The Latest and Greatest: NAIC and Statutory Updates

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The Latest and Greatest: NAIC and Statutory Updates

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Agenda

• Statutory Accounting Principles Working Group
• Blanks Working Group
• Valuation of Securities Task Force
• Looking ahead and preparing for regulatory changes
SAPWG
Statutory Accounting Principles Working Group
Systematic Value

• Agenda Item 2013-36
  » Effective Dec. 31, 2017

• Substantive revisions to SSAP No. 26:
  » Definition of bond
  » Inclusion of non-bond instruments
    • Fixed-income instruments
    • SVO-identified investments
  » Accounting for SVO-identified investments
Systematic Value

• Required at fair value (NAV as expedient)

  Unless investment qualifies - AND -
  company elects “systematic value”

• Systematic value is an approach to amortize or accrete the investment in a manner that represents expected cash flows from the underlying bond holdings
Systematic Value

• Qualifying NAIC designation
• Irrevocable election by CUSIP
  » Measurement method can change with full sale if reacquired after 90 days from the sale
• Must follow established systematic approach
• Specific OTTI provisions
  » OTTI assessed on whether the net present value of projected cash flows have materially declined
Systematic Value

• Effective date – Dec. 31, 2017
• Fair value unless designated for systematic value
• If designated for systematic value, identify investment with code in the investment schedules and continue prior measurement method for year-end 2017
• Begin systematic value Jan. 1, 2018
• Specific transition guidance in SSAP No. 26R
Money Market Funds on Schedule E2

• Agenda Item 2016-18
  » Effective Dec. 31, 2017: reclassifies MMF from short-term investments to cash equivalents

• Agenda Item 2016-35
  » Effective Dec. 31, 2017: requires all MMF to be reported at fair value (allowing NAV as a practical expedient)

• Agenda Item 2016-05
  » Prior to Dec. 31, 2017: eliminates concept of “Class 1” and clarifies MMFs as short-term investments with reported measurement based on the underlying statement (SSAP No. 26 or SSAP No. 30)
Money Market Funds on Schedule E2

• 2016 and interim 2017 reporting
  » All MMFs are short-term investments under SSAP No. 2R reported on Schedule DA
  » MMFs on the SVO “exempt” listing will be reported under the measurement method of SSAP No. 26 and receive a 0% RBC charge
  » All other MMMFs will be reported with a fair value measurement with a .03% or .04% RBC charge

• 2017 year-end reporting
  » All MMFs are cash equivalents under SSAP No. 2R, reported on Schedule E – Part 2 at fair value
  » No change in RBC
BWG
Blanks Working Group
BWG Revisions: Adopted June 14 – Effective Dec. 31, 2017

• Capital Structure Code (2017-02BWG) - Column 34
  » Replace the description of “Other” for Code 4 with “Not Applicable”

• Collateral Types (2016-31BWG) - Schedule D – Part 1
  » Reduce collateral types from 21 to 10
  » Add more explanations and examples

• Identifier Changes (2017-03BWG) – Schedules BA and DL
  » Modify CUSIP and add ISIN to be consistent with Schedule D
BWG Revisions: Adopted June 14 – Effective Dec. 31, 2017

• Notional (2017-10BWG) - Schedule DB General Instructions
  » Remove definition for notional and replace with SSAP No. 86 definition

• Mortgage Loans (2017-11BWG) – Note 5A(4) and 5A(5)
  » Reflect additional disclosure required by SSAP No. 37 — Mortgage Loans
  » New disclosure identifies co-lending arrangements where the reporting entity cannot unilaterally decide to foreclose

• Systematic Value (2017-12BWG) – Code Updates
  » Add code “*” to identify SVO Identified Funds designated for systematic value
BWG Revisions: Adopted June 14 – Effective Dec. 31, 2017

• Repo and Reverse Repo (2017-13BWG)
  » Remove repo and reverse repo disclosures from Note 5E with new disclosures (data-captured) added as 5F through 5I
  » Modify Note 17B(5) and 17B(7) to remove references to repo and reverse repurchases

• Four templates - only complete to reflect insurer operations!
  » Secured Borrowing – Repurchase – (Cash Taker/Security Seller)
  » Secured Borrowing – Reverse Repo – (Cash Provider/Security Buyer)
  » Sale – Repurchase – (Cash Taker/Security Seller)
  » Sale – Reverse Repurchase – (Cash Provider/Security Buyer)
Adoptions Already Effective – (First Quarter 2017)

• Short-Sale Data Capture (2016-15BWG) – Note 5
  » Add new disclosure to Note 5 for short sales - data captured
  » Add new code “SS” (short sales) to the code list in the General Instructions
  » Add additional instructions for short sales to Schedule D (Part 1, Part 2, Section 1 and Section 2), Schedule DA, Part 1 and Schedule E — Part 2

• Callable Securities (2016-26BWG) – Note 5 and Schedule D
  » Add disclosure to Note 5 for prepayment penalties and acceleration of fees for callable securities
  » Additional instructions added to columns 18 and 20 of Schedule D – Parts 4 and 5 for reporting
  » An additional line added to the Schedule D
  » Verification for the total investment income recognized (1st Quarter 2017 - Note 5 - and 1st Quarter 2018 - Schedule D, Verification – Part 4 and Part 5)
New Interrogatory for 5*GI – Effective Dec. 31, 2017

• Add new interrogatory to annual and quarterly general interrogatories for self-designated 5*GI securities (2016-28BWG)

33. By self-designating 5*GI securities, the reporting entity is certifying the following elements for each self-designated 5*GI security:
   a. Documentation necessary to permit a full credit analysis of the security does not exist.
   b. Issuer or obligor is current on all contracted interest and principal payments.
   c. The insurer has an actual expectation of ultimate payment of all contracted interest and principal.

Has the reporting-entity self-designated 5*GI securities?  Yes [ ]  No [ ]
New Designation Column on BA, D for PL and RE Suffixes

• Add new designations to Designation column on Schedule D and Schedule BA for bonds and preferred stock
  » Private Letter (PL)
  » Reporting Exception (RE)

• Currently deferred by the BWG

• Pending adoption by the VOSTF
  » Potential adoption at 2017 NAIC Fall National Meeting or 2018 Spring NAIC National Meeting
  » Expected to be in place for year-end 2018 reporting
VOSTF
Valuation of Securities Task Force
Delete Valuation Instructions for SCAs

• On February 22, 2016, the VOSTF transferred oversight on SCAs to the SAPWG

• On September 17, 2016 the BWG notified the VOSTF that it adopted revisions to SSAP No. 97 that incorporates SCA guidance from the P&P Manual into a new appendix
Delete Valuation Instructions for SCAs

• Filing instructions moved into SSAP No. 97

• Modifications include
  » Only SSAP No. 97 SCAs subject to filing (SSAP No. 48 entities are excluded)
  » Insurance SCAs (8.b.i) are not required to file (already file statutory financials)
  » All other SCAs required to have a sub 1 in VISION database
  » Non-admitted/zero-value SCAs are not required to file sub 2
  » Immaterial SCAs may receive state exclusion from sub 2 filing requirement
  » Current discussion to extend filing deadlines
    • Current Sub 1 = 30 days after acquisition/proposal = 90 days after acquisition
    • Current Sub 2 = June 30/Proposal = Aug. 31, with allowance for SCAs with audit reports dated after Aug. 31

Sub 1 = Initial Acquisition / Sub 2 – Annual Filing
Delete Valuation Instructions for SCAs

• VOSTF adopted a proposal on Feb. 22 2017 to delete most identified references to SCA Investments

• Other information will be included such as
  » The filing requirement for SCA investments
  » A reference to the appendix to SSAP No 97
  » Text that distinguishes between SCA investments filed with the FRS division and bonds between related parties that may still be filed with the SVO
  » Modification of the special procedure that applies to SCA bond investments to reflect the division of responsibility between the FRS and SVO
Clarify 5*/6* Certification Procedure

• Prior adoption – eliminate P&I certification for certain 5* items
• Current proposal – eliminate P&I certification for all 5* items.
• Current proposal expected to be adopted by year-end
• Reporting requirements – already adopted and effective
  » 5* securities – subject to general interrogator
  » 5* captured in SSAP No. 1 disclosure
    • “For each annual reporting period, include comparable disclosure to the prior annual reporting period of the number of 5* securities, by investment type, with BACV and fair value. Disclosure is required in the interim, pursuant to the Preamble, if there have been significant changes from the prior annual reporting statement.”
Proposed SVO Methodology for Power Generation

• Incorporates methodology for the SVO to review these (bond) transactions
• Adopted at the 2017 NAIC Summer National Meeting
• Effective immediately
• Methodology includes assessment of
  » Cash flows
  » Competitive position of the Project Asset and Power Purchase Agreement
  » Operating and technical risks
  » Financial metrics
Transfer of Responsibility for FE

• Policy adopted August 1, 2017
• Specific language for P&P Manual is currently exposed
• Overall objectives
  » Reduce the number of filing exceptions
  » Create uniformity and efficiency in the application of the FE process
  » Gain a better understanding of the FE universe of securities
Identify the Current NRSRO Status of CRPs

- Identify the current NRSRO status of CRPs
  - All CRPs are NRSROs
    - NRSRO status is given by SEC (10 NRSROs)
  - Not all NRSROs are CRPs
    - Japan Credit Rating Agency is not a CRP (nine CRPs)
Replace ISIS Information with VISION

• VISION database
  » Utilized for SVO and SCA filings

• Features
  » Security dashboard summarizes securities into groupings to quickly identify status
  » Real-time status of filings, including visibility of VOS filings submitted by others
  » Summary view of securities with drill-down functionality to issue details
  » Pre-population of filing data to reduce errors and increase efficiency
  » Ability to review filing details after submission
  » Search capabilities by CUSIP or issuer with expanded data
Looking Ahead
Preparing for Regulatory Changes
Looking Ahead: SVO-Identified Funds

- Identify all SVO-identified funds in your portfolio
- Determine whether or not cash-flows are available for your funds
  - Work with Clearwater to determine if obtaining cash flows from an additional vendor is feasible
  - Establish the timelines for doing so
- Evaluate the effects of holding SVO-identified funds at market value vs. systematic value
Looking Ahead: SVO-Identified Funds

- Have conversations internally
  - Whether you plan on holding the funds at systematic value
  - Whether you plan on investing in additional bond ETFs
- Communicate with your account manager your plans on holding your funds at systematic value
- Ensure that GL setup is appropriate for SVO-identified funds
- Become familiar with Clearwater methodology for audit considerations
- Remember: the election is irrevocable
Looking Ahead: Note 5(R) Prepayment Penalties on Callable Bonds

- Work with your Clearwater account manager to identify securities
  - Called early
  - At a premium
  - Not tender offers
- Determine whether basis-specific treatment is necessary
- Work with your account manager to reflect appropriate treatment
Looking Ahead: Getting Involved

• Important Upcoming Updates
  » SVO and the FE process
  » Corporate bond factors for insurance companies
  » Mid-year reporting for holdings information