Statutory Accounting Principles (E) Working Group
Hearing Agenda
January 10, 2024

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items will be considered separately.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-24 Various SSAPs and INT 06-07 (Wil)	**ASU 2016-13, Measurement of Credit Losses on Financial Instruments (CECL)**	**1 – Agenda**	**Comments Received**	**IP – 1**

<u>*Summary:*</u>
During the 2023 Fall National Meeting, the Working Group exposed revisions to reject *ASU 2016-13, Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*, (collectively referred to as CECL) within INT 06-07: Definition of Phrase "Other Than Temporary" and fifteen applicable SSAPs.

The Working Group directed NAIC staff to research how best to maintain pre-CECL GAAP impairment guidance for posterity.

After the Fall National Meeting exposure, interested parties requested that the comment deadline be shortened to allow for consideration early in January 2024. Interested parties noted that with the CECL guidance becoming effective under U.S. GAAP for private companies, it would be clearer from the auditor's perspectives if the U.S. GAAP guidance had been addressed by statutory accounting. The chair agreed to shorten the comment letter deadline to Dec. 29, 2023.

<u>*Interested Parties Comments:*</u>
On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023, meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024, to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

Interested parties appreciate the Working Group's quick response to the industry's request. FASB ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (CECL) is effective for non-public companies preparing GAAP basis financial statements for years beginning after December 31, 2022. For insurance entities required to file audited statutory basis financial statements under the Model Audit Rule, the requirement would have been effective for the audited financial statements as of December 31, 2023. **For these reasons, we fully support staff's recommendation to reject the ASU.**

<u>*Recommendation:*</u>
NAIC staff recommends adoption of the exposed revisions to reject ASU 2016-13 and the related ASUs as with the addition of an explicit effective date of December 31, 2023. The addition of the effective date is illustrated in the agenda item along with a consistency revision. The consistency revision adds the sentence referencing to previously adopted GAAP guidance to all revised SSAPs. NAIC staff will continue to work on documenting for the historical record the retained (pre-CECL) U.S. GAAP guidance adopted in SAP.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
INT 23-04T SSAP No. 61R (Robin)	**Scottish Re Life Reinsurance Liquidation Questions**	**2 – INT 23-04**	**Comments Received**	**IP – 1 ACLI -3**

<u>*Summary:*</u>
Exposed *INT 23-04: Scottish Re Life Reinsurance Liquidation Questions* which provides guidance for ceding entities with reinsurance with balances from U.S.-based life reinsurer in liquidation, Scottish Re, focusing on the accounting and reporting of reinsurance recoverables. INT 23-04 is proposed to be effective for year-end 2023 reporting and addresses the following key areas:

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract
Issue 2 – Impairment of Reinsurance Recoverables
Issue 3 – Reporting of Reinsurance Recoverables
Issue 4 – Admissibility of Reinsurance Recoverables
Issue 5 – Disclosures

<u>*Interested Parties' Comments:*</u>
Interested parties support the comments in the letter submitted by the American Council of Life Insurers (ACLI).

<u>*ACLI – American Council of Life Insurers – Comments:*</u>
We appreciate NAIC staff and regulators' prompt attention to this matter, which has implications for companies' year end 2023 reporting. ACLI would also like to express our gratitude for changes made by the NAIC to date that we believe have already improved the quality of INT 23-04T.

The INT, as re-exposed, provides guidance for ceding entities regarding the five key accounting and reporting issues below, and would be applicable only to amounts arising from the liquidation of Scottish Re:

1) Commutation or Recapture of a Life Reinsurance Contract
2) Impairment of Reinsurance Recoverables

3) Reporting of Reinsurance Recoverables
4) Admissibility of Reinsurance Recoverables
5) Disclosures

General Comments
The proposed INT 23-04T would limit the scope to amounts arising from the Scottish Re Liquidation. ACLI understands the rationale for limiting the scope of the INT, but would suggest a small revision to paragraph 2 for the avoidance of doubt:

> *This interpretation is ~~focused on~~* ***applicable only to*** *the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.*

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract
We agree with the provisions in paragraphs 3 and 4, which we understand to require that reporting entities, a) unwind reinsurance balances in the manner prescribed by paragraph 58 and b) establish new balances to which the provisions outlined under Issue 3 would apply.

Issue 2 – Impairment of Reinsurance Recoverables
We have no comments on this issue.

Issue 3 – Reporting of Reinsurance Recoverables
ACLI does not object to the proposed financial statement reporting outlined in paragraphs 10-16 of the INT. We would offer the following suggested revision to paragraph 14 to provide additional clarity as to the scope of amounts reported in Line 16.3.

> *14. ~~Other a~~Amounts ~~receivable~~* ***recoverable from the reinsurer's estate*** *for claims* ***incurred*** *~~unpaid related to the period~~ before the reinsurance contract cancellation and unpaid* ***as of the reporting date*** *~~which are recoverable from the reinsurer's estate~~ shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.*

Issue 4 – Admissibility of Reinsurance Recoverables
The re-exposed INT would allow amounts to be admitted that are reported on the asset page in line 16.1 or secured by a trust, to the extent such amounts are not in dispute, the trust funds are sufficient, and for amounts reported on line 16.1 after an impairment review. Other reinsurance recoverables are required to be non-admitted.

ACLI believes that amounts recoverable from Scottish Re that are reported on the asset page in lines 16.3 and 25 should also be admitted, subject to an impairment review and approval of reporting entities' domestic regulators. Our comments below support this position and provide additional commentary on several related questions.

The present value of future losses is an example of an "other recoverable" amount that would be reported on line 25. For some cedants, this represents a significant component of the overall receivable from Scottish, and it is acknowledged specifically by the liquidation order. An example of an exposure of this nature would arise if level term business was ceded to Scottish under coinsurance. For level term policies, premiums far exceed claims in the earlier years, and reserves are built up to provide for the increased claims expected in the later years. Since these reinsurance contracts are terminated under the liquidation order, the direct writers will now be responsible for paying these claims without reimbursement from Scottish Re, despite having paid the premiums to Scottish Re. These future losses are acknowledged in the liquidation order, and we have not received information from the receiver that such amounts will receive lower priority in the liquidation- (i.e., they are no less recoverable than paid claims).

The coinsurance reserves scenario described above is only one example, and ACLI believes it is important to provide for consideration of relevant facts and circumstances by reporting entities and their domestic regulators, who are best positioned to analyze and opine on the individual facts and circumstances of a given insurer's exposure in a liquidation (and have done so in the context of the current ongoing liquidation). With this objective in mind, we would propose the following revisions to paragraph 19 to provide for the admittance of amounts reported in lines 16.3 and 25, subject to appropriate review and approval by a reporting entity's domestic regulator.

> *19. Other amounts expected to be recovered that are reported on the asset page lines 16.3 and 25 in accordance with paragraphs 14 through 16 shall only be admitted on approval by the reporting entity's domiciliary regulator. Such approval would not constitute a permitted practice, and may be granted in consideration of a reporting entity's individual facts and circumstances, and based on review of appropriate supporting documentation and assumptions.*

At the Fall National Meeting, ACLI provided examples of specific evidential matter that regulators may consider, but which may be too specific to be codified directly into the INT given the wide diversity in facts and circumstances among individual companies. Regulator review may include consideration of documentation provided by the receiver; artifacts establishing the nature of the amounts due from the liquidation estate; contractual agreements with Scottish Re prior to liquidation, and assumptions as to collectability of amounts due, including sufficient assets in the liquidation estate and expected timing of collections. Additionally, we would recommend for regulators' consideration of a possible requirement that amounts admitted under paragraph 19 be allocated to special surplus on liabilities, surplus and other funds page, line 34. ACLI also recommends that the aggregate write-in for special surplus funds (line 34) be named as "Scottish Re Recoverable."

Several additional questions regarding admissibility were discussed during and after the NAIC's Fall 2023 National Meeting. We have included comments on several of these issues below and stand ready to work with NAIC staff and regulators to address any other issues and concerns that may arise.

Would the approval of recoverable amounts to be admitted under our proposed paragraph 19 above be considered a permitted practice?

ACLI's view is that the approval of the admission of a recoverable that is provided for specifically in the INT would not be a departure from SAP, and thus not a permitted practice. We note that there is precedent for regulator approval elsewhere in the Accounting Practices and Procedures Manual. One specific example is in SSAP 72 paragraph 8, which requires approval for the recognition of capital contributions as Type 1 subsequent events. For the avoidance of doubt, we have included explicit language to this effect in our proposed revisions.

Do the provisions of Credit for Reinsurance Model Law (#785) constrain the amounts that may be admitted from the estate of Scottish Re?

Subject to the review of individual state laws and regulations in which Model Law 785 is codified, our interpretation is that the credit for reinsurance provisions ceased to apply when the reinsurance agreement terminated. Accordingly, we are not constrained as to the accounting for receivables arising from the liquidation by the requirements of A-785.

Would approval of amounts to be admitted be unduly burdensome for state regulators?

While ACLI members cannot provide a definitive response to this question as it relates to all of our state regulators, we offer our observation that some states already have a practice of reviewing detailed information regarding their companies' exposure to Scottish Re. We believe the primary burden will be on companies to provide information regulators find sufficient, and that our proposed revisions provide for the continued practice of this prudent regulatory oversight rather than a significant expansion of regulators' obligations. Further, we believe that on an ongoing basis the review will represent primarily an update from prior periods.

Recommendation:

NAIC staff recommend adoption of the INT 23-04 with effective for December 31, 2023 reporting after reviewing the following recommendations:

1) **Adoption of the ACLI proposed edits to paragraph 2 - General Comments.**
2) **Adoption of the ACLI proposed edits to paragraph 14 - Reporting**
3) **Directing NAIC staff to update the summary paragraph 23 to reflect the discussion.**
4) **NAIC staff recommends Working Group discussion of Issue 4: Admissibility. Depending on the outcome of the discussion the Working Group could choose to:**
   a) **Adopt paragraph 19 as exposed (NAIC staff recommendation)**
   b) **Modify paragraph 19 with either 1) ACLI proposed language or 2) staff modified alternative language.**
      - **If the Working Group chooses either of these options, then a new disclosure regarding regulatory approval is recommended and the Working Group should determine the type of disclosure.**

The ACLI provided the primary comments, with interested parties providing a comment which noted that they support the ACLI Comments. Below is a detailed discussion of the comments and the NAIC staff recommendations.

1. **General ACLI Comments – NAIC staff recommends adoption of the ACLI proposed minor edit to paragraph 2 which more clearly limits the scope of the INT to the Scottish Re liquidation as illustrated below.**

   2. This interpretation is ~~focused on~~ applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.

2. **Issue 3 - Reporting** - ACLI supported the general reporting exposed, but recommended clarifying edits to paragraph 14. **NAIC recommends adoption of the ACLI proposed edits, which are clarifying and primarily reword the paragraph as illustrated below.**

   14. ~~Other A~~Aamounts ~~receivable~~ recoverable from the reinsurer's estate for claims incurred ~~unpaid related to the period~~ before the reinsurance contract cancellation and unpaid as of the reporting date ~~which are recoverable from the reinsurer's estate~~ shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.

   Clean- changes accepted:

   14. Amounts recoverable from the reinsurer's estate for claims incurred before the reinsurance contract cancellation and unpaid as of the reporting date shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.

3. **Summary paragraph - NAIC staff should be directed to update existing summary paragraph 23 to be consistent with the adopted consensuses.**

4. **Issue 4 – Admission - Working Group discussion recommended.**

Current exposure - The current exposure provides for admitted asset treatment, after impairment assessment, for undisputed 1) amounts collateralized by funds in trust and 2) recoverables for claims incurred prior to the reinsurance contract cancellation which have been paid by the direct entity as of the reporting date (reported on line 16.1 - Amounts Recoverable from Reinsurers). Amounts in dispute and other uncollateralized amounts are nonadmitted. Note that asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, will report unpaid claims prior to contract cancellation. Other unsettled contract receivables are reported on asset page line 25 Aggregate Write-ins for Other than Invested Assets.

ACLI Recommendation - The ACLI recommends admitting additional amounts recoverable from the reinsurer's estate, provided domestic regulatory approval is obtained for the amounts which are in dispute and are not secured by a trust. The ACLI proposed the following revisions to paragraph 19 to provide for the admittance of amounts reported in lines 16.3 and 25, subject to appropriate review and approval by a reporting entity's domestic regulator.

> 19. ~~Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785~~Other amounts expected to be recovered that are reported on the asset page lines 16.3 and 25 in accordance with paragraphs 14 through 16 shall only be admitted on approval by the reporting entity's domiciliary regulator. Such approval would not constitute a permitted practice and may be granted in consideration of a reporting entity's individual facts and circumstances, and based on review of appropriate supporting documentation and assumptions.

NAIC staff recommendation - For year-end 2023, NAIC staff continues to recommend nonadmission of the disputed or uncollateralized amounts not related to paid claims as exposed due to current uncertainty about the recoverables. The current exposure provides for admitted asset treatment, after impairment assessment, for undisputed: 1) amounts collateralized by funds in trust and 2) recoverables for claims incurred prior to the reinsurance contract cancellation which have been paid by the direct entity as of the reporting date (asset line 16.1). **NAIC staff notes the following:**

- The ACLI recommendation would result in **diversity in reporting** for entities that may be in similar positions as not all states will grant the same approvals. Such diversity in reporting is not supported by the principle of consistency.
- Settlements from the reinsurer have not been occurring since the liquidation filing in July and the August 8, 2023 liquidation order. **Amounts are not currently available to pay claims in 2023 and are not expected to be available within the next two quarters, therefore nonadmission is consistent with the requirements in *A-791- Life and Health Reinsurance,* paragraph 2h.** Note that A-791, paragraph 2h(below) technically requires nonadmission of all reinsurance recoverable amounts as timely quarterly settlements are not being made in substance or in effect. NAIC staff requests if guidance on the below paragraph should be added to the INT.

> 2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
>
> > h. Settlements are made less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date.

- Prior analysis has indicated that for most companies, the amount recoverable is not materially significant.
- While the 2024 proof of claim formulas have not been released by the liquidator, preliminary information is that most reporting entities will be in a worse economic position post liquidation than in rehabilitation. **As additional information becomes available from the liquidation, the Interpretation could be updated in 2024 if needed.**
- If the reporting entity has better information from the liquidator and seeks to admit the amounts, a permitted practice could be requested, which is consistent with current practice.

ACLI approach of admitting subject to regulator approval - alternative wording for paragraph 19 - If the Working Group chooses to support either the ACLI language or a similar regulator approval approach for admission, NAIC staff recommends rewording paragraph 19, to be clear that the default accounting is nonadmission for uncollateralized or disputed recoverables or for unpaid claims ant the amounts are only admitted subject to domiciliary regulator approval. In addition, the Working Group should discuss if the approval would be disclosed as a prescribed or permitted practice or reported in some other location.

> 19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust

that is compliant with Appendix A-785. Such amounts default to nonadmission status unless approval for asset admission is received by the reporting entity's domiciliary regulator. Such regulator approval would not constitute a permitted practice and may be granted in consideration of a reporting entity's individual facts and circumstances and based on review of appropriate supporting documentation and assumptions.

Disclosure of Regulator Approval – If paragraph 19 is modified for regulator approval, then the Working Group should discuss the location of the disclosure. Note that if the AP&P Manual guidance allows for Commissioner discretion, such discretion is not usually disclosed as a prescribed or permitted practice (See preamble QA, question 7), but if the Working Group prefers to disclose the approval as a prescribed or permitted practice (similar to *SSAP No. 62R—Property and Casualty Reinsurance,* paragraph 88), this would necessitate modifying the last sentence in paragraph 19 above as follows:

Such regulator approval shall be disclosed as a prescribed or permitted practice and may be granted in consideration of a reporting entity's individual facts and circumstances and based on review of appropriate supporting documentation and assumptions.

The below disclosure would require disclosure without noting a permitted practice, in a new paragraph 23:

23. If the domiciliary regulator has provided approval of asset admission for reinsurance recoverable amounts described in paragraph 19, such approval shall be disclosed.

The comment letters are included in Attachment 6 (6 pages).

CONSIDERATION Of MAINTENANCE AGENDA – PENDING LIST

Ref #	Title	Attachment #
2024-01 SSAP No. 26R (Julie)	**Bond Definition – Debt Securities Issued by Funds**	**3 – Agenda Item**

Summary:
This agenda item has been developed to clarify guidance in the principles-based bond definition on the treatment on debt securities issued by funds, particularly to eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches. In the adopted bond definition, bonds issued by business development corporations (BDCs), closed-end funds (CEFs), or similar operating entities are provided as examples of issuer credit obligations (ICOs) when they are registered under the Investment Company Act of 1940 (1940 Act). It has been noted that this guidance is inconsistent with the stated intent of having the bond definition be principles-based as the registration of the fund appears to be the basis of classification as an ICO vs ABS, rather than based on principles. It has been noted that with the current guidance, two funds with issued debt that are virtually identical can have separate SSAP classification of the debt securities (resulting with different accounting/reporting) simply based on whether the fund is registered. Additionally, it would lead to debt securities being classified inconsistently with their equity counterparts. In concept, there should be consistency between the classification of a debt security as an asset backed security, and the equity of that structure being classified as a residual interest. Using SEC-registration as currently adopted would result in misalignment of these concepts.

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status. Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

The original guidance, and the reference to the SEC registration, was an easy approach to determine whether a debt security from a fund qualified as an ICO. This is because SEC registered funds have leverage limits on how much debt can be issued. Although debt securities issued from SEC registered CEFs and BDCs are still permitted as ICOs, the proposed edits permit debt securities from non-registered funds to qualify as ICO if the funds are functioning as operating entities and are not issuing securities for the primary purpose of raising debt capital.

Recommendation:
NAIC staff recommend that the Working Group include this agenda item on their maintenance agenda as a SAP clarification and expose revisions to *SSAP No. 26R—Bonds* incorporating the principles-based bond definition to clarify that debt securities issued by funds that represent operating entities are permitted as issuer credit obligations. These revisions would be in effect pursuant to the effective date of the revised SSAP No. 26R guidance, which is Jan. 1, 2025. The edits revise paragraph 7.i and incorporate a new paragraph 12 to the SSAP No. 26R guidance. This agenda item also proposes revisions to the draft Issue Paper (paragraph 32c) to update the guidance previously included addressing 1940 Act registered BDCs and CEFs as issuer credit obligations. This item is proposed to be exposed until Feb. 9, 2024. Interested parties are requested to advise if more time is needed.

Any Other Matters

The Valuation Analysis (E) Working Group has sent the Statutory Accounting Principles (E) Working Group two referrals related to life reinsurance described below. The SAPWG should receive the referrals and NAIC staff will develop agenda items for future discussion.

a. **Referral on Appendix A-791 Section 2.c Q&A (Robin – Attachment 4)**

The Valuation Analysis (E) Working Group (VAWG) recommends that SAPWG remove the first sentence from the answer to A-791 Section 2, paragraph c's Q&A (shown as underlined and bolded text below):

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?

> A – Unlike **individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.** So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

b. **Referral on Reinsurance Risk Transfer and Reserve Credit (Robin – Attachment 5)**

VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. The treaty as a whole is non-proportional. This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware. Individual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.

Generally, VAWG regulators observe that some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to 1) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate.

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2016-13 Measurement of Credit Losses on Financial Instruments

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In June 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* (CECL*)* to change impairment and credit loss United States generally accepted accounting principles (GAAP) guidance from an "incurred loss" methodology to an "expected loss" methodology. These changes were made primarily in response to the 2008 Great Recession in which companies were anticipating significant credit losses but were unable to record these losses as the probable threshold had not yet been met. In response to this issue, FASB established the Financial Crisis Advisory Group (FCAG) to advise FASB on improvements to financial reporting in response to the Great Recession. The main recommendation from the FCAG to FASB was to investigate improvements to impairment and credit loss guidance through the development of an alternative to the "incurred loss" methodology. Based on this recommendation FASB developed CECL which replaces the "incurred loss" methodology and provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. CECL affects all entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance recoverables and any other financial assets not specifically excluded that have the contractual right to receive cash. The impact from applying CECL is anticipated to vary by reporting entity in accordance with the credit quality of assets held and how they apply current GAAP.

One significant difference between previous GAAP and CECL is that the impairment guidance for in-scope assets were superseded and replaced with credit loss guidance under *Topic 326–Financial Instruments—Credit Losses*. Beyond consolidating new credit loss guidance into a single topic, CECL fundamentally changed the methodology for calculating and recording credit losses by replacing the incurred credit loss model with the expected credit loss model, which requires expected losses to be assessed and recorded at the onset of the acquisition of in-scope assets. This requirement is applicable for all in-scope assets unless management assesses that the asset represents a zero-risk transaction, U.S. Treasuries for example. As a result, the calculation of a credit loss allowance is now required for many assets which previously would have only recorded a credit loss allowance once it has occurred, or the probable threshold had been met. The asset categories scoped into the new CECL credit loss guidance are as follows:

- Financing Receivables
- Receivables from Sales-Type or Direct Finance Leases
- Related Party Accounts and Loans Receivable, excluding related parties under common control.
- All financial instruments held at Amortized Cost (categorized as Held to Maturity under GAAP), excluding purchased financial assets with credit deterioration (PCDs).
    - Includes but is not limited to debt securities, trade and time-share receivables, contract assets, and reinsurance recoverables.
- Off-balance-sheet credit exposures not accounted for as insurance.
    - Includes but is not limited to loan commitments, forward commitments to purchase loans, letters of credit, and financial guarantees.
- Cash Equivalents

While CECL does require the accrual of an allowance on expected credit losses, it does not require a specific evaluation method but rather adopts a principles-based approach which allows for any kind of credit loss evaluation if the end product of the evaluation meets certain defined criteria. Additionally, assets with similar risk profiles may be evaluated for expected credit losses collectively but these risk profiles must be assessed annually to determine if they remain similar. Note that Available for Sale securities are excluded from the expected credit loss methodology but are instead required to utilize a modified other-than-temporary impairment (OTTI) model detailed in Topic 326-30. The following information summarizes the key information on the accounting and reporting of credit losses under Topic 326:

Overview of CECL Concepts:
Accounting guidance is divided into securities reported at amortized cost (includes investment held at Held-to-Maturity, or HTM), and debt securities reported as available for sale (AFS), which reports fair value through OCI. The following reflects high-level concepts from CECL:

Amortized Cost Securities:

1. Allowance for credit losses is a valuation accounting that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected on the financial assets. Net income is adjusted to reflect the allowance for credit losses based on the current expected estimate. The allowance shall be reported at each reporting date. Changes from current estimates shall be compared to estimates previously reported, with adjustments reflected in net income.

2. The entity shall measure credit losses on a collective basis when similar risk characteristics exist. If a financial asset does not share risk characteristics with other assets, the entity shall evaluate the asset on an individual basis. (Should not include individual and collective assessments on the same asset.)

3. The entity shall estimate expected credit losses over the contractual terms of the financial assets, considering prepayments. However, it shall not extend the contractual term for expected extensions, renewals, and modifications unless there is a reasonable expectation of executing a troubled debt restructuring.

4. When developing an estimate, the entity shall consider available information relevant to assessing collectability of cash flows. This may include internal information, external information, or a combination of past events, current conditions and reasonable and supportable forecasts. (Internal information may be determined sufficient.)

5. Historical credit loss information for assets with similar characteristics generally provides a basis for expected losses, but entities shall not rely solely on past events to estimate expected credit losses. When using historical information, the entity shall consider the need to adjust for management expectations about current conditions and reasonable and supported forecasts that differ from the historical period.

6. Estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote. However, entities are not required to measure expected credit losses when the expectation of nonpayment of the amortized cost basis is zero.

7. Estimate of expected credit losses shall reflect how credit enhancements (other than freestanding contracts) mitigate expected credit losses. However, freestanding contracts shall not be used to offset expected losses.

8. Assets purchased with existing credit deterioration are initially reported at the purchase price plus the allowance for credit losses to determine the initial amortized cost basis. Any noncredit discount or premium shall be allocated to each individual asset. At the acquisition date, the initial allowance for credits losses

determined on a collective basis shall be allocated to individual assets to appropriately allocate any noncredit discount or premium.

9. For collateral-dependent financial assets, entities shall measure expected credit losses based on the fair value of the collateral when the entity determines that foreclosure is probable. The entity may expect credit losses of zero when the fair value (less costs to sell) of the collateral at the reporting date is equal to or exceeds the amortized cost basis of the financial asset. If the collateral is less than the amortized cost basis, an entity shall recognize an allowance for credit losses as the difference between the collateral fair value and the amortized cost of the asset.

10. In the period when financial assets are deemed uncollectible, they shall be written off with a deduction from the allowance.

11. Detailed disclosures are included to enable users to understand: 1) credit risk inherent in a portfolio and how management monitors credit quality of a portfolio; 2) management's estimate of expected credit losses; and 3) changes in the estimate of expected credit losses that have occurred during the period. These disclosures include a rollforward of the allowance for credit losses and a reconciliation of the purchase price for assets purchased with credit deterioration.

12. Noted examples are included for collateral-dependent financial assets (real estate loans), assets with collateral maintenance provisions (reverse-repurchase agreements), and HTM debt securities when potential default is greater than zero, but expected nonpayment is zero (Treasury Securities).

<u>Available-for-Sale Debt Securities</u>

13. Investment is impaired if the fair value of the investment is less than amortized cost basis.

14. For individual AFS debt securities, the entity shall determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. Impairments related to credit losses shall be recorded through an allowance for credit losses. However, the allowance shall be limited by the amount that the fair value is less than the amortized cost basis.

15. At each reporting date, the entity shall record an allowance for credit losses that reflects the amount of impairment related to credit losses, limited by the fair value floor. Changes in the allowance shall be recorded in the period of the change as a credit loss expense (or reversal of credit loss expense).

16. <u>Impairment shall be assessed at the individual security level</u>. For example, debt securities bearing the same CUSIP – even if purchased in separate lots – may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized or unrealized gains and losses for the debt securities. <u>Providing a general allowance for an unidentified investment in a portfolio of debt securities is not appropriate.</u>

17. In assessing whether a credit loss exists, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis. Credit losses on an impaired security shall continue to be measured using the present value of expected future cash flows. (Entity would discount the expected cash flows at the effective interest risk implicit in the security at the date of acquisition.)

18. Estimates of expected future cash flows shall be on the entity's best estimate based on past events, current conditions and on reasonable and supportable forecasts.

19. If the entity intends to sell, or if more-likely-than-not will be required to sell before recovery of the amortized cost basis, any allowance for credit losses shall be written off and the amortized cost basis shall be written down to the debt security's fair value at the reporting date with any incremental impairment reflected in earnings.

20. Entities shall reassess the credit losses each reporting period when there is an allowance for credit losses. Subsequent changes shall be recorded in the allowance for credit losses, with a corresponding adjustment in the credit loss expense. Entities are not permitted to reverse a previously recorded allowance for credit losses to an amount below zero.

21. Once an AFS debt security has been written down, the previous amortized cost basis less write-offs, including noncredit related impairment reported in earnings, shall become the new amortized cost basis, and shall not be adjusted for subsequent recoveries in fair value.

22. For AFS debt securities for which impairments were reported in earnings as a write-off because of an intent to sell or a more-likely-than-not requirement to sell, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. Over the life of the security, continue to estimate the present value of cash flows expected to be collected. For all other AFS debt securities, if there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, those changes shall be accounted for as a prospective adjustment to the yield. Subsequent increases in fair value after the write-down shall be included in other comprehensive income.

23. These AFS debt securities shall be presented on the balance sheet at fair value, with parenthetical presentation of the amortized cost and the allowance for credit losses. The allowance for credit losses shall be separately presented as a component of accumulated other comprehensive income.

24. Detailed disclosures are included to allow users to understand: 1) credit risk inherent in AFS debt securities; 2) management's estimate of credit losses; and 3) changes in the estimate of credit losses that have taken place during the period. These disclosures include detailed information for situations in which AFS securities are in an unrealized loss position, but the entity has reached a conclusion that an allowance for credit losses is unnecessary. Other key disclosures include the methodology and significant inputs used to measure credit loss, a rollforward of the allowance for credit losses, and a reconciliation of purchased financial assets with credit deterioration.

25. Noted examples are included for AFS debt securities in an unrealized loss position for which no credit losses are reported (situations include Treasury Securities, Federal Agency MBS, and Corporate Bonds).

Additionally, CECL would make changes to how companies account for off-balance sheet credit exposures. Traditionally, most credit exposures have had no financial impact outside of disclosures until the probable threshold has been met. However, as credit exposures are within the scope of CECL entities will likely be required to assess and accrue a credit loss allowance at the inception of the credit exposure.

CECL also includes revisions to various other elements of the FASB Codification – Contingencies, Guarantees, Troubled Debt Restructuring, Revenue, Business Combinations, Consolidation, Derivatives, Fair Value Measurement, Foreign Currency Transactions, Leases, Transfer and Servicing, Insurance, Financial Guarantee Contracts, & Health Care Entities. Staff will evaluate these changes in detail, and if these revisions are applicable to SAP, as CECL is considered.

Subsequent Revisions:
Several ASUs have been issued after CECL to provide clarification and improvements to the guidance in ASC Topic 326. Note that references to CECL are inclusive of these subsequent revisions. For the discussion at the 2023 Fall National Meeting, NAIC staff will include the following ASUs:

- *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, amends CECL guidance by providing clarification on two specific issues.
    - Issue 1 amended the transition date effective for nonpublic entities from 2020 to 2021 year-end.
    - Issue 2 clarifies that receivables from operating leases are not within the scope of CECL and should be accounted for in accordance with Topic 820.
- *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, addresses several topics, which are further disaggregated by issue, intended to clarify or correct the original CECL guidance. The Topics are numbered from 1-5 with several individual issues addressed within each Topic.
    - Topic 1 provides clarifications on accrued interest, transfers between categories/classifications of loans and debt securities, and recoveries on previously written off financial assets.
    - Topic 2 corrects cross-references, clarifies that reinsurance recoverables are within the scope of CECL, and provides methodological clarifications in several areas involving the calculation of credit loss reserves (see Issues 2D through 2F).
    - Topic 3 provides clarifications and corrections on several issues involving Fair Value Hedges and Hedge Accounting and clarifies that non-profit organizations that do not separately report earnings may not adopt the amortization approach as detailed for fair value hedging.
    - Topic 4 clarifies that Health and Welfare Benefit plans are not within the scope of CECL, that the scope of certain disclosures is limited to only public entities and clarifies guidance on alternative to fair value valuations.
    - Topic 5 clarifies the presentation of line of credit converted to debt items and whether entities should consider extension or renewals when calculating contract terms.
- *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, amends the effective date for various ASUs. The transition date for CECL was moved to December 15, 2022, for all entities other than public SEC filers.
- *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, addresses five issues identified with CECL.
    - Issues 1 and 2 involve clarifications and additional guidance on assets purchased with credit deterioration.
    - Issue 3 extends the disclosure relief detailed in ASU 2019-04 to additional disclosures on accrued interest receivables.
    - Issue 4 provides clarifications on CECL assessments which involve financial assets secured by collateral maintenance provisions.
    - Issue 5 corrects a cross-reference error.
- *ASU 2020-03 Codification Improvements to Financial Instruments* addresses several issues identified with CECL.
    - Issue 1 clarifies that all entities are required to provide the fair value option disclosures.
    - Issue 2 corrects certain paragraphs in Topic 820 to include the phrase nonfinancial items accounted for as derivatives under Topic 815 to be consistent with the previous amendments.
    - Issue 3 clarifies that the disclosure requirements in Topic 320 apply to the disclosure requirements in Topic 942 for depository and lending institutions.
    - Issues 4 and 5 correct and enhance various cross-references.
    - Issue 6 clarifies the correct contractual term used to measure the net investment in a lease.
    - Issue 7 clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.

Staff Analysis:

The main purpose of statutory accounting principles (SAP) is to address the concerns of regulators, primarily as it relates to assessing solvency, who are the primary users of statutory financial statements. To do so, SAP stresses measurement of a company's ability to pay claims in the future and adopts reasonably conservative principles of accounting to ensure that insurance companies' capital and surplus is reflective of funds in excess of policyholder liabilities which are available to pay claims should the assets backing reserves become insufficient. Risk-based capital then provides a basis for evaluating the sufficiency of this capital and surplus amount in the context of a particular company's risk-taking activities, including its exposure to credit risk. Capital requirements are calibrated to ensure sufficiency of capital even during periods of economic uncertainty and distress, within the intended level of statistical safety.

The statutory framework has long incorporated concepts that incorporate a prospective view of future credit risk that historical GAAP has not. The first is the Asset Valuation Reserve (AVR). AVR requires life insurance companies to establish a reserve to account for future impairment losses on all assets (with some minor exceptions). While this is much more formulaic than the allowance required under CECL, it is intended to accomplish the same objective. The second is that *SSAP No. 26R—Bonds* requires insurance companies that do not maintain AVR to report bonds at fair value if the bond is not considered high-quality (NAIC designations 3 to 6). While this requirement does not result in credit loss reserves, it does have a similar effect by requiring non-life companies to report lower quality bonds at fair value or convert previously highest or high-quality bonds to fair value in the event of credit quality degradation. Further, the RBC formula factors in the credit risk of each individual asset in calculating the amount of capital required to be held. These mechanisms incorporate an expectation of future credit losses. Therefore, while GAAP has just begun recognizing an expectation of future credit losses with the advent of CECL, the statutory framework has recognized and incorporated future credit loss potential for decades.

Although the statutory framework has long considered future credit losses, it is worth assessing CECL to determine whether it could introduce any improvements to the existing statutory framework if adopted. Based on the review performed, Staff does not recommend adoption of CECL for the following reasons:

- CECL is a framework that incorporates significant judgement and forecasting by the company to establish credit reserves. The assumptions and data that go into these estimates are required to be company-specific, reflecting the company's reasonable and supportable forecasts of future economic conditions. It also is required to consider current economic conditions, which results in sensitivity in the reserve to changing economic conditions. The statutory framework has historically limited insurer judgment in estimating reserves. Where judgment has been allowed, there are typically mechanisms in place to closely regulate and assess those assumptions for reasonableness. Further, loss reserves and RBC are generally set to already incorporate downside risk within a desire level of statistical safety. As the framework already incorporates an expectation of adverse experience, it is not particularly volatile with changes in economic conditions. It is intended to reflect risk through the economic cycle, not at a point in time. As a result of both the volatility and judgment involved, the CECL standard does not fit the overall design of the statutory accounting and solvency monitoring framework.
- CECL does not provide a specific method that companies must use to make expected loss estimates but is instead defined by several results-oriented principles. While this does allow companies the flexibility to adopt the forecasting process that best fits their investments and company, it also means that there will be a significant diversity in the methods used to calculate expected credit losses under CECL. Such optionality is generally not considered compatible with SAP and would also place a significant burden on regulators and examiners to assess the variety of forecasting methods utilized by insurance companies.
- The majority of insurance company investments are debt securities which are generally classified as Available for Sale (AFS) for GAAP reporting. Investments classified as AFS are held at fair value with changes in fair value recorded through other comprehensive income. The portion of the CECL standard that applies to AFS securities is markedly different than what applies to debt securities held at amortized cost. Unlike GAAP, statutory accounting requires the majority of debt securities to be held at amortized cost. As a result, using a CECL standard for statutory accounting would be significantly more expansive and

impactful to a statutory balance sheet than under GAAP and would result in a significantly different application of CECL between statutory accounting and GAAP, even if the identical standard were adopted.

- CECL is a complex standard that requires companies to either develop internal models or to contract an external solution to support calculating a reserve. GAAP does allow companies to elect to hold their investments under the fair value option, in which case CECL is not required. This may be an appealing option for some insurers, particularly smaller ones that wish to avoid the operational cost of CECL. The fair value option does not exist for statutory accounting. As such, adopting CECL would likely force insurers to incur the cost of CECL that would not otherwise be necessary for their GAAP financial statements.
- Similarly, many insurance companies do not prepare GAAP financial statements. This means that they would need to learn about and adopt CECL for the first time for their statutory financial statements if CECL were to be adopted.
- As RBC has its own methodology for incorporating credit risk, any CECL allowance would need to be reversed in the RBC formula in order to avoid double counting expected losses. This would largely eliminate any benefit of CECL to regulators' solvency monitoring efforts.

<u>As a result of these factors, NAIC Staff does not recommend adopting CECL for statutory accounting.</u>

Existing Authoritative Literature:

Existing SAP guidance has predominantly adopted (or adopted with modification) GAAP guidance pertaining to other-than-temporary impairment. <u>However, the adopted guidance, although coming from GAAP, does not reflect GAAP concepts for similar securities.</u> For example, the guidance in SSAP No. 26R reflects concepts from GAAP applicable for receivables and loans (e.g., it is probable that the entity will be unable to collect all amounts due accordingly to the contractual terms.) The guidance in *SSAP No. 43R—Loan-Backed and Structured Securities* is more comparable to current GAAP concepts applicable for both HTM and AFS debt securities (e.g., assessment of whether an entity will recover the amortized cost basis based on a review of the present value of cash flows.)

The GAAP categories for debt securities have previously been rejected for statutory accounting. As such, SAP does not include the classifications of "Held-to-Maturity," "Available-for-Sale" or "Trading" for debt securities. All debt securities are captured within SSAP No. 26R or SSAP No. 43R and reported at either amortized cost, or the lower of amortized cost or fair value, based on NAIC designation.

Existing Authoritative Literature:

INT 06-07: Definition of the Phrase "Other Than Temporary" – This INT reflects the adoption with modification of *FSP FAS 115-1/124-1: The Meaning of Other Them Temporary Impairment and Its Application to Certain Investments*. **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13**. (This INT has not been duplicated in this agenda item.)

Preamble – This guidance reflects some of the core principles of statutory accounting as it pertains to the Staff Analysis detailed above:

> 19. SAP is conservative in some respects but not unreasonably conservative over the span of economic cycles, or in recognition of the primary statutory responsibility to regulate for financial solvency. SAP attempts to determine at the financial statement date an insurer's ability to satisfy its obligations to its policyholders and creditors.
>
> 33. Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. Valuation procedures should, to the extent possible, prevent sharp fluctuations in surplus.

SSAP No. 26R, Paragraphs 12-13 – This guidance reflects adoption of *FSP FAS 115-1/124-1: The Meaning of Other Them Temporary Impairment and Its Application to Certain Investments.* **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13**.

13. An other-than-temporary(INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition.[1] A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

14. In periods subsequent to the recognition of an other-than-temporary impairment loss for a bond, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the bond on the measurement date shall become the new cost basis of the bond and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized over the remaining life of the security in the prospective manner based on the amount and timing of future estimated cash flows. The security shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than temporary shall be recorded as realized losses.

SSAP No. 43R, Paragraphs 12-13 – This guidance reflects concepts included within *FSP FAS 115-1/124-1: The Meaning of Other Them Temporary Impairment and Its Application to Certain Investments,* as well the adoption of *EITF 99-20, Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security,* and *FSP ETIF 99-20-1, Amendments to the Impairment Guidance of ETIF Issue 99-20.* **The guidance reflected from this FSP was included in ASC 310-20, 325-40, and 326-30 and has been deleted or significantly revised with the issuance of ASU 2016-13:**

Collection of All Contractual Cashflows is Not Probable

19. The following guidance applies to loan-backed and structured securities with evidence of deterioration of credit quality since origination for which it is probable, either known at acquisition or identified during the holding period, that the investor will be unable to collect all contractually required payments receivable, except for those beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount determined at acquisition (see paragraphs 22-25).

20. The reporting entity shall recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan-backed or structured security as interest income on an effective-yield basis over the life of the loan-backed or structured security (accretable yield). Any excess of contractually required cash flows over the cash flows expected to be collected is the nonaccretable difference. Expected prepayments shall be treated consistently for determining cash flows expected to be

[1] If a bond has been modified from original acquisition, the guidance in *SSAP No. 36—Troubled Debt Restructuring* and paragraph 22 of *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the modified contractual terms of the debt instrument.

collected and projections of contractual cash flows such that the nonaccretable difference is not affected. Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

21. An investor shall continue to estimate cash flows expected to be collected over the life of the loan-backed or structured security. If, upon subsequent evaluation:

a. The fair value of the loan-backed or structured security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary (INT 06-07). For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with paragraph 19.b.), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.

b. Based on current information and events, if there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan-backed or structured security as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment less (2) cash collected less (3) other-than-temporary impairments plus (4) amount of yield accreted to date. The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3), with the amount of periodic accretion adjusted over the remaining life of the loan-backed or structured security (prospective method).

Unrealized Gains and Losses and Impairment Guidance

29. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with paragraph 36 of this statement. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

30. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs 33-37). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

31. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss.

32. If an entity intends to sell the loan-backed or structured security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

33. If an entity does not intend to sell the loan-backed or structured security, the entity shall assess whether it has the intent and ability[2] to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

34. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security and the entity has the intent and ability to hold. Therefore, in those situations, an other-than temporary impairment shall be considered to have occurred. (For mortgage-referenced securities, an OTTI is considered to have occurred when there has been a delinquency or other credit event in the referenced pool of mortgages such that the entity does not expect to recover the entire amortized cost basis of the security.) In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a non-interest related decline[3] exists), and an other-than-temporary impairment shall be considered to have occurred. A decrease in cashflows expected to be collected on a loaned-backed or structured security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

35. In determining whether a non-interest related decline exists, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired loan-backed or structured security, discounted at the security's effective interest rate.

a. For securities accounted for under paragraphs 14-18 – the effective interest rate of the loan-backed or structured security is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).

b. For securities accounted for under paragraphs 19-21 – the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment.

c. For securities accounted for under paragraphs 22-25 – the reporting entity shall apply the guidance in paragraph 24.b.

36. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized.)

37. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present

[2] This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this statement (amortized cost).

[3] A non-interest related decline is a decline in value due to fundamental credit problems of the issuer. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due. An interest related decline in value may be due to both increases in the risk-free interest rate and general credit spread widening.

value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate in accordance with paragraph 35. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities due to the reporting requirements.)

Reinsurance recoverables are explicitly included in the scope of the new CECL guidance, but only for "*expected losses related to the credit risk of the reinsurer/assuming company"* (326-20-55-82). The current existing statutory accounting guidance does not include the concept of reserving for expected credit losses. It should be noted that while not related to creditworthiness, *SSAP No. 62R—Property and Casualty Reinsurance* does include the concept of the provision for reinsurance, which is more focused on known overdue/uncollectible reinsurance and does not take the creditworthiness of the reinsurer into the calculation. However, impairment analysis is required for reinsurance balances in both *SSAP No. 61R—Life, Deposit -Type and Accident and Health Reinsurance* and SSAP No. 62R.

Multiple other SSAPs are impacted by the updated guidance, and NAIC Staff has prepared tables in Exhibit 1 which provide detailed summarizations of the updates made by CECL.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The following ASUs were issued after CECL as clarifications and improvements to the guidance in ASC Topic 326 but have already been addressed for statutory accounting purposes by the Working Group:

- *ASU 2019-05 Financial Instruments—Credit Losses (Topic 326)—Targeted Transition Relief* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2019-28.
- *ASU 2022-02 Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-10.
- *ASU 2022-01 Derivatives and Hedging (Topic 815) Fair Value Hedging—Portfolio Layer Method* was assessed and adopted with modification for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-09.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
The credit losses project began as a joint project with the IASB, but the Boards determined that convergence was not possible in 2012 due to the differing needs of their respective stakeholder groups. The IASB issued *IFRS 9, Financial Instruments* in July 2014. The FASB and IASB both sought to respond to concerns identified pertaining to the delayed recognition of credit losses; however, the IASB's stakeholders strongly preferred an impairment model that uses a dual measurement approach, while U.S. stakeholders strongly preferred the current expected credit loss model.

The main difference between ASU 2016-13 and IFRS 9 relates to the timing of recognition of expected losses. The ASU requires that the full amount of expected credit losses be recorded for all financial assets measured at amortized cost, whereas IFRS 9 requires an allowance for credit losses equal to 12 months of expected credit losses until there is a significant increase in credit risk, at which point lifetime expected losses are recognized. Consequently, the allowance for credit losses as measured and recorded under the ASU will be accounted for differently under GAAP than under IFRS and will have a different effect on the financial statements.

Staff Recommendation:
Based on the Staff Analysis detailed on Pages 6-7, Staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject *ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs (see "Subsequent Revisions" on page 5) within the following SSAPs:

- *SSAP 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
- *SSAP 5R—Liabilities, Contingencies and Impairments of Assets*
- *SSAP 22R—Leases*
- *SSAP 26R—Bonds*
- *SSAP 32R—Preferred Stock*
- *SSAP 34—Investment Income Due and Accrued*
- *SSAP 37—Mortgage Loans*
- *SSAP 39—Reverse Mortgages*
- *SSAP 41R—Surplus Notes*
- *SSAP 43R—Loan and Asset Backed Securities*
- *SSAP 61R—Life, Deposit-Type and Accident and Health Reinsurance*
- *SSAP 62R—Property and Casualty Reinsurance*
- *SSAP 86—Derivatives*
- *SSAP 103R—Transfer/Service of Financial Assets*
- *SSAP 105R—Working Capital Finance Investments*
- *INT 06-07: INT 06-07: Definition of the Phrase "Other Than Temporary*

Staff also recommends modifying *INT 06-07: Definition of Phrase "Other Than Temporary"* to clarify that companies should adhere to the impairment guidance detailed within the SSAPs, which may reflect U.S. GAAP guidance prior to the FASB's issuance of ASU 2016-13.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018. Agenda item 2016-20 was reviewed by NAIC Staff, and we recommend it be formally disposed and replaced by this new agenda item.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial

Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 22R—Leases

53. This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2017-08, Premium Amortization on Purchased Callable Debt* Securities, ASU *2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA,* and *FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115.* This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial* Liabilities*, ASU 2016-01, Financial Instruments – Overall, FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations,* and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. This statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*.

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments***.**

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*.

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

129. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

134. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. This statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*.

Proposed Revisions to INT 06-07: Definition of Phrase "Other Than Temporary"

INT 06-07 Discussion

13. On xx/xx/2024, the Working Group rejected *ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs. As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

Staff Review Completed by:
NAIC Staff – William Oden, September 2023

Status:
On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to reject ASU 2016-13, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*, within INT 06-07: Definition of Phrase "Other Than Temporary" and fifteen applicable SSAPs which are detailed above. The Working Group also moved agenda item 2026-20, which was started to address CECL, to the disposed listing. The Working Group directed NAIC staff to research how best to maintain pre-CECL GAAP impairment guidance for posterity.

On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023 meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024 to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

Note on Proposed Revisions: Subsequent to the Fall National Meeting Exposure, additional consistency revisions were made to the proposed revisions and are shown highlighted grey below for January 10, 2024 discussion. The sentence directing companies to continue applying the relevant statutory accounting impairment guidance was originally excluded from any revised SSAPs which was within scope of INT 06-07 as the INT already had this sentence. Staff later determined that it would be clearer and cleaner to have this sentence within all revised SSAPs. Additionally, Staff adjusted each of the revised SSAPs to specifically denote the effective date of the rejection.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 22R—Leases

53. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2017-08, Premium Amortization on Purchased Callable Debt* Securities, ASU *2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA,* and *FASB Emerging Issues Task Force No. 96-10, Impact of Certain*

Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial* Liabilities*, ASU 2016-01, Financial Instruments – Overall, FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. Effective December 31, 2023, ~~T~~this statement rejects ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, *ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations,* and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, *ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, *ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification*

Improvements to Topic 326, Financial Instruments—Credit Losses, and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,*

and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

129. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

134. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. Effective December 31, 2023, ~~T~~this statement rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815,*

825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and *ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to INT 06-07: Definition of Phrase "Other Than Temporary"

INT 06-07 Discussion

13. ~~On xx/xx/2024,~~ Effective December 31, 2023, ~~T~~the Working Group rejected *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* and *ASU 2020-03 Codification Improvements to Financial Instruments*. ~~*ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs.~~ As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/01 1-10-24/01 - 23-24 - ASU 2016-13 - CECL.docx

Exhibit 1 – Summary of Changes from ASU 2016-13 and subsequent ASUs

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Balance Sheet—Overall	210-10	Removal of disclosure guidance link.	45-15
Comprehensive Income—Overall	220-10	Supersede content and amend AFS guidance link.	45-10A 45-16A 55-15B
Statement of Cash Flows—Overall	230-10	Amends guidance to say amortized cost basis.	45-21
Interim Reporting—Overall	270-10	Amend guidance for new credit loss language and include references to transition guidance.	50-1
Receivables—Overall	310-10	Amends guidance for new CECL language, supersedes (or transfers to 326) several guidance paragraphs including OTTI, and adds new guidance on PCD interest income.	05-1 35-1 thru 49 35-53A thru C 45-1 45-4A 45-5 45-6 50-1 thru 35 55-1 thru 12 55-16 thru 22
Receivables—Nonrefundable Fees and Other Costs	310-20	Amends guidance for new CECL language and supersedes OTTI guidance.	15-3 15-4 35-9 60-1 60-2
Receivables—Loans and Debt Securities Acquired with	310-30	Supersedes entire subtopic and replaces with transition guidance.	All

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Deteriorated Credit Quality			
Receivables—Troubled Debt Restructurings by Creditors	310-40	Amends guidance for new CECL language, supersedes OTTI guidance, and eliminates exclusion of loan pools from the scope of 310-40.	15-11 15-12 35-7 thru 12 40-3 50-1 thru 6 55-7 55-13 thru 15
Investments—Debt Securities—Overall	320-10	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance.	15-4 15-9 15-10 35-1 35-17 thru 24 35-30 35-33A thru I 35-34 thru 37 35-43 40-1 40-2 45-7 thru 9A 50-1 thru 8B 55-16 thru 19 55-21A thru 23
Investments—Equity Method and Joint Ventures—Overall	323-10	Amendment conforms terminology to match CECL guidance.	35-25 55-30 55-34 55-38 55-42 55-44 55-46

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Investments—Other—Beneficial Interests in Securitized Financial Assets	325-40	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance. Also adds specific guidance for benefit interests acquired as with PCD and adds a requirement to use the PV of future cash flows to measure expected credit losses for benefit interests.	15-3 15-4 25-2 30-1 thru 2 35-2 thru 4C 35-6 35-6A thru 10B 35-13 35-14 55-1
Financial Instruments—Credit Losses	326-10 326-20 326-30	Creates Topic 326 codification; note that some guidance was moved from existing codification for inclusion within 326 and these transfers are underlined. Note that AFS and HTM classifications are not applicable for statutory accounting purposes.	All
Contingencies—Loss Contingencies	450-20	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	15-2 50-2A 60-2 60-3
Guarantees—Overall	460-10	Amendment conforms terminology to match CECL guidance and requires that guarantees within the scope of 326 must bifurcate the instruments and apply Topic 326 guidance to the contingent portion and Topic 460 to the non-contingent portion.	25-2 25-3 30-5 35-3 35-4 45-1 50-4 50-5 55-21

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
			55-22
Debt —Troubled Debt Restructurings by Debtors	470-60	Amendment conforms terminology to match CECL guidance.	15-3 15-12
Revenue from Contracts with Customers—Overall	606-10	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	45-3 45-4 50-4 55-108 55-109 55-231 55-237 55-239
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	805-20	Amendment conforms terminology to match CECL and guidance on recording PCD assets which are within the scope of CECL or are purchased with credit deterioration. Additionally, guidance was simplified for indemnification assets arising from government-assisted acquisitions of a financial institution.	30-2 30-4 thru 4B 30-10 30-12 30-26 35-4B
Consolidation—Overall	810-10	Amendment conforms terminology to match CECL guidance.	30-8C
Derivatives and Hedging—Overall	815-10	Amends guidance for new CECL language and supersedes OTTI guidance.	35-5
Derivatives and Hedging—Embedded Derivatives	815-15	Amends OTI guidance to instead direct reader to Topic 326.	25-5
Derivatives and Hedging—Fair Value Hedges	815-25	Amendments conforms terminology to match CECL guidance and includes codification links to topic 326.	35-10 thru 12 55-85 thru 90

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Derivatives and Hedging—Cash Flow Hedges	815-30	Amendment conforms terminology to match CECL guidance.	35-42 35-43
Fair Value Measurement—Overall	820-10	Amendment conforms terminology to match CECL guidance.	55-92
Financial Instruments—Overall	825-10	Amendment conforms terminology to match CECL guidance and supersedes old credit loss guidance.	05-2 25-4 35-1 thru 3 55-8 55-10
Foreign Currency Matters—Foreign Currency Transactions	830-20	Amendment conforms terminology to match CECL guidance and supersedes old AFS guidance for foreign currency debt securities.	35-6 35-7
Interest—Overall	835-10	Amendment supersedes interest income recognition on impaired or deteriorated credit quality loans.	60-2 60-3
Leases—Lessor	842-30	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance/terminology with credit loss guidance.	25-2 25-6 25-9 35-3 40-2
Leases—Leveraged Lease Arrangements	842-50	Amendment removes original OTTI reference and adds codification references to Topic 326.	50-2
Subsequent Events—Overall	855-10	Amendment conforms terminology to match CECL guidance and remove examples now subject to Topic 326.	55-1 55-2
Transfers and Servicing—Sales of Financial Assets	860-20	Amendment conforms terminology to match CECL guidance and adds reference links to Topic 326 for the sale of financial assets which are receivables, purchased financial asset with credit	30-2 35-3 35-9 50-5

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
		deterioration, or is a beneficial interest that meets the criteria in paragraph 325-40-30-1A.	55-19
Financial Services—Depository and Lending—Statement of Cash Flows	942-230	Amendment terminology in implementation illustration to match CECL guidance.	55-2 55-4
Financial Services—Depository and Lending—Receivables	942-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance.	05-1 05-4 25-1 35-1 55-1
Financial Services—Insurance—Insurance Activities	944-20	Amendment removes impairment guidance/terminology.	55-37
Financial Services—Insurance—Separate Accounts	944-80	Amendment supersedes impairment and unrealized gain/loss guidance/terminology with credit loss guidance.	25-9 55-11 55-16
Financial Services—Insurance—Receivables	944-310	Amendment conforms terminology to match CECL guidance and adds requirement to assess credit losses on insurance receivables and references to Topic 326.	35-3 35-4 35-6 45-4 45-4A
Financial Services—Mortgage Banking—Receivables	948-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance with Topic 326.	30-1 30-4 35-1 thru 3 35-5 35-5A 50-1
Health Care Entities—Income Statement	954-225	Amendment replaces impairment reference with credit loss language.	45-8
Health Care Entities—Receivables	954-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	30-1 35-1

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Not-for-Profit Entities—Investments—Debt and Equity Securities	958-320	Amendment replaces impairment guidance with credit loss guidance.	55-5
Not-for-Profit Entities—Investments—Other	958-325	Amendment replaces impairment guidance with credit loss guidance.	30-1 35-1
Real Estate—Time-Sharing Activities—Receivables	978-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	35-5 35-6

ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Credit Losses—Overall	326-10	Extends effective date of CECL from 2020 to 2021.	65-1
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	Add clarification that operating lease receivables are in scope of Topic 842.	15-3
Various	Various	Amend the transition dates of all pending content paragraphs that link to transition guidance paragraph 326-10-65-1 from 2020 to 2021.	Various

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments related to accrued interest receivables provide an entity with the ability to measure an allowance for credit losses on accrued interest receivables separately from the allowance for credit losses on the other components of the amortized cost basis and to make certain accounting policy elections and apply a practical expedient to operationalize the amendments in Update 2016-13.	30-5 30-5A 35-8A 45-5 50-3A thru 3D 30-1A 30-1B 35-13A 45-1 50-3A thru 4
Receivables—Overall & Investments—Debt Securities—Overall & Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Services—Mortgage Banking—Receivables	310-10 & 320-10 & 326-20 & 948-10	The amendments related to transfers between classifications or categories for nonmortgage loans and debt securities provide an entity with guidance on how to account for the allowance for credit losses or the valuation allowance when transferring loans and debt securities.	35-47 thru 48B 45-2 35-10 thru 10B 35-15 35-16 45-8B 55-24 55-25 35-7 30-4 35-2A 35-5A 45-2
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20 & 326-30	The amendments clarify that an entity should consider expected recoveries when measuring the allowance for credit losses by superseding the guidance in paragraphs 326-20-35-8 through 35-9	30-1 35-4 35-5 35-8

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
& Financial Instruments—Credit Losses—Available-for-Sale Debt Securities		that may have precluded an entity from considering recoveries when estimating expected credit losses on financial assets measured at amortized cost basis. Additionally, the amendments clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity.	35-9 50-13 55-52 35-12 35-13
Receivables—Troubled Debt Restructurings by Creditors	310-40	The amendment clarifies paragraph 310-40-55-14 by removing the incorrect cross-reference to paragraph 326-20-35-2 and, instead, properly cross-referencing paragraphs 326-20-35-4 through 35-5, which require that an entity use 41 the fair value	55-14
Investments—Equity Method and Joint Ventures—Overall	323-10	The amendment to paragraph 323-10-35-26 clarifies the guidance by including references to both Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, and Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities, to require the subsequent measurement of credit losses on financial assets after the guidance on equity method losses is applied.	35-24 35-26
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify that reinsurance recoverables that result from insurance transactions that are within the scope of Topic 944, Financial Services—Insurance, are within the scope of Subtopic 326-20 even if those reinsurance recoverables are measured on a net present value basis in accordance with Topic 944.	05-1 15-2

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments clarify the Board's intent for how an entity should determine the effective interest rate and estimated expected future cash flows by removing the prohibition in the guidance and requiring that the projections used for determining the effective interest rate also be used in determining the estimated expected future cash flows. The amendments also clarify that if an entity projects future interest rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments, then the entity should adjust the effective interest rate to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments.	30-4 35-11
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments in paragraph 326-20-30-4A permit an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a financial asset. The amendments also clarify that an entity should not adjust the effective interest rate used to discount expected cash flows for subsequent changes in expected prepayments if the financial asset is restructured in a troubled debt restructuring. Paragraph 326-30-35-7A was also amended to allow an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a debt security classified as available-for-sale	30-4A 35-7A

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify the guidance and align the measurement of credit losses using fair value of collateral when foreclosure is probable and when an entity elects the collateral-dependent practical expedient by adding a requirement to adjust the fair value of the collateral for estimated costs to sell in paragraph 326- 20-35-4. Additionally, the amendments clarify the guidance that when an entity adjusts the fair value of the collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell rather than operate the collateral.	35-4 35-5
Derivatives and Hedging—Hedging—General & Derivatives and Hedging—Fair Value Hedges	815-20 & 815-25	The amendments clarify that an entity may measure the change in fair value of a hedged item using an assumed term only for changes attributable to interest rate risk. They also clarify that an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term when the hedged item is designated in a hedge of both interest rate risk and foreign exchange risk. In addition, the amendments clarify that one or more separately designated partial term fair value hedging relationships of a single financial instrument can be outstanding at the same time.	25-12 35-13B 55-99
Derivatives and Hedging—Fair Value Hedges	815-25	The amendments clarify that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. They also clarify that if an entity elects to amortize the basis adjustment during an outstanding partial-term	35-9A

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
		hedge, the basis adjustment should be fully amortized by the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B.	
Derivative and Hedging—Overall	815-10	The amendments clarify that an entity should disclose available-for-sale debt securities at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.	4EE
Derivatives and Hedging—Cash Flow Hedges	815-30	The amendment clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.	35-26
Derivative and Hedging—Overall & Derivatives and Hedging—Hedging—General	815-10 & 815-20	The amendments clarify that a not-for-profit entity that does not separately report earnings is not permitted to elect the amortization approach for amounts excluded from the assessment of effectiveness under fair value hedge accounting. The amendments also update the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815, Derivatives and Hedging, for entities that do not report earnings separately.	15-1 15-1 25-12
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer designation concurrently with hedge inception. The amendments also clarify that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an	25-139 25-143

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
		exchange or an over-the-counter market) qualify for the same 60 subsequent quarterly hedge effectiveness assessment timing relief for which certain private companies qualify in accordance with paragraph 815-20-25-142.	
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that the application of the first payments-received cash flow hedging technique to changes in overall cash flows on a group of variable interest payments continues to be permitted under Topic 815, Derivatives and Hedging.	55-33G
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify various provisions to the amendments in Update 2017-12.	65-3 65-5
Investments—Debt Securities—Overall & Investments—Equity Securities—Overall	320-10 & 321-10	The amendments clarify the guidance in paragraphs 320-10-15-3 and 321-10-15-3, including adding health and welfare plans to the list of entities for which Topic 320, Investments—Debt Securities, does not apply.	15-3 15-3
Investments—Debt Securities—Overall & Financial Services—Depository and Lending—Investments—Debt and Equity Securities	320-10 & 942-320	The Board intended to eliminate all fair value disclosures for financial assets measured at amortized cost basis for entities other than public business entities through the amendments in Update 2016-01. The amendments clarify the guidance in paragraph 320-10-50-5 by eliminating the requirement for entities other than public business entities to disclose aggregate fair value of held-to maturity debt securities.	50-5 50-5A 50-3 50-3A
Investments—Equity Securities—Overall	321-10	The amendments clarify that all adjustments made under the measurement alternative upon the identified remeasurement events should be accounted for in accordance with Topic 820.	35-2 50-2B

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Foreign Currency Matters—Overall & Financial Instruments—Overall	830-10 & 825-10	The amendments clarify that an entity is required to follow paragraph 830-10-45-18 for equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with paragraph 321-10-35-2. Paragraph 830-10-45-18 requires remeasurement at historical exchange rates. The amendments to paragraph 830-10-45-18(a)(1) and (a)(2) are not intended to change items that should be remeasured at historical exchange rates.	45-18 65-5
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments require an entity to present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column, as illustrated in Example 15.	50-6A 50-7 55-79
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Overall	326-20 & 326-10	The amendments clarify that an entity should consider extension or renewal options (excluding those that are accounted for as a derivative in Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.	30-6 65-1 65-2

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment intends to clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by an entity. In addition, the amendments clarify that when a method other than a discounted cash flow method is used to estimate credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount; however, an entity may include increases in expected cash flows after acquisition	30-13 and 30-13A 55-86 thru 90
Financial Instruments—Credit Losses—Overall	326-10	The Board did not intend to introduce significant operational complexities when measuring expected credit losses on preexisting troubled debt restructurings. As a result. the amendment allows entities an accounting policy election to calculate the prepayment-adjusted effective interest rate on preexisting troubled debt restructurings using the prepayment assumptions that exist as of the date that an entity adopts the amendments in Update 2016-13, instead of the prepayment-adjusted effective interest rate immediately before the restructuring date.	65-1
Investments—Debt and Equity Securities—Overall	320-10	The amendment provides a practical expedient that allows an entity to exclude accrued interest receivable balances from the disclosure requirements in paragraphs 326-	50-2A 50-5C

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
		20-50-4 through 50-22 and 326-30-50-4 through 50-10. The amendments in this Update extend the disclosure relief for accrued interest receivable balances as permitted in Update 2019-04 to certain other Topics in the Codification.	
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment clarifies that an entity should reasonably expect the borrower to continually replenish collateral securing the financial asset(s) in accordance with the contractual terms of the financial asset to apply the practical 15 expedient. An entity is not required to consider remote scenarios in making this determination.	35-6
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest & Financial Instruments—Credit Losses—Overall	805-20 & 326-10	The amendment clarifies paragraph 805-20-50-1 by removing the cross reference to Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, which was superseded by Update 2016-13. The amendment instead correctly cross-references the guidance for purchased financial assets with credit deterioration in Subtopic 326-20.	50-1 65-4

ASU 2020-03 Codification Improvements to Financial Instruments			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Financial Instruments—Overall	825-10	Amendment clarifies that because financial assets and financial liabilities on which the fair value option have been elected are measured at fair value and not at amortized cost basis, all entities are subject to the fair value option disclosures in paragraphs 825-10-50-24 through 50-32.	50-23A 65-7
Fair Value Measurement—Overall	820-10	The amendments clarify the applicability of the portfolio exception in Subtopic 820-10, Fair Value Measurement—Overall, to nonfinancial items accounted for as derivatives under Topic 815, Derivatives and Hedging.	35-2A 35-18L
Financial Services—Depository and Lending—Investments—Debt and Equity Securities & Financial Instruments—Overall	942-320 & 825-10	The amendments on certain disclosures for depository and lending institutions clarify that the disclosure requirements in paragraphs 320-10-50-3 and 320-10-50-5 through 50-5C apply to the disclosure requirements in paragraphs 942-320-50-3 through 50-3A.	50-1 50-3 50-3A 65-5
Debt—Modifications and Extinguishments	470-50	The amendments clarify that paragraphs 470-50-40-17 through 40-18, which describe the accounting for fees between the debtor and creditor and third-party costs, respectively, directly related to exchanges or modifications of debt instruments, reference paragraph 470-50-40-21 for the accounting for modifications to or exchanges of line-of-credit or revolving-debt arrangements.	40-17 40-18 40-21

ASU 2020-03 Codification Improvements to Financial Instruments			
Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**
Fair Value Measurement—Overall	820-10	The amendment clarifies that the disclosure requirements in paragraph 820-10-50-2 do not apply to entities using the net asset value per share (or its equivalent) practical expedient.	50-2
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Overall	326-20 & 326-10	The amendments align the contractual term to measure expected credit losses for a net investment in a lease under Topic 326 to be consistent with the lease term determined under Topic 842.	30-6A 55-8 65-4
Transfers and Servicing—Sales of Financial Assets	860-20	The amendments relate to the interaction of the guidance in Topic 326 and Subtopic 860-20, Transfers and Servicing—Sales of Financial Assets. The amendments to Subtopic 860-20 clarify that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.	25-13

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04T: Scottish Re Life Reinsurance Liquidation Questions

Drafting Note: Tracked revisions are the edits from the Dec. 1, 2023 Working Group exposure. Shaded edits are for Working Group discussion on 1-10-24.

INT 23-04T Dates Discussed
October 23, 2023; October 24, 2023; December 1, 2023; January 10, 2024

INT 23-04T References

Current:
SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

INT 23-04T Issue

Background:

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

   a. The recent liquidation order was for Scottish Re, a U.S. life reinsurance entity, which was in regulatory supervision for several years.

   b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.

   c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.

   d. Settlement from the reinsurer's estate is expected to exceed one year.

   e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.

   f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements. ~~The liquidation order prevents enforcing default clauses within the trust agreements, delaying liquidation of assets held within any trusts.~~

Interpretation Discussion

2. This interpretation is ~~focused on~~ applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

INT 23-04T: Life Reinsurance Liquidation Questions

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in S*tatement of Statutory Accounting Principle*s (*SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

> **Recaptures and Commutations**
>
> 58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset.* The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

INT 23-04T: Life Reinsurance Liquidation Questions

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.

14. ~~Other a~~Amounts ~~receivable~~ recoverable from the reinsurer's estate for claims incurred ~~unpaid related to the period~~before the reinsurance contract cancellation ~~which are recoverable from the reinsurer's estate~~ shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.

15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.

16. After ~~removing the reinsurance credit and~~ impairing the recoverables, ~~the~~ any other amount expected to be recovered from the reinsurer's estate ~~and any payables~~ shall ~~continue to~~ be reported ~~in annual statement Schedule S - Reinsurance~~ on line 25 aggregate write-ins for other than invested assets. ~~This is consistent with the concept that these are reinsurance recoverables and allows for industry-wide analysis of aggregate exposure.~~

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining receivables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?

~~17. Given the uncertainty of the reinsurance recoverables, reporting entities shall nonadmit all amounts recoverable from a life reinsurer in liquidation.~~

18. Reinsurance recoverables from Scottish Re in liquidation are admitted as follows:

a. The reinsurance recoverable amount from Scottish Re from paid claims incurred prior to the reinsurance contract cancellation which are reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute are admitted after impairment review.

b. To the extent reinsurance amounts recoverable are secured by assets in an Appendix A-785 - Credit for Reinsurance compliant trust, such recoverable amounts may be admitted to the extent the that the amounts are not in dispute and that the collateral in an Appendix A-785 compliant trust is sufficient.

Drafting Note, Working Group discussion of Paragraph 19 is expected.

~~18.~~19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785.

Issue 5 – Disclosures

~~19.~~20. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?

~~20.~~21. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.

~~21.~~22. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of Scottish Re reinsurance counterparties in liquidation, including but not limited to, reinsurance payable liabilities, reinsurance recoverables by paid claims and other amounts, information regarding the status of any collateral and its fair value. Where applicable, reporting entities should disclose any individual components (e.g., unreimbursed claims or provisions for future losses) of recoverable amounts that are presented in the aggregate on the financial statements. The disclosure shall include measurement, impairment and collectability of any reinsurance recoverables including timing of expected payments and nonadmitted amounts.

INT 23-04 Summary

Drafting note – this summary paragraph will be conformed to the Working Group discussion.

~~22.~~23. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:

a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.

b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.

c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Report reinsurance payable separate from reinsurance recoverables. Amounts related to paid and unpaid claims prior to contract cancellation are reported on asset page line 16.1 - Amounts Recoverable from Reinsurers and asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, respectively. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be on the asset pa~~gege~~ line 25 Aggregate Write-ins for Other than Invested Assets. ~~Recognize as appropriate any reinsurance payable.~~

d. Issue 4 – Admissibility of Reinsurance Recoverables: Admit amounts related to paid claims incurred prior to contract cancellation reported on asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute after impairment review. Admit reinsurance recoverables which are not in dispute, and which are secured by collateral in an A-785 compliant trust. Nonadmit all amounts recoverable from a life reinsurer in liquidation which are either in dispute or which are not secured by collateral in a trust compliant with Appendix A-785.

e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation as described in paragraph 22.

INT 23-04T Status

INT 23-04T: Life Reinsurance Liquidation Questions

~~23.~~24. The tentative consensuses in this interpretation were exposed on December 1, 2023.

~~24.~~25. Further discussion is planned.

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Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Bond Definition – Debt Securities Issued by Funds

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to clarify guidance in the principles-based bond definition on the treatment on debt securities issued by funds, particularly to eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches. In the adopted bond definition, bonds issued by business development corporations (BDCs), closed-end funds (CEFs), or similar operating entities are provided as examples of issuer credit obligations (ICOs) when they are registered under the Investment Company Act of 1940 (1940 Act). It has been noted that this guidance is inconsistent with the stated intent of having the bond definition be principles-based as the registration of the fund appears to be the basis of classification as an ICO vs ABS, rather than based on principles. It has been noted that with the current guidance, two funds with issued debt that are virtually identical can have separate SSAP classification of the debt securities (resulting with different accounting/reporting) simply based on whether the fund is registered. Additionally, it would lead to debt securities being classified inconsistently with their equity counterparts. In concept, there should be consistency between the classification of a debt security as an asset backed security, and the equity of that structure being classified as a residual interest. Using SEC-registration as currently adopted would result in misalignment of these concepts.

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status. Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

The original guidance, and the reference to the SEC registration, was an easy approach to determine whether a debt security from a fund qualified as an ICO. This is because SEC registered funds have leverage limits on how much debt can be issued. Although debt securities issued from SEC registered CEFs and BDCs are still permitted as ICOs, the proposed edits permit debt securities from non-registered funds to qualify as ICO if the funds are functioning as operating entities and are not issuing securities for the primary purpose of raising debt capital.

Existing Authoritative Literature:

- ***SSAP No. 26R—Bonds*** **(Effective Jan. 1, 2025)**

  7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

     a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;(INT 01-25)

     b. U.S. government agency securities;

c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);

d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;

e. Corporate bonds, issued by holding companies that own operating entities;

f. Project finance bonds issued by operating entities;

g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., Credit Tenant Loans (CTLs), Equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;

i. Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.

j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

Issue Paper – Exposure Draft As of 2023 Summer National Meeting

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an issuer credit obligation, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to “traditional bond” structures previously included in SSAP No. 26R, examples of issuer credit obligations include:

a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. (e.g., CTLs, ETCs, other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.

c. Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to “similar entities” is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities for inclusion on Schedule D-1.

d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or “operation” (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both issuer credit operations, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality.

Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as issuer credit obligations under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting on Schedule D-1, or is classified as an issuer credit obligation or ABS. Instruments (even if identified as "project finance") that do not qualify as issuer credit obligations as they not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an issuer credit obligation intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as issuer credit obligations, Under the bond definition encompassing both issuer credit obligations and asset-backed securities, in order for a debt instrument to represent a creditor relationship, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable . For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grows with inflation, these securities shall be captured as issuer credit obligations on Schedule D-1.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, reflecting new guidance to incorporate a principles-based bond definition were adopted during the 2023 Summer National Meeting. This guidance is effective Jan. 1, 2025. The corresponding Issue Paper has been updated as discussions occurred and has not yet been finalized as discussions involving SSAP No. 21R for the debt securities that do not qualify as bonds is not yet adopted.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:
NAIC staff recommend that the Working Group include this agenda item on their maintenance agenda as a SAP clarification and expose revisions to *SSAP No. 26R—Bonds* incorporating the principles-based bond definition to clarify that debt securities issued by funds that represent operating entities are permitted as issuer credit obligations. These revisions would be in effect pursuant to the effective date of the revised SSAP No. 26R guidance, which is Jan. 1, 2025. The edits revise paragraph 7.i and incorporate a new paragraph 12 to the SSAP No. 26R guidance.

This agenda item also proposes revisions to the draft Issue Paper (paragraph 32c) to update the guidance previously included addressing 1940 Act registered BDCs and CEFs as issuer credit obligations.

Proposed Revisions to SSAP No. 26R—Bonds (Effective Jan. 1, 2025)

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

   a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;(INT 01-25)

   b. U.S. government agency securities;

   c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);

   d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;

   e. Corporate bonds, issued by holding companies that own operating entities;

   f. Project finance bonds issued by operating entities;

   g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., Credit Tenant Loans (CTLs), Equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

   h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;

   i. Bonds issued by funds representing operating entities as described in paragraph 12.~~Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.~~

   j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

8. An asset[1] backed security is a bond issued by an entity (an "ABS Issuer") created for the primary purpose of raising debt capital backed by financial assets[2] or cash generating non-financial assets owned by the

[1] The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

[2] *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights

ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity[3]. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

i. The price volatility in the principal market for the underlying collateral;
ii. The liquidity in the principal market for the underlying collateral;
iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);
iv. The overcollateralization of the underlying collateral relative to the debt obligation; and
v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial

depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

[3] Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

    a. *Substantive Credit Enhancement*: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

    b. The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in *SSAP No. 21R—Other Admitted Assets*.)

11. Whether an issuer of debt represents an operating entity or ABS Issuer is unambiguous in most instances, but certain instances may be less clear. For example, an entity may operate a single asset such as a toll road or power generation facility (e.g., project finance) which serves to collateralize a debt issuance, and the cash flows produced by the operation of the assets are pledged to service the debt. In many such instances, the entity is structured as a bankruptcy-remote entity that is separate from the municipality or project sponsor. Such entities have characteristics of operating entities as the operation of the asset constitutes a stand-alone business. They also have many common characteristics of ABS Issuers as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed more holistically, these issuing entities are typically being used to facilitate the financing of an operating component of a project sponsor or municipality. The use of a bankruptcy-remote entity facilitates the efficient raising of debt to finance the operating project, but the primary purpose is to finance an operating project. Therefore, structures in which the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, shall be considered operating entities despite certain characteristics they may share with ABS Issuers.

12. Likewise, distinguishing between a fund that represents an operating entity and a securitization vehicle that represents an ABS Issuer can involve similar ambiguity. Both types of entities may hold only passive investments and issue debt securities for which ultimate recourse upon default is to those investments. However, a clear distinction can generally be made by evaluating the substance of the entity and its primary purpose:

    a. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. For 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations.

    b. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. Perhaps most distinctively, in addition to the characteristics detailed in Paragraph 8, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. There is generally little discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. This hardwiring of debtholder protections allows for the issuance of higher amounts of leverage than would be possible for a fund representing an operating entity, further supporting the entity's primary purpose of raising debt capital.

~~12.~~13. The definition of a creditor relationship, per paragraph 6, does not include equity/fund investments (such as mutual funds or exchanged-traded funds), or securities that possess equity-like characteristics or that represent an ownership interests in the issuer. However, as identified in paragraph 2, exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and included in the 'SVO-Identified Bond ETF List' published on the SVO's webpage are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were issuer credit obligations, unless different treatment is specifically identified in paragraphs 32-38.

~~13.~~14. Investments within the scope of this statement issued by a related party, or acquired through a related party transaction, are also subject to the provisions, admittance assessments and disclosure requirements of *SSAP No. 25—Affiliates and Other Related Parties.*

~~14.~~15. Investments within the scope of this statement meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

Proposed Revisions to Draft Issue Paper:

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an issuer credit obligation, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to "traditional bond" structures previously included in SSAP No. 26R, examples of issuer credit obligations include:

    a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. (e.g., CTLs, ETCs, other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.

c. Bonds issued by funds representing operating entities. Determining whether a fund represents an operating entity can generally be made by evaluating the substance of the entity and its primary purpose. A fund representing an operating entity has the primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. These debt issuances occur in accordance with the fund's primary equity-investor objective. Debt securities issued by closed-end funds and business development corps registered under the 1940 Act are permitted automatic qualification as issuer credit obligations as those funds are subject to strict limits or reporting components on the leverage (debt issuance) within the fund. ~~Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures.~~ In contrast, an ABS issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. More distinctively, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. For these structures, there is little or no discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities for inclusion on Schedule D-1.

d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or "operation" (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both issuer credit operations, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as issuer credit obligations under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting on Schedule D-1, or is classified as an issuer credit obligation or ABS. Instruments (even if identified as "project finance") that do not qualify as issuer credit obligations as they not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an issuer credit obligation intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as issuer credit obligations, Under the bond definition encompassing both issuer credit obligations and asset-backed securities, in order for a debt instrument to represent a creditor relationship, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable . For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grows with inflation, these securities shall be captured as issuer credit obligations on Schedule D-1.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/01 1-10-24/03 - 24-01 - PBBD - SEC Funds.docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

FROM: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice Chair of the Valuation Analysis (E) Working Group

DATE: December 18, 2023

RE: Referral on Appendix A-791 Section 2.c Q&A

The purpose of this referral is to ask the Statutory Accounting Principles (E) Working Group (SAPWG) to consider making a clarifying edit to *A-791, Life and Health Reinsurance Agreements*, Section 2.c Q&A.

The Valuation Analysis (E) Working Group (VAWG) recommends that SAPWG remove the first sentence from the answer to A-791 Section 2, paragraph c's Q&A (shown as underlined and bolded text below):

> **Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**
>
> **<u>A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.</u>** So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

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First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner's Standard Ordinary (CSO) rates as a "safe harbor," at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

Cc: Jennifer Frasier, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group (SAPWG)

FROM: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice Chair of the Valuation Analysis (E) Working Group (VAWG)

DATE: December 18, 2023

RE: Referral on Reinsurance Risk Transfer and Reserve Credit

VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. The treaty as a whole is non-proportional. This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware. Individual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.

Generally, VAWG regulators observe that some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to 1) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate.

Cc: Jennifer Frasier, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

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Statutory Accounting Principles (E) Working Group
Jan. 10, 2024 Call
Comment Letters Received

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December 29, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Item Exposed for Comment during the NAIC National Meeting in Orlando with Comments due December 29

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group).

INT 23-04T: Scottish Re Life Reinsurance Liquidation Questions

The proposed Interpretation addresses the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Working Group tentative consensuses provide responses to the following issues:

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract
Issue 2 – Impairment of Reinsurance Recoverables
Issue 3 – Reporting of Reinsurance Recoverables
Issue 4 – Admissibility of Reinsurance Recoverables
Issue 5 – Disclosures

Interested parties support the comments in the letter submitted by the American Council of Life Insurers.

Ref #2023-24: ASU 2016-13 Measurement of Credit Losses on Financial Instruments

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to reject ASU 2016-13, *Financial Instruments–Credit*

Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*, within INT 06-07: Definition of Phrase "Other Than Temporary" and fifteen applicable SSAPs.

The Working Group also moved agenda item Ref #2026-20, which was started to address current expected credit losses (CECL), to the disposed listing. The Working Group directed NAIC staff to research how best to maintain pre-CECL GAAP impairment guidance for posterity.

On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023 meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024, to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

Interested parties appreciate the Working Group's quick response to industry's request. FASB ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (CECL) is effective for non-public companies preparing GAAP basis financial statements for years beginning after December 31, 2022. For insurance entities required to file audited statutory basis financial statements under the Model Audit Rule, the requirement would have been effective for the audited financial statements as of December 31, 2023. For these reasons, we fully support staff's recommendation to reject the ASU.

* * * *

Please feel free to contact either one of us if you have any questions or would like to discuss the above recommendations.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

ACLI
Financial Security for Life

Mike Monahan
Senior Director, Accounting Policy
202-624-2324
mikemonahan@acli.com

December 21, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 23-04T: Life Reinsurance Liquidation Questions

Dear Mr. Bruggeman:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on the proposed INT 23-04T: Life Reinsurance Liquidation Questions (the "INT"), which was re-exposed for comment December 1, 2023 with comments due on December 29, 2023. We appreciate NAIC staff and regulators' prompt attention to this matter, which has implications for companies' year end 2023 reporting. ACLI would also like to express our gratitude for changes made by the NAIC to date that we believe have already improved the quality of INT 23-04T.

The INT, as re-exposed, provides guidance for ceding entities regarding the five key accounting and reporting issues below, and would be applicable only to amounts arising from the liquidation of Scottish Re:

1) Commutation or Recapture of a Life Reinsurance Contract
2) Impairment of Reinsurance Recoverables
3) Reporting of Reinsurance Recoverables
4) Admissibility of Reinsurance Recoverables
5) Disclosures

General Comments

The proposed INT 23-04T would limit the scope to amounts arising from the Scottish Re Liquidation. ACLI understands the rationale for limiting the scope of the INT, but would suggest a small revision to paragraph 2 for the avoidance of doubt:

> *This interpretation is ~~focused on~~ **applicable only to** the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.*

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

We agree with the provisions in paragraphs 3 and 4, which we understand to require that reporting entities a) unwind reinsurance balances in the manner prescribed by paragraph 58 and b) establish new balances to which the provisions outlined under Issue 3 would apply.

Issue 2 – Impairment of Reinsurance Recoverables

We have no comments on this issue.

Issue 3 – Reporting of Reinsurance Recoverables

ACLI does not object to the proposed financial statement reporting outlined in paragraphs 10-16 of the INT. We would offer the following suggested revision to paragraph 14 to provide additional clarity as to the scope of amounts reported in Line 16.3.

> *14. ~~Other a~~**A**mounts ~~receivable~~ **recoverable from the reinsurer's estate** for claims **incurred** ~~unpaid related to the period~~ before the reinsurance contract cancellation and unpaid **as of the reporting date** ~~which are~~ ~~recoverable from the reinsurer's estate~~ shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.*

Issue 4 – Admissibility of Reinsurance Recoverables

The re-exposed INT would allow amounts to be admitted that are reported on the asset page in line 16.1 or secured by a trust, to the extent such amounts are not in dispute, the trust funds are sufficient, and for amounts reported on line 16.1 after an impairment review. Other reinsurance recoverables are required to be non-admitted.

ACLI believes that amounts recoverable from Scottish Re that are reported on the asset page in lines 16.3 and 25 should also be admitted, subject to an impairment review and approval of reporting entities' domestic regulators. Our comments below support this position and provide additional commentary on several related questions.

The present value of future losses is an example of an "other recoverable" amount that would be reported on line 25. For some cedants, this represents a significant component of the overall receivable from Scottish, and it is acknowledged specifically by the liquidation order. An example of an exposure of this nature would arise if level term business was ceded to Scottish under coinsurance. For level term policies, premiums far exceed claims in the earlier years, and reserves are built up to provide for the increased claims expected in the later years. Since these reinsurance contracts are terminated under the liquidation order, the direct writers will now be responsible for paying these claims without reimbursement from Scottish Re, despite having paid the premiums to Scottish Re. These future losses are acknowledged in the liquidation order, and we have not received information from the receiver that such amounts will receive lower priority in the liquidation- (i.e., they are no less recoverable than paid claims).

The coinsurance reserves scenario described above is only one example, and ACLI believes it is important to provide for consideration of relevant facts and circumstances by reporting entities and their domestic regulators, who are best positioned to analyze and opine on the individual facts and circumstances of a given insurer's exposure in a liquidation (and have done so in the context of the current ongoing liquidation). With this objective in mind, we would propose the following revisions to paragraph 19 to provide for the admittance of amounts reported in lines 16.3 and 25, subject to appropriate review and approval by a reporting entity's domestic regulator.

> *19. Other amounts expected to be recovered that are reported on the asset page lines 16.3 and 25 in accordance with paragraphs 14 through 16 shall only be admitted on approval by the*

reporting entity's domiciliary regulator. Such approval would not constitute a permitted practice, and may be granted in consideration of a reporting entity's individual facts and circumstances, and based on review of appropriate supporting documentation and assumptions.

At the Fall National Meeting, ACLI provided examples of specific evidential matter that regulators may consider, but which may be too specific to be codified directly into the INT given the wide diversity in facts and circumstances among individual companies. Regulator review may include consideration of documentation provided by the receiver; artifacts establishing the nature of the amounts due from the liquidation estate; contractual agreements with Scottish Re prior to liquidation, and assumptions as to collectability of amounts due, including sufficient assets in the liquidation estate and expected timing of collections. Additionally, we would recommend for regulators' consideration of a possible requirement that amounts admitted under paragraph 19 be allocated to special surplus on liabilities, surplus and other funds page, line 34. ACLI also recommends that the aggregate write-in for special surplus funds (line 34) be named as "Scottish Re Recoverable."

Several additional questions regarding admissibility were discussed during and after the NAIC's Fall 2023 National Meeting. We have included comments on several of these issues below and stand ready to work with NAIC staff and regulators to address any other issues and concerns that may arise.

Would the approval of recoverable amounts to be admitted under our proposed paragraph 19 above be considered a permitted practice?

ACLI's view is that the approval of the admission of a recoverable that is provided for specifically in the INT would not be a departure from SAP, and thus not a permitted practice. We note that there is precedent for regulator approval elsewhere in the Accounting Practices and Procedures Manual. One specific example is in SSAP 72 paragraph 8, which requires approval for the recognition of capital contributions as Type 1 subsequent events. For the avoidance of doubt, we have included explicit language to this effect in our proposed revisions.

Do the provisions of Credit for Reinsurance Model Law (#785) constrain the amounts that may be admitted from the estate of Scottish Re?

Subject to the review of individual state laws and regulations in which Model Law 785 is codified, our interpretation is that the credit for reinsurance provisions ceased to apply when the reinsurance agreement terminated. Accordingly, we are not constrained as to the accounting for receivables arising from the liquidation by the requirements of A-785.

Would approval of amounts to be admitted be unduly burdensome for state regulators?

While ACLI members cannot provide a definitive response to this question as it relates to all of our state regulators, we offer our observation that some states already have a practice of reviewing detailed information regarding their companies' exposure to Scottish Re. We believe the primary burden will be on companies to provide information regulators find sufficient, and that our proposed revisions provide for the continued practice of this prudent regulatory oversight rather than a significant expansion of regulators' obligations. Further, we believe that on an ongoing basis the review will represent primarily an update from prior periods.

ACLI members are appreciative of the time and efforts of NAIC staff and regulators regarding this important issue. If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

MMonahan

CC: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, and Wil Oden (NAIC)