Statutory Accounting Update

Session #101 and #501
Julie Gann

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- Supports SAPWG and EAIWG
- Supports Restricted Asset (E) Subgroup
- Supports Separate Account Risk Working Group
- Provides technical & advisory services in the areas of SAP, GAAP & IFRS

- Joined NAIC in February 2001. Prior Positions Include:
  - Financial Examination Manager
  - International Insurance Accountant

- Public accountant and insurance examiner consultant
- CPA, FLMI, ARA and AIRC; Member of AICPA & MSCPA
Objectives:

- Identify new and updated statutory guidance
- Understand hot topics being considered by SAPWG

SUBSTANTIVE

NONSUBSTANTIVE

HOT TOPICS
<table>
<thead>
<tr>
<th>SSAP No.</th>
<th>Revisions</th>
<th>Effective Date</th>
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</thead>
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<tr>
<td>40R</td>
<td>Wholly-Owned Single Property Real Estate in LLC</td>
<td>1/1/2015</td>
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<tr>
<td>106</td>
<td>ACA Fees and Disclosures</td>
<td>1/1/2014</td>
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<td>107</td>
<td>Accounting for the Risk Sharing Provisions of the Affordable Care Act</td>
<td>1/1/2014</td>
</tr>
</tbody>
</table>
SSAP No. 40R - Wholly Owned Real Estate

- Began with Interested Party Submitted Form A.
- Approach to hold real estate in an LLC is a liability shield to reduce risk.
- Requested SAP revisions to hold these specific LLC investments (single asset / single payer) as real estate under SSAP No. 40R and not as an investment in an LLC if conditions are met.

General Principle for Qualifying Transactions:

Absolute control equivalent to direct ownership
SSAP No. 40R – Adopted Conditions:

1. No Other LLC Transactions.
   Except for transactions associated with managing real estate.

2. Owns Single-Real Estate Supported by Appraisal
   Multiple structures are contiguously located and managed.

3. Solely Controls Real Estate
   Controls access, and can sell as promptly as directly owned.

4. Solely Possess All Risks and Rewards
   No constraints by LLC.

   Clarification of whether a mortgage loan disqualifies is pending.
SSAP No. 40R – Adopted Conditions:

5. Reporting Entity is ONLY Member of LLC

   Does not allow any other members – even if other members of the LLC are affiliates. LLC comprised of affiliates is not allowed.

   *(Restriction also applies to down-stream holding companies.)*

6. No apportionment of income or expenses

   (Not to entities and not between the general/separate account)
Wholly Owned Real Estate in LLC

Impact of Change to SSAP No. 40R & Schedule A:

• Reduction of RBC
• Possible Reduction of Carrying Value
• Depreciating Asset
• Admitted Asset Restrictions – Appraisal Required
• Disallowance of Fair Value Gains

**SSAP No. 40R is NOT an election:**
Required for **All** LLCs that meet SSAP No. 40R Criteria
SSAP No. 106—ACA 9010 Fee

ACA Fee – Annual Assessment Began in 2014

- Assessment is based on premiums written in data year
- Assessment is due if provide insurance in fee year

Amount payable based on prior-year premiums written (data year)

SSAP No. 106 does not require liability recognition in data year. However:

- Full expense recognition Jan. 1 of Fee Year
- Special surplus classification of estimated payable – Dec. 31 (Accrued monthly throughout data year.)
- Detailed disclosures in SSAP No. 106.
ACA imposes fees and premium stabilization provisions on health insurers offering commercial health insurance.

- Risk Adjustment – Permanent Program
- Transitional Reinsurance – Effective 2014-2016
- Risk Corridors – Effective 2014-2016

SSAP No. 107 Nullified INT 13-04
SSAP NO. 107
Permanent Risk Adjustment Program

- Applies to health plans in individual or small group markets.
- All covered risk adjustment plans are required to participate.
- Transfers funds from lower risk plans to higher risk similar plans in the same state to adjust to adverse selection.
- Computed based on reporting entity’s risk score based in comparison to the overall market risk score.
- All distributions are completely funded by amounts assessed to other insurers in the same market in the same state.

Global Balance Sheet:

Receivables should be offset by the liabilities of others.
Risk Adjustment Receivables = Can be Admitted Assets  
Risk Adjustment Payables = Liabilities  
Aging = Amounts Over 90 Days Can still be Admitted

Process to Estimate – Paragraph 13 of SSAP No. 107:
- Shall be estimated based on experience to date, using a method that is reasonable and consistent between periods.
- Be aware of significant uncertainties, and be both diligent and conservative in estimations.
- Must follow conservative concept!
- Reporting entities **REQUIRED** to have sufficient data to determine a reasonable estimate based on demonstrated knowledge of marketplace
Discussion Question:

Based on the guidance in SSAP No. 107, would any insurance reporting entities be able to report an admitted asset receivable for the Risk Adjustment Program as of year-end 2014?

Will reporting entities have a demonstrated knowledge of the marketplace, including:

- Risk profiles of those insured by other insurance entities?
- Marketplace data, including patient encounter and diagnosis codes?
SSAP No. 107
Transitional Reinsurance Program

- All issuers of major medical commercial products and TPAs on behalf of uninsured group health plans are required to contribute funding. Group plans are required to contribute, but are not eligible for distributions.

- Program provides funding to issuers in the individual markets that incur high claim costs for enrollees.

- Assessments will fund reinsurance program, plus disbursements to the U.S. Treasury, and cover program admin expenses.


$10 Billion for Reinsurance, $2 Billion Treasury Contribution, plus Additional Amounts for Admin Expenses
SSAP NO. 107
Transitional Reinsurance Program

- **Individual Insured Issuers:**
  - Reinsurance assessments and admin expense assessments similar to ceded reinsurance premium. (Follow SSAP No. 61R)
  - U.S. Treasury Assessment is not ceded premium, but is an expense to be recognized with taxes, licenses and fees.
  - Distributions receivable are similar to traditional reinsurance recoveries subject to 90-day nonadmission rules and impairment.

Other Insured Health Products: (Not eligible for distributions)
- All Assessments – Recognized with taxes, licenses and fees.

Self-Insured Health Products: (Not eligible for distributions)
- Uninsured Plans, thus excluded from reporting entity’s financials.
- May report pass-through liabilities/assets depending on timing.
Applies to Qualified Health Plans (QHP) in the individual and small group markets (regardless if on exchange).

Intends to limit insurer loss and gains from initial pricing risk (inaccurate rate setting). It shares the risk of allowable costs between the federal government and the QHP issuers.

Determination whether an issuer pays or receives is based on a formula that compares allowable costs.

If collections are not sufficient for distributions, other sources of federal funding are required by the ACA, subject to the availability for appropriations.

Insurers may have both a receivable and a payable.
Risk Corridor Receivables = Can be Admitted Assets
Risk Corridor Payables = Liabilities
Aging = Amounts Over 90 Days Can still be Admitted

Process to Estimate – Paragraph 56 of SSAP No. 107:
- Shall be estimated based on experience to date, using a method that is reasonable and consistent between periods.
- Be aware of significant uncertainties, and be both diligent and conservative in estimations.
- Must follow conservative concept!
- Reporting entities **REQUIRED** to have sufficient data to determine a reasonable estimate based on demonstrated knowledge of marketplace
Key Adopted Nonsubstantive SAP Revisions

- SSAP No. 1 – Going Concern Disclosures
- SSAP No. 4 – Restricted Asset Guidelines
- SSAP No. 11 – Disclosure Requirements
- SSAP No. 37 / 40R – Foreclosed Mortgage Loans
- SSAP No. 69 – Cash Flow Statements (Non-Cash Items)
- SSAP No. 86 – Derivatives Reporting
SSAP No. 1 – Adopts ASU 2014-15
Going Concern Disclosures

- Requires management evaluation about whether there are conditions or events, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued.

- If substantial doubt, management shall evaluate whether its plans to mitigate those concerns and events, when implemented, will alleviate the substantial doubt.

- If after considering management’s plans, substantial doubt is alleviated, disclosures about the doubt, plans, etc. are required.

- If after considering management’s plans, substantial doubt is NOT alleviated, entity shall include statement in the financials:

  “There is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued.”
SSAP Nos. 48, 68 and 97
Nonadmit Investments with Going Concern

- SSAP No. 48 – Joint Ventures, Partnerships and LLCs
- SSAP No. 97 – Investments in SCA’s

The investment shall be nonadmitted if the audited financial statements include substantial doubt about the entity’s ability to continue as a going concern.

The investment shall be nonadmitted on the basis/contents of the audit opinion as detailed in paragraph 20 of SSAP No. 97. (This guidance is not new - includes qualified, disclaimer, and adverse opinions.)
SSAP No. 68 – Joint Ventures, Partnerships and LLCs

All positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted.

Includes, but is not limited to:

Situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity’s ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 20 of SSAP No. 97
SSAP Nos. 1 and 4
Restricted Assets Clarifications

- Adopted revisions clarify guidance and disclosures related to admitted and restricted assets
- “Admitted” and “Restricted” are not interchangeable terms.

SSAP No. 4 Revisions:

- Asset restrictions may be a factor in determining admissibility.
- However, determining that a restricted asset is an admitted asset does not eliminate the statutory requirements to document and identify the asset as restricted.
All assets pledged as collateral or otherwise restricted (regardless if admitted) shall be reported in the SSAP No. 1 restricted asset disclosures, general interrogatories and in any other schedule or disclosure requesting information on restricted assets.

Referral to Capital Adequacy Task Force (Spring 2015):

Requested Task Force to re-evaluate whether a separate “restricted asset” RBC charge is needed for assets on deposit with states held for the benefit of all policyholders.
SSAP No. 11 – Postemployment Benefits

In 2014 - SSAP No. 11 was updated:

• Driven from identification of adopted GAAP guidance not included in SSAP No. 92 (OPEBs)
• Ultimately resulted in revisions to clearly indicate the previously-adopted GAAP guidance.
• Noted that SSAP No. 11 disclosures fit pension/OPEB plans, requested new project to review SSAP No. 11 disclosures.

Spring 2015:  **Most SSAP No. 11 Disclosures Deleted**

**Remaining Disclosure:**

When it is not practicable to estimate and accrue liability.
Guidance when to derecognize foreclosed mortgage loans, and:

- Recognize real estate (property collateralizing loan)
  
  Lower of FV less costs to sell, or recorded investment.

- Recognize other receivable (government guarantee)
  
  Amount from mortgage loan expected to be recovered.

  Gov’t receivable is admitted asset even if over 90 days.

Guidance applied prospectively from adoption date (March 2015)

- Adopts ASU 2014-14 (Government Guaranteed)
- Adopts w/ Modification ASU 2014-04 (Applies to all real estate)
SSAP No. 69
Cash Flow Statement

Clarifies inclusion of non-cash items in the cash flow statement. For SSAP Purposes:

- Cash = Cash, Cash Equivalents & Short-Term Investments.

Only items involving cash are in the Cash Flow Statement.

New Disclosures for Non-Cash Items. Examples:

- Receiving non-cash assets from parent as a capital contribution.
- Settling reinsurance transactions with non-cash financial assets.

A/S Worksheets require modification to remove non-cash items!!
SSAP No. 86
Derivative Reporting

Guidance to agree derivatives on Schedule DB to the BS.

- Derivatives Reported on Schedule DB reported gross.
- Derivatives Reported on BS reported net (if right to offset).

Schedule DB-D-1 shows derivatives by Counterparty.

- Book Adjusted Carrying Amount > 0 (Derivative Assets).
- Book Adjusted Carrying Amount < 0 (Derivative Liabilities).

New Cross-Check to Agree to Balance Sheet!!
Incorporates GAAP definition for “benchmark interest rate”

- Widely recognized and quoted rate in active market,
- Broadly indicative of interest rate for high-credit quality obligors,
- In theory, a risk-free rate (e.g., no risk of default)
- In U.S. only the Treasury Rate, London interbank offered Rate (LIBOR) and Fed Funds Effective Rate are benchmark rates.

Eliminates prior requirement to use the same benchmark rate as the rate being hedged for similar hedges.

Adopts ASU 2013-10
Questions - Nonsubstantive SAP Revisions??

- SSAP No. 1 – Going Concern Disclosures
- SSAP No. 4 – Restricted Asset Guidelines
- SSAP No. 11 – Disclosure Requirements
- SSAP No. 37 / 40R – Foreclosed Mortgage Loans
- SSAP No. 69 – Cash Flow Statements (Non-Cash Items)
- SSAP No. 86 – Derivatives Reporting
Key Nonsubstantive SAP Recent Exposures

Potential Consideration in June 2015 via Interim Call

- SSAP No. 24 – Extraordinary & Discontinued Operations
- SSAP No. 25 – Related Party Service Transactions
- SSAP No. 26 – Callable Bonds & Yield-to-Worst Concept
- SSAP No. 54 – Reporting of Medicare Adjustments
- SSAP No. 61R – Disclosures – PBR Framework
- SSAP No. 93 – Low Income Housing Tax Credits
Proposes revisions to adopt revised GAAP guidance

- Elimination of term “extraordinary”
- Improve definition of “discontinued operation”

- Not expecting any changes to application of SSAP No. 24. However, appears to be full re-write of SSAP No. 24

- SSAP Modifications Consistent with Current Guidance:
  - No separate presentation (extraordinary & discontinued)
  - Prohibit gain until disposal is complete (discontinued)
  - New Disclosures (Not all GAAP disclosures to be required.)
Proposes revisions to clarify guidance for affiliate services

- Fair and reasonable standards
  - For amounts charged (existing guidance)
  - For services provided at **no charge** (clarify with new guidance)

- New disclosure:
  - Information on transactions involving services received and/or transferred, including the fair value of the services. *(Cost to the party providing the services can be used as a proxy.)*
SSAP No. 26
Yield-to-Worst Concept – Callable Bonds

Addresses questions / inconsistencies in SSAP No. 26:

Driven from:

- Extent of bonds called with make-whole call provisions
- Determination of Gain / Loss (or Investment Income)
- Impact to AVR / IMR
- Questions on when write-offs of premium are required

Yield-to-Worst:

Amortized to call / maturity date producing lowest asset value.
Proposed Revisions:

1. Prepayment Penalties / Acceleration Fees:

   Report in Realized Capital Gains When received

This is a change from investment income:

- Will be reflected in AVR / IMR (if applicable) and will allow for Schedule D-Part 4 to roll across

- Prevent need to calculate the “penalty” when bonds with make-whole call provisions are called.

(For example, with Make-Whole Call Provisions, the call price does not explicitly indicate the “penalty” component.)
Current Guidance Illustration:

<table>
<thead>
<tr>
<th>Call Price</th>
<th>Par</th>
<th>BACV</th>
<th>Invest. Income</th>
<th>Gain / Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>102</td>
<td>100</td>
<td>101.50</td>
<td>2.00</td>
<td>(1.50)</td>
</tr>
</tbody>
</table>

This results in a net 0.50 investment gain for the income statement, but was bifurcated between “investment income” and “capital gain and loss”. There is no current “investment income” column in Schedule D-4, so companies were manipulating the reporting of this transaction (adjusting consideration or BACV).

Proposed Guidance Illustration:

<table>
<thead>
<tr>
<th>Call Price</th>
<th>Par</th>
<th>BACV</th>
<th>Gain / Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>102</td>
<td>100</td>
<td>101.50</td>
<td>0.50</td>
</tr>
</tbody>
</table>

The gain is shown net. This eliminates all questions regarding the determination of the “penalty” and how the information flows through Schedule D-4.
Proposed Revisions:

2. Callable Bonds (With / Without Make Whole Provisions)

- **Lockout Period** – Amortize Premium Over Lockout

- **No Lockout** – BACV at time of acquisition should equal the lesser of the next call price or cost.

- **Callable w/o stated terms** – All premiums over par immediately expensed.

**Continuously Callable:**

*Not envisioned to be a change from prior application.*
Proposed Revisions:

3. Make Whole Call Provisions –

If scheduled call dates and make whole provisions, follow the provisions that result in the lowest asset value.

**Key Aspect:**

Revisions eliminate the exception for make whole call provisions so that they follow the yield-to-worst concept.

*Illustrations included in Exposure.*
Proposes revisions clarify reporting for premium adjustments:

- Premium adjustments for contracts subject to redetermination are estimated for the portion of the policy period that has expired and considered an immediate adjustment to premium.

- Accrued premium adjustments shall be recorded in premium and considerations receivable, with an entry to written premiums.

- Accrued return premium adjustments shall be recorded as a liability with a corresponding entry to written premiums.

- A/S liability lines will vary by type of reporting entity files:
  - Managed care/A&H = Aggregate health policy reserves;
  - Life and A&H = Aggregate reserves for A&H contracts;
  - Property and Casualty = Aggregate write-ins for liabilities.
Incorporate disclosure related to compliance with XXX/AXXX Reinsurance Model Regulation or Actuarial Guideline 48:

1. Identify the standard for the disclosure requirement or AG 38.

2. Number of reinsurance contracts in which risks under Covered Policies have been ceded by the reporting entity with details:
   
   a) Whether Primary Security fund, in an amount at least equal to the Required Level, are held by reporting entity.
   
   b) Whether Other Security funds, in an amount at least equal to any portion of the reserves not covered by Primary Securities are held.
   
   c) Details on funds (and type) if a shortfall of securities exists.
Considers ASU 2014-01 For SAP:

1. SAP Balance Sheet - No essential changes to calculation. (Prior guidance in SSAP No. 93R is essentially the same as optional GAAP proportional amortization methodology.)

2. SAP Income Statement – Will continue gross presentation.

GAAP guidance – Modifications bring their option closer to the adopted SAP guidance. Revisions mostly update the GAAP references to identify that the GAAP option is required under SAP, and to continue rejecting the GAAP guidance that allowed for a net income statement reporting method.
Hot Topics

- Short Sales
- Sales-Leasebacks with Nonadmitted Assets
- SSAP No. 97 – Questions with Application of Guidance
- Investment Classification Project
- Repurchase Agreements
Short Sales – Discussion Question

Should Short Sales be Permitted under SAP?

By show of hands:

Who thinks Short Sales are ALREADY Allowed?
Short Sale = Sale of stock that an investor does not own or a sale which is consummated by the delivery of a stock borrowed by, or for the account of, the investor.

Investors that sell stock short, believe the stock price will fall, thereby allowing them to sell high, and buy low.

Naked Short Sale = Seller does not borrow or arrange to borrow securities in time to make delivery to the buyer within the standard 3-day settlement period (T+3).

Short Sales have potential of UNLIMITED LOSSES!!
GAAP Guidance

- Short Sales are generally NOT Derivatives.
- Obligations incurred are measured at fair value and reported as liabilities at fair value. (Securities sold, not yet purchased)

SAP Guidance

- No explicit guidance
- Have previously been captured within derivative guidance.
- Income generation transactions are required to be “covered”.

Covered = Offsetting assets can be used to fulfill obligations.

If “covered” by definition - NOT a Short Sale
Sales-Leaseback Transactions
Discussion Question

What is the definition of “Property” in SSAP No. 22?

By show of hands:

- Property, Plant & Equipment (land or depreciable assets)
- Property (Real Estate)

“Lease” guidance refers to “property, plant and equipment”
“Sale-Leaseback” guidance refers to “property”

Under GAAP:
Several paragraphs in “leaseback” section are explicit to real estate
Clarify whether sale-leaseback accounting applies to sale-leaseback transactions involving nonadmitted assets with unrelated parties.

Sale-leaseback accounting is not permitted in transactions involving nonadmitted assets with related parties.

Sale-Leaseback Accounting:

• Removes “sold” property from the financial statements, with recognition of operating lease. (Eliminates nonadmitted assets, improving surplus.)

Deposit Accounting:

• The property and any related debt are retained on the balance sheet, with continued depreciation of the property.
Sales-Leaseback Guidance

Comments Requested on Three Items in Exposure:

1. Clarify the definition of “property” in the sale-leaseback section.

2. Clarify when sale-leaseback transactions involving nonadmitted assets follow the deposit-method of accounting.

3. Identify and reflect guidance adopted under GAAP.

Currently GAAP guidance “adopted” appears to be summarized and/or commingled with other guidance (e.g., real estate / non-real estate) so it is difficult to identify statutory modifications.
Questions received on application of guidance:

1. **Nonadmitted Assets in Non-Insurance SCAs (GAAP Equity)**

   Assets that would not qualify as admitted assets in an insurance entity are effectively included as admitted assets when included in the “investment in the SCA”.

   A. Should guidance restrict the assets held in an SCA that would not be admitted if held directly by the reporting entity?

   B. Should guidance restrict or eliminate the extent to which nonadmitted assets can be transferred to an SCA and then included in the “Investment in SCA”?
Prior to “selling” furniture to SCA:

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Nonadmitted</th>
<th>Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>500</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Furniture</td>
<td>200</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>SCA</td>
<td>300</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>1000</strong></td>
<td><strong>200</strong></td>
<td><strong>800</strong></td>
</tr>
</tbody>
</table>

After “selling” furniture to SCA: (SCA exchanges $200 for furniture)

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Nonadmitted</th>
<th>Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>700</td>
<td>0</td>
<td>700</td>
</tr>
<tr>
<td>Furniture</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SCA</td>
<td>300</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>1000</strong></td>
<td><strong>0</strong></td>
<td><strong>1000</strong></td>
</tr>
</tbody>
</table>
Questions received on application of guidance:

2. Valuation of U.S. Insurance SCAs (8bii)

Insurance SCAs shall be recorded based on the underlying audited statutory equity of the respective entity’s financial statements, adjusted for amortized goodwill.

A. Should guidance require equity value per the AP&P Manual

B. Should guidance require equity value per the AP&P and prescribed practices only?

C. Should guidance allow equity value per the AP&P Manual, and both prescribed and permitted practices?
Questions received on application of guidance:

3. Valuation of U.S. Non-Insurance SCAs with Insurance Activities
SCAs meeting the revenue/activity test are to be reported based on an adjusted “statutory basis of accounting” – but this calculation only includes limited, specific changes.

A. Should guidance require a full statutory basis?

B. Should guidance clarify that values do not reflect SAP, but instead an adjusted value other than GAAP or SAP?

C. If limited adjusted are continued (option B), should the guidance require more changes to get closer to SAP?
Project to review the “investment SSAPs” with suggestions to clarify definitions, scope, and the accounting method / related reporting.

This project suggests possible revisions to existing SSAPs, or the development of new SSAPs to capture investments that are outside of SSAP definitions, to consider the elimination of “exceptions” within specific SSAPs and address specific characteristics of those investments to ensure consistent and appropriate valuation and reporting.
Investment Classification Overview: Why Review Investment SSAPs?

- Definitions vary from market definitions
- Inconsistent interpretations of definitions
- “Look-through” allowed for some investments
- Reporting inconsistencies
  
  *(measurement / schedules)*
  
- Different treatment for similar investments
Overview of Project - History / What’s Happened So Far?

- **2013 Winter National Meeting**
  - Original Agenda Item Discussed & Exposed

- **2014 Spring National Meeting**
  - Comments Received

- **April 2014 – E-vote**
  - Exposure of Investment Matrix

- **June 2014 –**
  - Comments Received

- **Exposure of Prioritization Document.**

- **Substantive**

- **Agree - But be CAUTIOUS!**

- **Identify Issues to Discuss**
What’s Happened So Far

2014 Fall National Meeting Direction:
- Proceed with Top Two items on Prioritization Memo

2015 Summer National Meeting Exposures
- Definition of Security
- Contractual Amount of Principal Due
- ETF Analysis
- Definitions for “Non-Bond” Items

Comment Deadline – May 21, 2015
Reviewing guidance for repurchase agreements:

Exposure Requests Comments on:

1. Incorporating a “Derecognition” approach
   *(Remove transferred asset from financials)*

2. Continue with Secured Borrowing approach – but require it all for ALL repurchase agreements.
   *(Mostly current process – retains transferred asset)*

3. Incorporate SAP Specific Approach
   *(Potentially require more disclosures)*
Review of Discussion Documents Highlights Concerns:

FSB, FSOC, & Fed Reserve Banks of NY & Boston:
- Still trying to collect sufficient data on repos,
- Identified continued concerns and systemic risks from repos
- Considering a variety of recommendations

Re-hypothecation of assets creates financial security risks:
  Particularly, securities obtained in a repo then used as collateral in a different repo or securities lending transaction.

**SAP Focus** - Ensure that policyholder, contract holder and other legal objectives are met when they come due.
Questions on Hot Topics??

- Short Sales
- Sales-Leasebacks with Nonadmitted Assets
- SSAP No. 97 – Questions with Application of Guidance
- Investment Classification Project
- Repurchase Agreements
Questions??
Julie Gann – jgann@naic.org

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