

TO: Dale Bruggerman, Chair, Statutory Accounting Principles (E) Working Group
Julie Gann, Senior Manager, Financial Regulatory Services Division

FROM: Kevin Fry, Chair, Valuation of Securities (E) Task Force
Bob Carcano, Senior Counsel, Investment Analysis Office

DATE: February 23, 2016

RE: Response to Referral Involving Inclusion of the SCA Filing Guidance in SSAP No. 97

1. Introduction – The Statutory Accounting Principles (E) Working Group has asked the Valuation of Securities (E) Task Force to consider releasing its oversight of the valuation process for subsidiary, controlled and affiliated (SCA) investments to the Working Group and transferring the SCA instructions in Part Five, Section 2 of the *Purposes and Procedures Manual (P&P Manual)* to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* or to another location within the statutory accounting guidance. The referral was received and discussed and subsequently released for a 30-day comment period during the 2015 Fall National Meeting. Comments from the ACLI and the SVO were received and the referral was again discussed during an interim conference call held on Feb. 22, 2016.

2. Response - The Task Force agrees to relinquish oversight of the valuation of SCA investments to the Working Group. The Task Force also agrees that the SCA instructions should be moved into SSAP No. 97 or other statutory accounting guidance. In support of these objectives, the Task Force would amend the P&P Manual to delete the SCA instructions; retaining a filing requirement for SCAs and a reference to the relevant statutory accounting guidance.

3. Reasoning – In arriving at its decision, the Task Force considers that the SCA instructions are complex rules requiring staff to ensure that the insurer calculated value reflects required adjustments and determine whether the methodology and value are reasonable when judged against identified economic, financial and regulatory considerations; much of which originates in the statutory accounting guidance. The Task Force believes combining SCA valuation, accounting and reporting expertise within the FRS Division and having FRS Division staff work directly with the Working Group on maintenance issues would enhance the regulation of SCA investments. The Task Force also considered that the transfer of the SCA valuation function from the SVO to the FRS Division effective Jan. 1, 2015 required a decision about where to place the SCA instructions given a desire to keep instructions in the P&P Manual solely to activities assigned to the SVO or SSG. Despite an initial opposition, upon consideration of the opinion expressed by the SVO, the ACLI has agreed that the SCA instructions should be transferred pending identification of a suitable location for them.

4. Procedure - Please have Julie Gann (or another member of the FRS Division staff) advise Bob Carcano (of the IAO) when the Working Group has determined where to locate the SCA instructions so the Task Force can coordinate an amendment to the P&P Manual with the Working Group. Please advise me directly of any questions or concerns.