

## NAIC 2019 Highlights – Year in Review

The stars were indeed bright deep in the heart of Texas in Austin where the National Association of Insurance Commissioners (NAIC) met for the final National Meeting of 2019. Amidst the music and barbeque, regulators worked diligently to wrap up another year and close out the decade. Below is an annual update of NAIC adoptions made within the Statutory Accounting Principles (E) Working Group (SAPWG) that will impact 2019 statutory basis financial statements and a summary of significant activities related to reinsurance, risk retention groups and cybersecurity and privacy.

### Statutory Accounting Updates

Ref #	SSAP No	Title	Revision Description	Effective
2018-34	30R	Foreign Mutual Funds	Adds foreign open-end investment funds to the definition of unaffiliated common stock.	01.01.2019
2018-17	21R, IP No. 160	Structured Settlements	Issue Paper No. 160 – <i>Structured Settlements Acquired as Investments</i> was finalized and documents substantive revisions to SSAP 21R for structured settlement income streams.	04.07.2019
2018-35	95, 104R	ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting	The revisions adopt with modification ASU 2018-07 – <i>Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting</i> . The modification eliminates the section for nonemployee awards and provide additional guidance for accounting for share-based awards regardless of the recipient.	04.07.2019
2018-36	100R	ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement	Adopt with modification ASU 2018-13 – <i>Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement</i> : <ul style="list-style-type: none"> <li>• Eliminates disclosure of transfers between level 1 and 2 of the fair value hierarchy</li> <li>• Eliminates disclosure for determining when transfers between levels occur</li> <li>• Modify disclosures related to the calculation of net asset value</li> </ul>	04.07.2019

Ref #	SSAP No	Title	Revision Description	Effective
2018-37	92, 102	ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans	<p>Adopt with modification ASU 2018-14, <i>Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans</i></p> <ul style="list-style-type: none"> <li>• Adds the following disclosures               <ul style="list-style-type: none"> <li>○ interest crediting rates</li> <li>○ reasons for significant gains/losses related to changes in defined benefit obligations and other significant changes not otherwise apparent in the required disclosures</li> </ul> </li> <li>• Eliminates the following disclosures               <ul style="list-style-type: none"> <li>○ effect of 1% increase/decrease</li> <li>○ approximate amount of future benefits covered by insurance contracts</li> <li>○ amounts in unassigned funds expected to be recognized as a component of net periodic benefit cost over the fiscal years</li> <li>○ amount and timing of plan assets expected to be returned to the employer during the 12-month period after most recent annual statement</li> </ul> </li> </ul>	04.07.2019
2018-40	16R	ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract	<p>Adopt with modification ASU 2018-15. When a hosting agreement is a service contract, implementation costs may be capitalized as non-operating and amortized over the contract term, not to exceed 5 years. The capitalized asset is required to be nonadmitted. No changes were made to the accounting for hosting agreements that are not service contracts.</p>	04.07.2019

Ref #	SSAP No	Title	Revision Description	Effective
2018-46	86	SSAP No. 86 - Benchmark Interest Rates	Adds the following U.S. benchmark interest rates for hedge accounting: <ul style="list-style-type: none"> <li>• Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate</li> <li>• Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate</li> </ul>	04.07.2019
2018-47EP	97	Editorial and Maintenance Update	Clarifies that investments in scope of SSAP No. 48 – <i>Joint Ventures, Partnerships and Limited Liability Companies</i> , are not required to complete the disclosures in SSAP No. 97 unless directed by SSAP No. 48.	04.07.2019
2019-02	INT19-02	Single Security Initiative	The revision provides a limited-scope exception to SSAP’s No. 26R and 43R for instruments converted under the Freddie Mac Single Security Initiative. The amortized cost basis of the surrendered security carries forward to the security received in the exchange.	04.07.2019
2018-32	26R	Prepayment Penalties	Revisions clarify when consideration received for called bonds is less than the book adjusted carrying value, the difference is reported in investment income.	05.29.2019
2019-05	103R	Repurchase Disclosures	The following repurchase and reverse repurchases transactions disclosure requirements are removed: <ul style="list-style-type: none"> <li>• Counterparty information</li> <li>• Default disclosure from the data-captured disclosure</li> <li>• “Minimum” balances and “average daily balance”</li> </ul>	05.29.2019
2019-07	26R, 72	Bonds Received as Property Dividends or Capital Contributions	Bonds received as property dividends or capital contributions should be reported on Schedule D Part 1 at the bonds’ initial reported value in the “actual cost” column.	05.29.2019
2017-28	62R	Statutory Issue Paper No. 162 - Property and Casualty Reinsurance Credit	The revision adopts Issue Paper No.162, which documents the November 2018 revisions to SSAP No. 62R.	08.03.2019
2018-03	43R	Reporting NAIC Designations as Weighted Averages Under 43R	Loan-backed and structured securities with differing NAIC designations by lot should be reported in aggregate at the lowest NAIC designation or separately by the differing designations.	08.03.2019

Ref #	SSAP No	Title	Revision Description	Effective
2018-04	21R	VOSTF - Bank Loan Referral	The update clarifies that collateral loans within the scope of SSAP No. 21 exclude collateralized investments covered under other SSAPs.	08.03.2019
2018-22	37	SSAP No. 37 - Participation Agreement in a Mortgage Loan	The revisions exclude "bundled" mortgage loans from the scope of SSAP No. 37 and clarify participation agreements are restricted to single mortgage agreements.	08.03.2019
2019-03	25, 26R, 32, 43R, 48	Affiliated Transactions	<p>SSAP No. 25 is revised to clarify that it applies to all related party transactions, including those within the scope of other SSAPs. Further clarification was provided regarding "affiliated" investments and arrangements to address situations when related party transactions are conducted through non-related intermediaries.</p> <p>SSAP No. 26R, 32, 43R and 48 - Revised to clarify SSAP No. 25 applies to all related party investments within the scope of these SSAPs.</p>	08.03.2019
2019-06	50, 51R, 52, 54R, 55, 56, 71, 86	ASU 2018-12, <i>Targeted Improvements to the Accounting for Long-Duration Contracts</i>	The revision rejects ASU 2018-12 and updates the Preamble for the applicable GAAP guidance.	08.03.2019
2019-11	62R	SSAP No. 62R Effective Date	The revision clarifies the 11.15.18 revision to SSAP No. 62R applies to contracts in effect on or after 01.01.19. If the prior application of the reinsurance credit guidance conflicts with the 11.15.18 revisions, it should be reported as an accounting principle change.	08.03.2019
2019-15EP	62R, 63, 84, 86, 103R	Editorial and Maintenance Update	Revised the NAIC Accounting Practices and Procedures Manual for the editorial updates exposed during the 2019 Spring Meeting.	08.03.2019
2019-12	68, 97	ASU 2014-17, <i>Business Combinations, Pushdown Accounting</i>	This revision clarifies that goodwill is subject to the 10% admissibility limitation, including goodwill resulting from the application of pushdown accounting.	12.07.2019
2019-18	86	Other Derivatives	The revision clarifies that "derivatives not used in hedging, income generation or replication transactions" are reported at fair value and nonadmitted.	12.07.2019

Ref #	SSAP No	Title	Revision Description	Effective
2019-22	103R	Wash Sale Disclosures	The wash sale disclosure is only required for investments sold prior to and repurchased after a reporting date. Investments sold and repurchased in the same reporting period are no longer disclosed.	12.07.2019
2019-23	97	Going Concern	Investments in subsidiary, controlled and affiliated entities with unalleviated substantial doubt about it's ability to continue as a going concern (as noted in the audit report or audited financials) must be nonadmitted.	12.07.2019
2019-26	Appendix A	A-785 Covered Agreements	The <a href="#">Bilateral Agreement between the United States of America and the European Union (EU) on Prudential Measures Regarding Insurance and Reinsurance</a> and the <a href="#">Bilateral Agreement between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance</a> (collectively the Covered Agreements) were incorporated into <i>Appendix A – Excerpts of NAIC Model Laws</i> . The modifications become effective when the ceding insurer's state of domicile enacts the 2019 revisions to Model <a href="#">#785</a> and <a href="#">#786</a> .	12.07.2019
2019-27EP	62R, 86, 97	Editorial Updates	<p>SSAP No. 62R – Eliminates redundant wording in paragraph 116.</p> <p>SSAP No. 86 – Removes the definition of structured notes, which is now incorporated by reference to SSAP No. 26R.</p> <p>SSAP No. 97 – Added two new SVO filing suffixes.</p>	12.07.2019

Ref #	SSAP No	Title	Revision Description	Effective
2018-18	2, 26R, 43R, 86	Structured Notes	<p>SSAP No. 2 – Clarifies that derivatives, including structured notes, are reported on Schedule DB, regardless of maturity date.</p> <p>SSAP No 26R – Clarifies that structured notes are under the scope of SSAP’s 43R and 86.</p> <p>SSAP No. 43R – Adds “mortgage-referenced securities” to the scope. To qualify, “the security must be issued by a government sponsored enterprise in the form of a ‘credit risk transfer’ in which the issued security is tied to a referenced pool of mortgages.”</p> <p>SSAP No. 86 – Adds the definition of “structured note” as “instruments (often in the form of a debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest. Structured notes that are ‘mortgage referenced securities’ are captured in SSAP No.43R.”</p>	12.31.2019
2018-33	30R	SSAP No. 30 - Pledges to FHLBs	Assets pledged to a Federal Home Loan Bank (FHLB) on behalf of an affiliate are non-admitted under SSAP No. 4 and considered a related party transaction under SSAP No. 25.	12.31.2019
2019-09	101	SSAP No. 101 - Q&A Updates – TCJA	Exhibit A - Implementation Questions and Answers is revised to reflect changes from the federal Tax Cuts and Jobs Act.	12.31.2019
2019-10	101	SSAP No. 101 - DTL Offset	Exhibit A - Implementation Questions and Answers is revised to clarify the admittance of DTA’s under paragraph 11.c. to reduce inconsistent application.	12.31.2019
2016-02	22R	ASU 2016-02, Leases	The revision substantively changes SSAP No. 22 and adopts the corresponding Issue Paper No. 161, which incorporates parts of ASU 2016-02, but excludes the concept of capital leases and retains the concept of operating leases. Early adoption is permitted.	01.01.2020
2018-39	55	Interest on Claims	The revision clarifies that interest paid to claimants for late claim payments should be recorded as other claim adjustment expenses, not regulatory fines and fees. Early adoption is permitted.	01.01.2020

Ref #	SSAP No	Title	Revision Description	Effective
2017-28	61R & Appendix A-791	Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group Recommendations	SSAP No. 61R – Adds several reinsurance contract disclosure requirements.	12.31.2020
			Appendix A-791 – Clarified the phrase “certain non-proportional reinsurance” and added Q&A’s on contracts with medical loss ratios and group term life yearly renewable term reinsurance.	01.01.2021
2019-19		SIRI – Equity Interests	<p>The revision clarifies the following SVO-Identified investments and funds are excluded from presentation in Line 13 of the Supplemental Investment Risk Interrogatories:</p> <ul style="list-style-type: none"> <li>• Investments or funds that have underlying fixed-income characteristics</li> <li>• Bond Exchange-Traded Funds and Mutual Funds</li> <li>• U.S. Direct Obligations / Full Faith and Credit Exempt List of Money Market Mutual Funds</li> </ul>	12.31.2020

### Rejected ASU's

The following FASB ASU's were rejected by the SAPWG during 2019:

- ASU 2015-08, *Business Combinations: Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*
- ASU 2018-08, *Not-For-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
- ASU 2019-02, *Entertainment – Films – Other Assets – Film costs and Entertainment – Broadcasters – Intangibles – Goodwill and Other: Improvements to Accounting for Costs of Films and License Agreements for Program Materials*
- ASU 2019-03, *Not-For-Profit Entities: Updating the Definition of Collections*
- ASU 2019-05, *Financial Instruments – Credit Losses: Targeted Transition Relief*
- ASU 2019-06, *Intangibles – Goodwill and Other, Business Combinations, and Not-for-Profit Entities: Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*

### Reinsurance

2019 saw the culmination of nearly a year and a half of hard work by the **Reinsurance (E) Task Force**. The necessary revisions to the Credit for Reinsurance Model Law ([#785](#)) and the Credit for Reinsurance Model Regulation ([#786](#)) were completed and adopted to implement the collateral provisions of the [Bilateral Agreement between the United States of America and the European Union \(EU\) on Prudential Measures Regarding Insurance and Reinsurance](#) and the [Bilateral Agreement between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance](#) (collectively, the Covered Agreements).

With revisions to the models complete, revisions to the Accounting Practices and Procedures Manual (AP&P Manual) by the Statutory Accounting Principles (E) Working Group and revisions to Schedule F and Schedule S of the Blanks by the Blanks (E) Working Group are underway. At the 2019 Fall National Meeting, Bermuda, Japan and Switzerland were approved as reciprocal jurisdictions.

The Covered Agreements became operative September 22, 2017 and states have five years to adopt the necessary reinsurance reforms or face potential federal preemption by the Federal Insurance Office (FIO). Given the October 1, 2022 deadline in the Covered Agreements, the revised Credit for Reinsurance Model Law and Regulation were adopted as state accreditation standards on an expedited basis to avoid federal preemption. The revised Model Law and Regulation becomes a state accreditation standard effective September 1, 2022, with enforcement beginning January 1, 2023.

### Risk Retention Groups

The Risk Retention Group (E) Task Force adopted revisions to the [NAIC Uniform Risk Retention Group –Registration Form](#). The revisions intend to ensure the questions and expectations are clear, to limit the time necessary to determine if an application is complete and accurate and to reorganize the information into a more user-friendly format.



The Task Force also adopted a [Frequently Asked Questions \(FAQ\)](#) document and a [Best Practices](#) document. These documents were developed to assist states with registering RRGs and includes information about the federal Liability Risk Retention Act, the role of the domiciliary state in overseeing an RRG and communication between domiciliary and non-domiciliary states.

### ***Cybersecurity and Privacy***

The Innovation and Technology (EX) Task Force heard updates on cybersecurity and privacy initiatives and issues at each National Meeting, including a legislative update on the adoption of the Insurance Data Security Model Law [#668](#). Eight states have adopted the Model Law as of the 2019 Fall National Meeting, with more anticipated to follow in 2020. The Treasury Department endorsed Model #668 and “recommended its prompt adoption by states to avoid congressional action.”

In 2019, the Task Force referred a charge to the Market Regulation and Consumer Affairs (D) Committee to “review state insurance privacy protections regarding the collection, use and disclosure of information gathered in connection with insurance transactions.” In response the Committee created the ***Privacy Protections (D) Working Group***, which held its first meeting at the 2019 Fall National Meeting and began reviewing state privacy laws and regulations. NAIC staff provided an update to the Working Group regarding various NAIC model laws and regulations that address privacy. This presentation included a discussion of the California Consumer Privacy Act (CCPA) (effective January 1, 2020) and the European General Data Protection Regulation (GDPR).

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