**NAIC Accounting Practices and Procedures Manual**

**Editorial and Maintenance Update**

**August 3, 2019**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

| **SSAP/Appendix** | **Description/Revision1** |
| --- | --- |
| *SSAP No. 62 – Revised*  *Property and Casualty Reinsurance* | Clarify wording in an existing disclosure, paragraph 116. This does not change the content of the disclosure just eliminates redundant phrase and breaks up two long sentences for readability. |
| *SSAP No. 86—Derivatives* | Proposes to reference SSAP No. 26R for the structured note definition instead of duplicating the definition in SSAP No. 86. |
| *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* | Adds two new suffixes for SVO filings that have been carried over from the prior year. |

**Status:**

On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to *SSAP No. 62R—Property and Casualty Reinsurance*, *SSAP No. 86—Derivatives*, and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as illustrated below.

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1. **SSAP No. 62R, paragraph 116**

*The below revisions are for readability and are not intended to change the content of the disclosure.*

116. Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates)  for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders . This disclosure is limited to reinsurance contracts with written premium cessions or loss and loss expense reserve cessions described in this paragraph that meet the criteria of paragraph 95.a. or paragraph 95.b. This disclosure excludes cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member.

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty–five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

1. **SSAP No. 86, Exhibit A, paragraph 5g:**

5 Derivative instruments include, but are not limited to; options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures, structured notes with risk of principal/original investment loss based on the terms of the agreement (in addition to default risk), and any other agreements or instruments substantially similar thereto or any series or combination thereof.

g. “Structured Notes” in scope of this statement are instruments defined in SSAP No. 26R (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable. Structured notes that are “mortgage-referenced securities” are captured in *SSAP No. 43R—Loan-backed and Structured Securities.*

1. **SSAP No. 97, Exhibit A, paragraph 49**

49. By August 31 or one month after the audit report date of each year, the NAIC shall initiate a review of all SCA investments for which new Sub 2 form filings have been received as well as an annual update review of Sub 2 SCA investments already logged in the VISION database. The NAIC review shall encompass a review of the most recent annual statutory reporting by the parent insurance company's Schedule Y (to ascertain the identity of the members of the holding company system and to ensure that information for all SCA companies has been submitted), a review of the parent's financial statement blank to review the last reported value for the SCA investments and a review of the VISION database to determine whether SCA debt and SCA preferred securities have been assigned NAIC designations. As part of its analysis, the NAIC shall review the portion of the bond investments carried by the parent or a subsidiary insurer with a **Z** notation. If the NAIC determines that the portion of the **Z** bonds shown on the documentation is significant, the NAIC shall not process the Sub 2 filing until the insurance company reports the bonds to permit removal of the **Z** notation. Beginning with year-end 2019, two new suffixes will apply: **YE** and **IF**. YE means that the security is a properly filed annual update that the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol YE is assigned by the SVO pursuant to the carryover administrative procedure described in Part One, Section 3 f) (iii) of this Manual. When the SVO assigns the symbol YE it also assigns the NAIC Designation in effect for the previous reporting year. IF means that the security is an initial filing that has been properly filed with the SVO but which the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol IF is assigned by the SVO and communicates that the insurer should self-designate the security for year-end and identify it with the symbol IF. IF therefore also communicates to the regulator that the NAIC Designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company.