

May 2022 SAPWG Call

Issues & Trends

We report on the latest actions by the Statutory Accounting Principles Working Group including adoption of new related party reporting requirements. This Issues and Trends summarizes this topic and more.

June 2022

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Meeting highlights

During its call on May 24, 2022, the Statutory Accounting Principles Working Group (SAPWG) **adopted** the following:

- Revisions to SSAP Nos. 25 and 43R to clarify the identification and reporting of affiliated transactions and add disclosures in the Annual Statement investment schedules to identify investments held that involve related parties.
- INT 22-01T to clarify that investments in Freddie Mac When-Issued K Deal Certificates are in the scope of SSAP No. 43R from the date of initial acquisition.
- An agenda item to support the Blanks Working Group exposure that modifies the Annual Statement instructions for Schedule T, the State Page, and the Accident and Health Policy Experience Exhibit to clarify guidance for premium adjustments.

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Accounting highlights

Related party reporting

Action. The SAPWG adopted revisions to SSAP Nos. 25 and 43R to clarify the identification and reporting of affiliated transactions and add disclosures in the Annual Statement investments schedules to identify investments held involving related parties.¹ Annual Statement disclosures are effective for year-end 2022 reporting.

The revisions include:

- clarification that an insurer should evaluate whether investments are considered affiliates based on direct or indirect control, which includes but is not limited to control through a servicer or other controlling arrangement; and
- an additional electronic code column in Schedules B, D, DB, BA, DA, E2 and DL for all investments to identify whether the investment involves a related party and its role in the investment transaction, regardless of whether the related party meets the definition of an affiliate under Model 440.²

Interested parties continued to express concern about not differentiating between investments with direct credit exposure to an affiliate and investments that are only managed by affiliates. They stated that the revisions would be a change to how some insurers currently designate whether an investment is an affiliate. Their suggestions included:

- adding examples to clarify when certain investments would meet the definition of an affiliate under the Model 440; and
- clarifying guidance within the Purposes and Procedures Manual (PPM) to state that affiliated asset-backed securities continue to be filing exempt when such investments are determined to be affiliated as a result of being managed by an affiliate and not because of credit risk exposure.

SAPWG stated that the proposed changes are consistent with current guidance in Model 440 and SSAP No. 25. However, it acknowledged that additional guidance may be needed to address interested parties' concern about more explicit guidance on determining control to conclude whether an investment would meet the definition of an affiliate and proposed addressing this under a separate agenda item.

Next steps. SAPWG directed NAIC staff to draft examples to illustrate when certain investments would meet the definition of an affiliate. It also made a referral to the Valuation of Securities Task Force to consider

¹ SSAP No. 25, Affiliates and Other Related Parties; SSAP No. 43R, Loan-backed and Structured Securities

² Model 440, Insurance Holding Company System Regulatory Act

Accounting highlights

clarifying guidance in the PPM about the filing exempt status of an asset-backed security determined to be an affiliate.

Freddie Mac When-Issued K Deal Certificates

Action. SAPWG adopted INT 22-01 to clarify that Freddie Mac When-Issued K-Deal Certificates are in the scope of SSAP No. 43R from the date of initial acquisition.³

Freddie Mac When-Issued K-Deal Certificates are backed by an asset pool held in a trust. The asset pool includes cash from the sale of the certificates and a commitment by Freddie Mac to deliver one or more structured pass-through certificates in exchange for the trust's cash within approximately 90 days of settlement.

INT 22-01 addresses questions about how to account for investments in the When-Issued program during the 90-day period after settlement but before the receipt of the structured pass-through certificates. It states that these instruments are in the scope of SSAP No. 43R and are not considered derivative forward contracts.

Premium adjustments allocated to jurisdictions

Action. SAPWG adopted an agenda item to support the Blanks Working Group's proposal for modifying the Annual Statement instructions for Schedule T, the State Page, and the Accident and Health Policy Experience Exhibit to clarify guidance for premium adjustments.

The Blanks Working Group proposed revisions to the Annual Statement instructions to clarify that insurers should allocate all premium adjustments, including but not limited to Affordable Care Act premium adjustments related to the risk adjustment program, to premium in each respective jurisdiction. These revisions are in response to an observation that some insurers that primarily write health business under the Affordable Care Act did not properly allocate premium adjustments by jurisdiction. The change does not affect the statutory accounting for premium adjustments.

³ INT 22-01, Freddie Mac When-Issued K-Deal (WI Trust) Certificates

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Acknowledgments

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We would like to acknowledge the efforts of the main contributors to this Issues & Trends.

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KPMG Financial Reporting View

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