial modeling process used by the Structured Securities Group (SSG) from the P&P Manual to the SSG website.
- Part One, Section 2(a) updated to reflect the SVO's responsibility to administer the filing exemption for insurer owned assets with publicly available credit ratings and the verification of securities whose credit rating is communicated to the issuer in a private letter rating.
- Modify the administrative symbol "NR" (not rated) to "ND" (not designated) to eliminate the use of the word rating as it carries a legal meaning under federal securities law. The definition for this administrative symbol is unchanged.
- Remove the old filing and documentation instructions related to the submission of filing exempt (FE).

- Remove the definition of notching from the P&P Manual as the notching process has been replaced by the new NAIC Designation Category framework which will expand the framework from 6 NAIC Designations to 20 NAIC Designations.
- P&P Manual updated to ensure compliance with NAIC Standard Procedures for Amending Manuals and Handbooks.
- Amends Part One Section 3, to clarify the meaning of the phrase “SVO List of Investment Securities” in the P&P.
- Amends Part One Section 3, to respond to a referral from the Reinsurance (E) Task Force regarding development of a framework for identifying investments that are a component of a Regulatory Transaction. In its amendment, VOSTF acknowledges that determining the status of a Regulatory Transaction is not within the scope of their charges.
- Amends Part Three, Section 2, to modernize the credit substitution methodology which is a technique for assigning an NAIC Designation to a security on the basis of the credit strength rating of a third party, instead of the borrower/obligor, on the basis of an unconditional and legally enforceable promise by a third party.

The task force re-exposed revisions to the P&P Manual to provide a comprehensive framework for fund investments. As exposed, the revisions would largely leave verification procedures for money market funds, bond funds, and the instructions for exchange traded funds and Schedule BA private funds unchanged. The revisions would permit the issuance of an NAIC Designation for all fixed-income like securities regardless of the investment company type so long as the security is registered with the U.S. Securities and Exchange Commission. The exposure submits a referral to the Blanks (E) Working Group to request the addition of a column on Schedule D, Part 2, Section 2 to capture NAIC designations associated with fund holdings within the scope of SSAP No. 30R. An additional referral was submitted to the Capital Adequacy (E) Task Force requesting a review of SVO designated funds to consider how NAIC Designations would be included in the RBC calculation once the column is added to Schedule D, Part 2, Section 2.

Finally, the task force directed reporting entities to self-report private letter rating securities as filing exempt for year-end 2018 reporting.

## Accounting Policy & Procedures (E) Task Force

### Blanks (E) Working Group

The following is a summary of the accounting changes or revisions adopted by the Blanks (E) Working Group (BWG) since the Summer National Meeting:

*Blank type: L/F = Life, Accident & Health/Fraternal; P/C = Property/Casualty; H = Health; SA = Separate Accounts; T = Title*

| Ref #   | Blank(s)       | Description of Change or Revision   | Target Date |
|---------|----------------|---|-------------|
| 2018-02 | L/F, P/C, H, T | This proposal updates the rows in the investment categories column on the Summary Investment Schedule to be more consistent with other investment schedules and the Asset page.   | Annual 2019 |
| 2018-22 | L/F, SA        | The changes to the Analysis of Operations and Analysis of Reserves pages were previously adopted. The modifications adopted at the Fall National Meeting were to approve the related instruction changes.   | Annual 2019 |
| 2018-26 | L/F, SA        | This proposal adds an Analysis of Operations by Lines of Business – Summary page and instructions and is intended to supplement proposal 2018-22BWG. It allows for the total columns of each separate Analysis of Operations pages to be aggregated into the Summary page which will tie to the Summary of Operations page. | Annual 2019 |

The following is a summary of the accounting changes or revisions exposed for comment by the BWG. The exposure period expires Mar. 6, 2019.

| Ref #   | Blank(s)       | Description of Change or Revision   | Target Date |
|---------|----------------|---|-------------|
| 2018-23 | L/F            | This proposal adds questions 34.1 and 34.2 to the General Interrogatories Part 2 related to fraternal benefit societies only and respective instructions regarding 34.2. These questions were historically included in the Fraternal blanks and included in the quarterly Life, Accident & Health/Fraternal blank, but were inadvertently left out of the annual Life, Accident & Health/Fraternal blank during the blanks combination process. | Annual 2019 |
| 2018-24 | L/F            | This proposal revises asset valuation reserve (AVR) factors to conform with adopted changes to life RBC factors due to the TCJA.  | Annual 2019 |
| 2018-25 | L/F, H         | This proposal revises the reinsurance ceded code list in the Quarterly Schedule S to match the list used for annual statement reporting and adds an additional column and associated instructions for type of business ceded.   | Q1 2020     |
| 2018-27 | L/F, P/C       | This proposal modifies the illustrations for Note 5L(4) (Collateral Received and Reflected as Assets Within the Reporting Entity's Financial Statements ) to add additional lines for separate accounts/protected cells in addition to the existing general account lines and clarifies reporting requirements in the instructions. The new lines will also be data-captured along with the rest of Note 5L(4).                                 | Annual 2019 |
| 2018-28 | L/F, P/C, H, T | This proposal adds two new disclosures to Note 9 (Income Taxes) for Repatriation Transition Tax - 9H and Alternative Minimum Tax Credit - 9I and respective instructions. It also adds an illustration for Note 9I which will be data captured.   | Annual 2019 |
| 2018-29 | SA             | This proposal removes Line 5 – Contract Loans from the Separate Accounts Asset Page as policy loans should not exist in the Separate Account. It also renumbers the remaining lines.  | Annual 2019 |
| 2018-30 | L/F, P/C, H, T | This proposal modifies the Note 100 (Subsidiary Controlled and Affiliated Loss Tracking) illustration and instructions to include SSAP No. 48— <i>Joint Ventures, Partnerships and Limited Liability Companies</i> entities as part of the disclosure.  | Annual 2019 |
| 2018-31 | L/F, P/C, H, T | This proposal adds two new categories (Unit Investment Trusts and Closed-end Funds) to the commons stock categories on Schedule D, the Summary Investment Schedule, and Schedule DL, Parts 1 and 2. It also adds definitions of both to the General Investment Schedule Instructions and modifies the definition of mutual fund to include both new categories.   | Annual 2019 |

### Statutory Accounting Principles (E) Working Group

The section below summarizes the actions of the Statutory Accounting Principles (E) Working Group (SAPWG) relating to the adoption or exposure of the Statements of Statutory Accounting Principles.

The following is a summary of substantive accounting changes or revisions that were adopted by the SAPWG since the Summer National Meeting:

| Ref #   | Statement Reference | Title                        | Description of Change or Revision   | Effective Date |
|---------|---------------------|------------------------------|---|----------------|
| 2018-17 | SSAP No. 21         | <i>Other Admitted Assets</i> | <p>Amendments clarify the following with respect to interests in unsecuritized structured settlements:</p> <ul style="list-style-type: none"> <li>· Period certain (non-life contingent) structured settlements are admitted assets if legal transfer from the original beneficiary has occurred.</li> <li>· Life contingent structured settlements are nonadmitted.</li> </ul> <p>The revisions do not impact the accounting for securitized structured settlements within the scope of SSAP 43R.</p> <p>Matter was referred to the BWG for consideration.</p> | Dec. 31, 2018  |

| Ref #   | Statement Reference                 | Title   | Description of Change or Revision  | Effective Date  |
|---------|-------------------------------------|---|--|---|
| 2017-32 | SSAP No. 30R<br><br>Issue Paper 158 | <i>Unaffiliated Common Stock</i><br><br><i>Unaffiliated Common Stock</i>  | Revisions amend the definition of common stock to include closed-end and unit investment trusts that are registered with the SEC.<br><br>As a result of the definition change, qualifying investments will be reported on Schedule D – Part 2 rather than Schedule BA.<br><br>Refer to BWG agenda item 2018-31 for referral from SAPWG.  | Jan. 1, 2019  |
| 2017-28 | SSAP No. 62R                        | <i>Property and Casualty Reinsurance</i>  | Revisions clarify certain aspects of reinsurance accounting by explicitly incorporating U.S. GAAP guidance which was previously adopted through reference only.<br><br>The major points of clarification relate to the evaluation of risk transfer and the amount of reinsurance credit that may be taken on non-proportional treaties. Specifically, reinsurance credit should only be recognized when an attachment point has been surpassed and only for the amount in excess of the attachment point.  | Jan. 1, 2019  |
| 2016-03 | SSAP No. 108<br><br>Issue Paper 159 | <i>Derivatives Hedging Variable Annuity Guarantees</i><br><br><i>Special Accounting for Limited Derivatives</i> | The new SSAP permits special accounting treatment for limited derivatives which hedge variable annuity guarantee benefits that are subject to interest rate sensitivity.<br><br>The special accounting treatment allows a reporting entity to hedge interest rate risk on a dynamic hedged item (portfolio or subset of policies), if certain conditions are met.<br><br>In general, the accounting for these derivatives is as follows:<br><br><ul style="list-style-type: none"> <li>· Hedging instruments are carried at fair value in the balance sheet</li> <li>· Fair value changes that offset the hedged risk (interest rate movements) are recognized as a realized gain (loss) to offset Valuation Manual (VM) – 21 reserve changes</li> <li>· Fair value changes in excess of the VM-21 reserve movements are retained on the balance sheet as a deferred asset (liability)</li> <li>· Deferred asset (liability) is reclassified from unassigned surplus to special surplus.</li> <li>· Deferred balances are amortized into realized gains or losses for a period not to exceed 10 years, if highly effective.</li> </ul> | Jan. 1, 2020 with early adoption permitted as of Jan. 1, 2019 |

The following is a summary of non-substantive accounting changes or revisions that were adopted by the SAPWG since the 2018 Summer National Meeting:

| Ref #   | Statement Reference | Title  | Description of Change or Revision  | Effective Date |
|---------|---------------------|--|--|----------------|
| 2018-19 | SSAP No. 43R        | <i>Loan-backed and Structured Securities</i> | The revisions result in the deletion of the modified filing exempt (MFE) guidance from SSAP No. 43R. By eliminating the MFE guidance for other loan backed and structured securities, the determination of NAIC designations no longer considers the amortized cost for a particular security in relation to its par value. Instead, NAIC designations will be based upon ratings issued by credit rating providers. | Mar. 31, 2019  |

| Ref #     | Statement Reference | Title  | Description of Change or Revision  | Effective Date |
|-----------|---------------------|--|--|----------------|
| 2018-20   | SSAP No. 15         | <i>Debt and Holding Company Obligations</i>  | The revisions add references to existing statutory guidance within SSAPs 15 and 25 to clarify the proper accounting treatment when there has been a forgiveness of an amount owed and to acknowledge that the accounting may differ depending upon the parties to a transaction.   | Upon Adoption  |
|           | SSAP No. 25         | <i>Affiliates and Other Related Parties</i>  | The accounting for debt forgiveness, which is unchanged by the revisions, is as follows: <ul style="list-style-type: none"> <li>· Extinguished debt due to an unrelated party is reflected in operating results as a capital transaction.</li> <li>· Extinguished debt due to/from a related party is reported as a dividend by the creditor and a capital contribution by the debtor.</li> </ul>                        |                |
| 2018-21   | SSAP No. 72         | <i>Surplus and Quasi-Reorganization</i>  | The revisions clarify that when a dividend (distribution) is declared or paid by a reporting entity that has negative unassigned funds the distribution is deemed a return of capital that should be applied to gross paid in and contributed surplus.   | Upon Adoption  |
| 2018-23   | SSAP No. 68         | <i>Business Combination</i>  | The exposure clarifies that statutory merger guidance should be applied to instances where equity of an owned entity is cancelled without the issuance of new equity and the owned entity's assets and liabilities are incorporated with the reporting entity's financial statements.  | Dec. 31, 2018  |
| 2018-24EP | SSAP No. 86         | <i>Derivatives</i>   | Amendment includes the following editorial revisions: <ul style="list-style-type: none"> <li>· SSAP No. 86 – the revisions remove reference to the 2017 effective date for financing premium disclosure as the disclosure requirements are effective for 2018 reporting.</li> <li>· SSAP No. 97 – revisions remove references to SSAP paragraphs that have been removed from statutory accounting literature.</li> </ul> | Upon Adoption  |
|           | SSAP No. 97         | <i>Investments in Subsidiary, Controlled and Affiliated Entities</i>                 |  |                |
|           | Appendix A-010      | <i>Minimum Reserve Standards for Individual and Group Health Insurance Contracts</i> | Appendix A-010 – The first revision updates a paragraph reference regarding the 2016 Cancer Claims Cost Valuation Table for consistency with the model law. The second revision is to update a date to match the model law regarding the 2013 Individual Disability Valuation Table.   |                |
| 2018-27   | SSAP No. 48         | <i>Joint Ventures</i>  | The revision requires loss tracking disclosures for investments with cumulative losses that exceed the investor's cost basis.  | Dec. 31, 2018  |
| 2018-28   | SSAP No. 51         | <i>Life Contracts</i>  | The revisions add life liquidity disclosures and expand the variable annuity liquidity disclosures for year-end 2019.  | Dec. 31, 2019  |
|           | SSAP No. 52         | <i>Deposit-Type Contracts</i>  |  |                |
|           | SSAP No. 61R        | <i>Life, Deposit and Accident and Health Reinsurance</i>                             |  |                |
| 2018-29   | Appendix A-820      | <i>Minimum Life and Annuity Reserves Standards</i>                                   | The revision removes the phrase "good and sufficient reserve" to be consistent with VM #820.   | Upon Adoption  |

| Ref #   | Statement Reference | Title  | Description of Change or Revision  | Effective Date  |
|---------|---------------------|--|--|---|
| 2018-30 | SSAP No. 86         | <i>Derivatives</i>   | Revisions incorporate aspects of the hedge effectiveness documentation provisions found in ASU 2017-12, <i>Derivatives and Hedging</i> . The revisions are as follows: <ul style="list-style-type: none"> <li>· Permit subsequent assessments of hedge effectiveness to be performed on a qualitative basis, if certain conditions are met</li> <li>· Allow companies more time to perform the initial quantitative hedge effectiveness assessment</li> <li>· Permit the “critical terms match” criteria to be satisfied for a group of forecasted transactions if the transactions occur and the derivatives mature within the same 31-day period or fiscal month, if other criteria is satisfied.</li> </ul> | Jan. 1, 2019, with early adoption permitted<br><br>For U.S. GAAP filers, early adoption is only permitted if ASU 2017-12 has been early adopted |
| 2018-31 | SSAP No. 6          | <i>Uncollected Premium Balances, Bills Receivable for Premiums and Amounts Due from Agents and Brokers</i> | Revisions result in the temporary suspension of the 90-day rule for policyholders impacted by Hurricanes Florence and Michael.   | Upon Adoption   |
|         | INT 18-04           | <i>Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael</i>             | INT 18-04 will be nullified Oct. 7, 2019   |   |

The following is a summary of substantive accounting changes or revisions that were exposed for comment by SAPWG during the 2018 Fall National Meeting, with the exposure period ending on Nov. 30, 2018.

| Ref #   | Title  | Description of Change   |
|---------|--|---|
| 2016-02 | ASU 2016-02, <i>Leases</i>                       | The agenda item has remained open for exposure as the NAIC staff continues to work with interested parties. As exposed, the agenda item amends SSAP No. 22R to align the language with ASU 2016-02. The revisions introduce GAAP concepts which requires that a lessor maintain both the power and economics associated with the use of an asset identified in a contract for a lease to exist. However, statutory accounting would retain the operating lease model which treats all leases as operating leases carried off-balance sheet. |
| 2018-06 | SSAP No. 4, <i>Assets and Nonadmitted Assets</i> | The agenda item intends to clarify the accounting treatment for invested assets that are acquired as part of a “regulatory transaction.” For regulatory transactions, insurers must obtain approval from the regulator in their state of domicile in order to admit the invested assets.<br><br>As part of the exposure, SAPWG is seeking clarification from VOSTF regarding the definition of regulatory transactions in the P&P Manual.   |
| 2018-07 | SSAP No. 41R, <i>Surplus Notes</i>               | The agenda item seeks to clarify that surplus notes linked to other structures are not subordinate and do not qualify for reporting as statutory equity by the issuer. If surplus note accounting is not achieved the instrument shall be reclassified from statutory equity to debt.   |

The following is a summary of non-substantive accounting changes or revisions that were exposed for comment by SAPWG during the 2018 Fall National Meeting, with an exposure period ending Feb. 15, 2019 unless otherwise noted.

| Ref #   | Title   | Description of Change  |
|---------|---|--|
| 2018-18 | SSAP No. 2, <i>Cash, Cash Equivalents, Drafts and Short-Term Investments</i><br><br>SSAP No. 26R, <i>Bonds</i><br><br>SSAP No. 43R, <i>Loan-backed and Structured Securities</i><br><br>SSAP No. 86, <i>Derivatives</i> | Agenda item deals with the accounting for structured notes, except for mortgage referenced securities, where a reporting entity assumes a risk of principal loss based on an underlying component unrelated to the credit risk of the issuer.<br><br>As originally exposed, the revisions would place instruments with these characteristics within the scope of SSAP 86, as the risk of loss unrelated to the credit of an issuer is seen as an embedded derivative.<br><br>The agenda item was re-exposed to solicit feedback on whether these instruments should be placed within the scope of SSAP 26R and accounted for in a manner similar to that of mandatorily convertible bonds. |
| 2018-22 | SSAP No. 37, <i>Mortgage Loans</i>  | The exposure seeks to clarify that participation agreements are limited to a single mortgage loan agreement with a sole borrower and that mortgage loan pools or “bundled mortgages” are not within the scope of SSAP No. 37.<br><br>Exposure acknowledges that situations where there are multiple parties that enter into one loan or an unrelated “tenant-in-common” arrangement where borrowers are joint and severally liable is within the scope of SSAP No. 37.   |
| 2018-26 | SSAP No. 97, <i>Investments in Subsidiary, Controlled and Affiliated Entities</i>   | The previously exposed agenda item clarifies the circumstances that could result in a reporting entity having a negative equity valuation in an SCA investment.<br><br>The agenda item was re-exposed with direction for NAIC staff to work with interested parties to address the accounting for negative SCA investments when a guarantee or commitment to fund investee losses is present. Interested parties have expressed concern that as exposed, the revisions could result in a reporting entity counting losses in both the negative equity value SCA as well as an accrual for the obligation to provide financial support.   |
| 2018-32 | SSAP No. 26R, <i>Bonds</i>  | Revisions amend the recognition of prepayment penalties on callable bonds, when consideration received is less than par value. As exposed, the agenda item requires reporting entities to recognize the portion of a gain related to prepayment penalties or acceleration fees as a component of investment income.<br><br>The proposal is a departure from the current guidance which can result in a gross presentation within realized capital gains and investment income.   |
| 2018-33 | SSAP No. 30R, <i>Unaffiliated Common Stock</i>  | Revisions would require reporting entities to nonadmit invested assets pledged on behalf of an affiliate, when the reporting entity is not an FHLB member itself. The basis for nonadmission is that the pledging insurer would not meet the criteria found in SSAP 4, paragraph 2.<br><br>NAIC staff is working with interested parties to determine whether FHLB common stock held by a non-FHLB member should be recognized as an admitted asset.   |
| 2018-34 | SSAP No. 30R, <i>Unaffiliated Common Stock</i>  | As a result of the substantive revision to the definition of common stock (agenda item 2017-32), foreign mutual funds were inadvertently scoped out of SSAP No. 30R. This agenda item would re-introduce these instruments to SSAP No. 30R.<br><br>The agenda item solicits feedback from interested parties on which foreign regulators should be deemed equivalent to the SEC when identifying foreign closed-end funds included within the scope of SSAP No. 30R.   |
| 2018-35 | SSAP No. 95, <i>Nonmonetary Transactions</i><br><br>SSAP No. 104R, <i>Share-Based Payments</i>  | The agenda item would adopt ASU 2018-07, <i>Improvements to Nonemployee Share-Based Payment Accounting</i> , with limited modifications.<br><br>The ASU expands the scope of ASC 718 – <i>Stock Compensation</i> – to include nonemployee stock awards to align the accounting for employees and nonemployees.   |
| 2018-36 | SSAP No. 100R, <i>Fair Value</i>  | The agenda item considers ASU 2018-13, <i>Changes to Disclosure Requirements for Fair Value Measurements</i> . As exposed, the agenda item adopts the following GAAP amendments:<br><ul style="list-style-type: none"><li>· Eliminate disclosure of transfers between Level 1 and Level 2</li><li>· Eliminates disclosure of the timing of transfers between levels</li><li>· Eliminates of the requirement to disclose an estimate of when a liquidation restriction may lapse for net asset value (NAV) instruments.</li></ul><br>The exposure rejects all other guidance from ASU 2018-13.  |

| Ref #   | Title  | Description of Change  |
|---------|--|--|
| 2018-37 | SSAP No. 92, <i>Postretirement Benefits Other than Pensions</i><br>SSAP No. 102, <i>Pensions</i> | <p>The agenda item considers ASU 2018-14, <i>Changes to the Disclosure Requirements for Defined Benefit Plans</i>. As exposed, the agenda item would remove the following disclosure requirements:</p> <ul style="list-style-type: none"> <li>· The impact of 1% increase/decrease in healthcare cost trends on 1) net pension costs and 2) accumulated benefit obligation</li> <li>· Future annual benefits to be funded by insurance contracts issued by the employer or related parties</li> <li>· Amount in unassigned funds expected to be recognized as a component of net period benefit cost in the subsequent period</li> <li>· Amount and timing of plan assets expected to be returned to an employer in the following 12 months.</li> </ul> <p>The agenda item would add the following disclosure requirements:</p> <ul style="list-style-type: none"> <li>· Weighted average interest crediting rates for cash balance plans and other plans with promised crediting rates</li> <li>· Reasons for significant gains or losses related to changes in benefit obligation assumptions.</li> </ul> <p>The exposure rejects all other guidance from ASU 2018-14.</p> |
| 2018-38 | SSAP No. 55, <i>Unpaid Claims, Losses and Loss Adjustment Expenses</i>                           | <p>Revision addresses the accounting for prepayments made to service and adjusting providers. As exposed, the agenda item requires reclassification of service payments from miscellaneous underwriting expenses to loss adjustment expenses incurred (adjusting and other) in an amount equal to actual prepaid service costs consumed for claims administration.</p>   |
| 2018-39 | SSAP No. 55, <i>Unpaid Claims, Losses and Loss Adjustment Expenses</i>                           | <p>Revisions clarify that the accounting for interest payments assessed by state prompt payment laws is dependent upon who the assessment is paid to.</p> <p>Interest payments made directly to a claimant is recognized as claims adjusting expense (adjusting and other) while payments made directly to a regulatory authority would be reported as a component of miscellaneous aggregate write-ins.</p>   |

Further, the SAPWG directed NAIC staff on the following projects:

| Ref #   | Title   | Description of Project  |
|---------|---|---|
| 2016-20 | ASU 2016-13, <i>Credit Losses</i>                         | <p>During the Summer National Meeting, the working group exposed Issue Paper 2016-13, <i>Credit Losses</i>, which considers the adoption of ASU 2016-13, <i>Credit Losses</i>, with limited modification.</p> <p>The Issue Paper considers the adoption of a “fair value floor” concept for investments valued at amortized cost. The carrying value of investments valued at amortized cost would be reduced to fair value through an allowance.</p> <p>The working group has delayed discussion on CECL for reinsurance recoverables until the NAIC addresses the implications of the Covered Agreement.</p> <p>Discussion surrounding the Issue Paper is expected to resume at the Spring 2019 National Meeting.</p> |
| 2018-04 | SSAP No. 26R, <i>Bonds</i>                                | <p>This agenda item was previously exposed at the 2018 Spring National Meeting, however, the matter was delayed to permit NAIC staff to research the instruments under consideration.</p> <p>The agenda item considers whether borrowing base loans and debtor in possession (DIP) financing loans should be treated as collateral loans under SSAP 21 or bank loans under SSAP 26R. NAIC staff continues to research “bank loans” to better understand the types of loans held by insurers.</p>  |
| 2018-08 | SSAP No. 21, <i>Other Admitted Assets</i>                 | <p>NAIC staff were directed to provide disclosure examples to the Blanks Working Group to assist with the 2018 disclosure requirements related to company owned life insurance policies.</p>  |
| 2018-40 | SSAP No. 16R, <i>Electronic Data Processing Equipment</i> | <p>The Working Group directed NAIC staff to draft a position paper to consider ASU 2018-15, <i>Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract</i>.</p> <p>The two options being considered are as follows:</p> <ul style="list-style-type: none"> <li>· Treat implementation costs as a lease expense in accordance with SSAP 22R and expense as incurred.</li> <li>· Capitalize implementation costs to be depreciated no longer than 5 years. Unamortized costs would be nonadmitted (nonoperating software).</li> </ul>   |

The following is a detail of items adopted during the 2018 Fall National Meeting in which SAPWG rejected new GAAP pronouncements as they were deemed not applicable to statutory accounting:

| Ref #   | Title  | Description of Change  |
|---------|--|--|
| 2018-25 | ASU 2018-01, <i>Leases - Land Easement Practical Expedient for Transition to Topic 842</i>   | Reject ASU has not applicable for statutory accounting.  |
| 2018-41 | ASU 2017-13, <i>Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments</i> | The ASU has been rejected as not applicable for statutory reporting.   |
| 2018-42 | ASU 2018-02, <i>Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>  | The ASU relates to the accounting for the stranded tax effects in accumulated other comprehensive income due to the TCJA of 2017. The ASU has been rejected as not applicable for statutory reporting. |
| 2018-43 | ASU 2018-04, <i>Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs</i>   | The ASU has been rejected as not applicable for statutory reporting.   |
| 2018-44 | ASU 2018-05, <i>Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118</i>   | The ASU has been rejected as not applicable for statutory reporting.   |
| 2018-45 | ASU 2018-06, <i>Codification Improvements to Topic 942, Financial Services—Depository and Lending</i>  | The ASU has been rejected as not applicable for statutory reporting.   |

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