

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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|--|---|--|
| CONTACT PERSON: _____ TELEPHONE: _____ EMAIL ADDRESS: _____ ON BEHALF OF: _____ NAME: <u>Dale Bruggeman</u> TITLE: <u>Chair SAPWG</u> AFFILIATION: <u>Ohio Department of Insurance</u> ADDRESS: <u>50W. Town St., 3rd Fl., Ste. 300</u> <u>Columbus, OH 43215</u> | DATE: <u>08/13/2019</u> | FOR NAIC USE ONLY |
| | Agenda Item # <u>2019-23BWG</u> Year <u>2020</u> Changes to Existing Reporting <input checked="" type="checkbox"/> [X] New Reporting Requirement <input type="checkbox"/> [] | REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT |
| | No Impact <input checked="" type="checkbox"/> [X] Modifies Required Disclosure <input type="checkbox"/> [] | DISPOSITION |
| | <input type="checkbox"/> [] Rejected For Public Comment <input type="checkbox"/> [] Referred To Another NAIC Group <input checked="" type="checkbox"/> [X] Received For Public Comment <input type="checkbox"/> [] Adopted Date _____ <input type="checkbox"/> [] Rejected Date _____ <input type="checkbox"/> [] Deferred Date _____ <input type="checkbox"/> [] Other (Specify) _____ | |

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|--|---|
| <input type="checkbox"/> [] ANNUAL STATEMENT | <input checked="" type="checkbox"/> [X] INSTRUCTIONS | <input checked="" type="checkbox"/> [X] CROSSCHECKS |
| <input checked="" type="checkbox"/> [X] QUARTERLY STATEMENT | <input checked="" type="checkbox"/> [X] BLANK | |
| <input checked="" type="checkbox"/> [X] Life, Accident & Health/Fraternal | <input type="checkbox"/> [] Separate Accounts | <input checked="" type="checkbox"/> [X] Title |
| <input checked="" type="checkbox"/> [X] Property/Casualty | <input type="checkbox"/> [] Protected Cell | <input type="checkbox"/> [] Other _____ |
| <input checked="" type="checkbox"/> [X] Health | <input type="checkbox"/> [] Health (Life Supplement) | |

Anticipated Effective Date: 1st Quarterly 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instructions and illustration for Note 8 – Derivatives for disclosures adopted by *SSAP No. 108—Derivative Hedging Variable Annuity Guarantees*. Add instruction and blank page for Schedule DB, Part E to the quarterly statement.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add a Quarterly Schedule DB, Part E and Note 8 – Derivatives changes included in the annual statement. The quarterly version of the schedule and notes disclosures were not included in 2019-14BWG adopted on 06/24/2019 but is required by the changes to *SSAP No. 108—Derivative Hedging Variable Annuity Guarantees*.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE DB – PART E

Derivatives Hedging Variable Annuity Guarantees as of Current Quarter

This schedule is specific for the derivatives and the hedging programs captured in SSAP No. 108

See SSAP No. 108—Derivatives Hedging Variable Annuities Guarantees for additional accounting guidance.

Column 1 – CDHS Identifier

Provide a unique identifier for each Clearly Defined Hedging Strategy (CDHS) reported on this schedule (e.g., 001, 002, etc.). This identifier will also be used for reporting of the SSAP No. 108 CDHS in Column 32 of Schedule DB, Part A, Section 1; Column 31 of Schedule DB, Part A, Section 2; Column 30 of Schedule DB, Part B, Section 1 and Column 26 of Schedule DB, Part B, Section 2.

Column 2 – CDHS Description

Provide a description for each uniquely identified CDHS.

Column 3 – Prior Fair Value in Full Contract Cash Flows Attributed to Interest Rates

Prior period full contract fair value. This reflects all product cash flows, per SSAP No. 108.

Column 4 – Ending Fair Value in Full Contract Cash Flows Attributed to Interest Rates

Current period full contract fair value. This reflects all product cash flows, per SSAP No. 108.

Column 5 – Fair Value Gains (Loss) in Full Contract Cash Flows Attributed to Interest Rates

Change in full contract fair value. This reflects all product cash flows, per SSAP No. 108.

Column 6 – Fair Value Gain (Loss) in Hedged Item Attributed to Hedged Risk

Change in fair value attributable to hedged risk per SSAP No. 108.

Column 7 – Current Year Increase (Decrease) in VM-21 Liability

VM-21 liability increase (decrease) from beginning of period to end of period.

Column 8 – Current Year Increase (Decrease) in VM-21 Liability Attributed to Interest Rates

VM-21 liability increase (decrease) attributable to interest rate movements.

Column 9 – Change in the Hedged Item Attributed to Hedged Risk Percentage

Change in fair value attributed to hedged risk as a percentage of the change in full contract fair value per SSAP No. 108.

Column 10 – Current Year Increase (Decrease) in VM-21 Liability Attributed to Hedged Risk

VM-21 liability increase (decrease) attributed to hedged risk.

| | | |
|------------------|---|---|
| <u>Column 11</u> | – | <u>Prior Deferred Balance</u> |
| | | <u>Specific CDHS deferred liability (asset) balance at end of prior reporting period.</u> |
| <u>Column 12</u> | – | <u>Current Year Fair Value Fluctuation of the Hedge Instruments</u> |
| | | <u>Current year total return Fair Value fluctuations in the hedging instruments per SSAP 108.</u> |
| <u>Column 13</u> | – | <u>Current Year Natural Offset to VM-21 Liability</u> |
| | | <u>Current year hedging instruments' total return Fair Value fluctuations that offset the current period change in the designated portion of the VM-21 liability.</u> |
| <u>Column 14</u> | – | <u>Hedging Instruments' Current Fair Value Fluctuation Not Attributed to Hedged Risk</u> |
| | | <u>Current year hedging instruments' total return Fair Value fluctuations not attributable to hedged risk per SSAP 108.</u> |
| <u>Column 15</u> | – | <u>Hedge Gain (Loss) in Current Year Deferred Adjustment</u> |
| | | <u>Current year hedging instruments' total return Fair Value fluctuations that do not offset the current period change in the designated portion of the VM-21 liability (recognized as deferred liabilities/(assets) per SSAP 108).</u> |
| <u>Column 16</u> | – | <u>Current Year Prescribed Deferred Amortization</u> |
| | | <u>Current year deferred (liability)/asset amortization into realized gains/losses (straight line over a period not to exceed 10 years per SSAP 108).</u> |
| <u>Column 17</u> | – | <u>Current Year Additional Deferred Amortization</u> |
| | | <u>Current year deferred (liability)/asset accelerated amortization elected by the reporting entity per SSAP 108.</u> |
| <u>Column 18</u> | – | <u>Current Year Total Deferred Amortization</u> |
| | | <u>Total current year deferred (liability)/asset amortization into realized gains/losses.</u> |
| <u>Column 19</u> | – | <u>Ending Deferred Balance</u> |
| | | <u>Specific CDHS Deferred Liability (Asset) balance at end of current reporting period.</u> |

NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as “no change” should be included. However, provide disclosure for annual Note 1A, 1C(2), 1C(6), 1D, 5D, 5E(3)b, 5F, 5G, 5H, 5I, 5M(2), 5M(3), 5N, 8A(8)H, 8B(2)a, 8B(2)b, 8B(2)c, , 11B, 12A(4), 17B(2), 17B(4)a, 17B(4)b, 17C, 20, 24E and 25 in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

Detail Eliminated to Conserve Space

8. Derivative Instruments

Instruction:

A. Derivatives under SSAP No. 86—Derivatives

Disclose the following information by category of derivative financial instrument:

H.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Include the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.

B. Derivatives under SSAP No. 108—Derivative Hedging Variable Annuity Guarantees (Life/Fraternal Only)

(2) Recognition of gains/losses and deferred assets and liabilities

Provide the following:

Schedule showing the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities.

Information on derivative instruments that were originally captured in SSAP No. 108 and repurposed to be within scope of SSAP No. 86 (or vice versa). If the reporting entity has repurposed derivatives, information on the derivative to reconcile the fair value (realized/unrealize gains or losses) is required. (These disclosures should only be included if open derivatives were reclassified between SSAP No. 86 and SSAP No. 108 – it is expected to be uncommon.)

The amortization of deferred assets and liabilities shall be completed on an annual basis only. Quarterly changes (resulting in new amortization projections) from the recognition of new deferred assets/liabilities shall be shown in the quarterly completion of Schedule DB, Part E.

Illustration:

A. Derivatives under SSAP No. 86—Derivatives

H(8)

(+)a.

| <u>Fiscal Year</u> | <u>Derivative Premium Payments Due</u> |
|-----------------------------------|--|
| a1. 2020 | \$ |
| b2. 2021 | |
| e3. 2022 | |
| d4. 2023 | |
| e5. Thereafter | |
| #6. Total Future Settled Premiums | <u>\$</u> |

(-)b.

| | <u>Undiscounted Future Premium Commitments</u> | <u>Derivative Fair Value with Premium Commitments (Reported on DB)</u> | <u>Derivative Fair Value Excluding Impact of Future Settled Premiums</u> |
|------------------|--|--|--|
| a1. Prior Year | \$ | \$ | \$ |
| b2. Current Year | \$ | \$ | \$ |

B. Derivatives under SSAP No. 108—Derivative Hedging Variable Annuity Guarantees

(2) Recognition of gains/losses and deferred assets and liabilities

a. Scheduled Amortization

| <u>Amortization Year</u> | <u>Deferred Assets</u> | <u>Deferred Liabilities</u> |
|--------------------------|------------------------|-----------------------------|
| 1. 2020 | | |
| 2. 2021 | | |
| 3. 2022 | | |
| 4. 2023 | | |
| 5. 2024 | | |
| 6. 2025 | | |
| 7. 2026 | | |
| 8. 2027 | | |
| 9. 2028 | | |
| 10. 2029 | | |
| 11. Total | | |

b. Total Deferred Balance *

* Should agree to Column 18 of Schedule DB, Part E

c. Reconciliation of Amortization:

| | |
|--------------------------------------|----------|
| 1. Prior Year Total Deferred Balance | \$ |
| 2. Current Year Amortization | \$ |
| 3. Current Year Deferred Recognition | \$ |
| 4. Ending Deferred Balance [1-(2+3)] | \$ |

