Statutory Accounting Principles (E) Working Group
Combined Agenda
May 16, 2023
11:00 a.m. – 12:00 p.m. CT

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/Matt Milford	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.

Hearing Agenda

REVIEW of COMMENTS on EXPOSED ITEMS

The following items received comments during the exposure period that are open for discussion.

1. INT 22-02: Extension of INT 22-02 Through Second Quarter 2023
2. Ref #2023-03: INT 22-01T: C-2 Mortality Risk Note
3. Ref #2023-11EP: Editorial Updates

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
INT 22-02 (Robin)	**Extension of INT 22-02 Through Second Quarter 2023**	**1 – INT**	**Yes, with comments**	**1**

Summary:
On April 12, 2023, the Working Group conducted an e-vote to expose *Interpretation 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*. This exposure proposes to extend INT 22-02 from June 15 to July 1, 2023. The extension will allow INT 22-02 to be applied for the second quarter of 2023 financial statements. Disclosures continue to be required.

Key elements of INT 22-02 are that it does not require accrual of the Corporate Alternative Minimum Tax (CAMT) and that it requires disclosures. INT 22-02 provides overrides to existing guidance in *SSAP No. 9—Subsequent Events* and *SSAP No. 101—Income Taxes.* The Working Group anticipates having calls this quarter to address accounting for the CAMT.

<u>*Interested Parties' Comments:*</u>
Interested parties support the extension of the INT but recommend that it be extended to August 16th, the day after the quarterly statements are due.

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group adopt the exposed *Interpretation 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* with a minor modification to incorporate the August 16 extension date of INT 22-02 suggested by interested parties which would change the exposed expiration date of July 1 to instead be Aug. 16. This date would be one day after the Aug. 15 filing date for the second quarter 2023 financial statements. Consistent with the exposure, this would still allow the Interpretation to be used through the second quarter 2023.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-03 (Robin)	**C-2 Mortality Risk Note**	**2 – Agenda Item**	**Comments Received**	**2, 4**

<u>*Summary:*</u>
Exposure proposes the addition of new financial statement notes which calculate net amount at risk and support the C-2 Mortality risk charge calculation. The Blanks (E) Working Group proposal 2023-09BWG is being simultaneously exposed.

The Life Risk-Based Capital (E) Working Group is working on a project to modify its C-2 mortality risk charges. The Working Group, in cooperation with the C-2 Mortality Work Group of the American Academy of Actuaries, developed structural updates to the life risk-based capital (RBC) treatment of group permanent life and miscellaneous other instruction updates. The proposal assigns the same factors to group permanent life as individual permanent life for policies with and without pricing flexibility.

A new financial statement note will provide the development of net amounts at risk in the categories needed for the Life C-2 mortality risk charges. These categories are designed to create a direct link to a financial statement source, and accompanying Life RBC C-2 mortality risk updates.

As the notes to the financial statements are maintained by the Statutory Accounting Principles (E) Working Group, this agenda item is to add the requirement for the new proposed note into the Accounting Practices and Procedures Manual. An annual statement blanks proposal is being simultaneously exposed as the Life Risk-Based Capital (E) Working Group, has requested year-end 2023 as the effective date for the note.

Existing Authoritative Literature:

- SSAP No. 51R—Life Contracts, contains the notes for life insurance products.
- SSAP No. 59—Credit Life and Accident and Health Insurance Contracts contains the notes for credit life insurance products.
- SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance contains the notes for life and health reinsurance.

<u>*Interested Parties' Comments:*</u>
Interested parties notes the following comment within the proposed disclosures:

> "Note that these amounts are intended for data capture using the tables and detailed line references in the annual statement instructions."

Given that the purpose of the change described in the above sentence is for data capture using the tables and detailed line references in the annual statement instructions, we recommend that the Working Group only expose this item as a sponsor for a Blanks change and that no changes be made to the SSAPs.

<u>*CJW Associate' Comments:*</u>
Both of these proposals state their purpose as incorporating elements needed for direct pulls into the Life Risk-Based Capital (LRBC) formula from the annual statement. However, both proposals go beyond elements needed for LRBC and the Blanks proposal even includes information that is already provided in the statement. Since these proposals are related as to intent and the SAPWG proposal is driving the BWG proposal, this email provides comments applicable to both proposals.

SAPWG 2023-03 calls for the disclosure of gross, assumed, ceded and net amounts at risk for life insurance. If the intent of the disclosure is really to accommodate LRBC, only the net amounts are needed. Why does the disclosure requirement go beyond the stated purpose? In addition, some of the information required in the proposed disclosure already exists in the statement. It is my understanding that a disclosure requirement does NOT have to be in the Notes to Financials. The disclosure can appear anywhere in the statement. In this case, some of the requested information is in the Exhibit of Life Insurance, Exhibit 5, and Separate Accounts Exhibit 3. In fact, the proposed additional language for the SSAPs even references those statement locations as drafting notes. Why then are those particular elements being duplicated in the BWG proposal for the Note? It is not necessary to report something in the Exhibit of Life Insurance or Exhibit 5, then duplicate it in a Note, and then be pulled into LRBC. Last year the LRBC formula directly pulled these elements from the Exhibit of Life Insurance, Exhibit 5, and the Separate Accounts Exhibit 3. That treatment should continue without duplicating the information in a Note.

BWG has been charged with reviewing statement reporting for redundancy and trying to eliminate it as much as possible. But BWG can't accomplish that alone. In fact, the charge actually states BWG is to "Coordinate with the applicable task forces and working groups as needed to avoid duplication of reporting within the annual and quarterly statement blanks." That is why this is being sent to both SAPWG and BWG. Reducing redundancy needs to be a concerted effort between all groups and not just left up to BWG.

In summary:

1. The language being considered for the SSAPs should be revised to not include pieces of information that are not used in LRBC, if the intent of the new proposed Note is to allow for direct pulls from the statement to LRBC.
2. Information included in the BWG proposal that is already available in the Exhibit of Life Insurance, Exhibit 5 and Separate Accounts Exhibit 3, should be eliminated from the new proposed Note.
3. The proposed Note should be restructured to not duplicate information already available in the statement and eliminate elements not used for LRBC.

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group defer action on this agenda item and refer the comments received to the Life Risk-Based Capital (E) Working Group. Key points on the comments received on the C-2 mortality note are:

- Interested parties recommended that this proposal reside somewhere else in the annual statement rather than the annual statement notes (that is, not in the SSAPs).
- Connie Jasper Woodroof provided comments focused on possible redundancy issues in the proposed note because some of the items in the proposed disclosure could be a direct pull from Exhibit 5 Aggregate Reserves for Life Contracts (or the similar exhibit 3 in the Separate Accounts statement.) She recommended

removing these elements from the proposal. Ms. Woodroof also provided comments that some of the elements in the proposed note were not necessary for the Life Risk-Based Capital C- 2 Mortality risk charge.

NAIC staff for the Life Risk-Based Capital (E) Working Group staff confirmed that while the annual statement notes for 2023 year-end would be helpful, it is not strictly necessary for the planned updates to the C-2 mortality risk charges to go forward.

NAIC staff therefore recommend deferring action to allow the Life Risk-Based Capital (E) Working Group to decide if they would like to move forward with an updated proposal for 2024.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-11EP Editorial (Julie)	**AP&P Manual Editorial Updates**	**3 – Agenda Item**	**No Comments**	**2**

Summary:
On February 23, 2023, the Working Group voted to expose various maintenance updates providing revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting. These revisions are captured in three broad categories:

- *SSAP No. 86—Derivatives*: Change to a disclosure category from 'intrinsic value" to "volatility value."
- Various – Streamline references to the *Purposes and Procedures Manual*
- Various – Changes to consistently reference percent (with % sign and not 'percent') throughout SSAPs.

Interested Parties' Comments:
Regarding the proposed changes related to SSAP No. 86, interested parties appreciate staff for including the recommendation to revise the reference from "Intrinsic Value" to "Volatility Value" to clarify the disclosure category for the Blanks (E) Working Group's proposed change and a corresponding revision to SSAP No. 86R.

We also support the proposed changes to the P&P Manual and the use of percent references.

Recommendation:
NAIC staff recommends that the Working Group adopt the exposed maintenance updates providing revisions to the *Accounting Practices and Procedures Manual.*

Meeting Agenda

CONSIDERATION Of MAINTENANCE AGENDA – PENDING LIST

1. Ref #2023-12: Residuals in SSAP No. 48 Investments
2. Ref #2023-13: PIK Interest Disclosure Clarification
3. Ref #2022-14: New Market Tax Credits

Ref #	Title	Attachment #
2023-12 SSAP No. 43R (Julie)	**Residuals in SSAP No. 48 Investments**	**A – Agenda Item**

Summary:
This agenda item proposes revisions to clarify the scope and reporting for investment structures that represent residual interests within statutory accounting principles. Previously, revisions have been incorporated in *SSAP No. 43R—Loan-Backed and Structured Securities* to address the reporting of residual interests within securitization structures. With these revisions, residual interests, as defined within SSAP No. 43R, were required to be reported on Schedule BA on designed reporting lines beginning year-end 2022. After reviewing the 2022 reporting results, it was identified that the information for residuals may be underrepresented as a result of the various legal forms that residual investments can take. For example, a reporting entity could hold investments that have the substance of residual interests in the form of limited partnerships, joint ventures, or other equity fund investments. To ensure collective and consistent reporting of all residual interests, this agenda item proposes guidance to clarify the reporting of in-substance residuals regardless of the structure of the investment vehicle.

The discussion of residual interests often compares those securities to equity interests. These two investment structures are not synonymous, and it should not be perceived that all equity interests reflect residuals. A residual interest or a residual security tranche exists in investment structures that are backed directly, or indirectly through a feeder fund, by a discrete pool of collateral assets. These collateral assets generate cash flows that provide interest and principal payments to debt holders, and once those contractual requirements are met, the resulting excess funds generated by (or with the sale of) the collateral assets are provided to the holder of the residual interest. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent cash flows will be generated and distributed. The residual interest holder absorbs these losses (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal, so long as there are enough collateral cash flows to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform.

The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive 'residual' cash flows after all debt holders receive contractual interest and principal payments. The list below provides common characteristics in residuals, but with varying (and often changing structures), this list should not be used as rules governing whether a security reflects a residual interest. Determining whether a security reflects a residual interest or tranche for reporting purposes shall be based on the substance of the investment held rather than its legal form.

Common Characteristics of Residual Interests / Residual Security Tranches:

- Residuals often do not have contractual principal or interest.

- Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

- Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.

- Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.

- Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification and expose the agenda item.

Ref #	Title	Attachment #
2023-13 **SSAP No. 34** **Blanks Instructions** **(Julie)**	**PIK Interest Disclosure Clarification**	**B – Agenda Item**

Summary:
This agenda item has been developed to further clarify, and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure adopted in *SSAP No. 34—Investment Income Due and Accrued* for year-2023. In response to questions received on how paydowns / disposals would impact PIK interest included in the cumulative balance, it was noted that clarifying guidance would assist with consistent application. Furthermore, without clarification it was identified that companies and investment software vendors may interpret the need to detail the retrospective PIK allocations and paydowns / disposals as evidence for the resulting amount.

To eliminate the potential inconsistent application on how paydowns / disposals impact PIK interest included in cumulative principal / par balance, as well as to streamline the calculation, this agenda item proposes the following clarifications:

- Any decreasing amounts to principal balances (paydowns / disposals / sales, etc.,) shall first be applied to any PIK interest included in the principal balance. For example, if original par was $100, PIK interest received overtime was $50 and paydowns received were $30, the resulting PIK included in the cumulative balance would be $20 - ($50 less $30). No reduction to the original principal would occur until the PIK interest had been fully eliminated from the balance. If in this scenario paydowns of $70 had occurred, the company would report zero in the disclosure for cumulative PIK interest, as the amount received would have fully eliminated the $50 in PIK interest.

- The determination of PIK interest in cumulative balance can be calculated through a practical expedient calculation of original par / principal value to current par / principal value, not to go less than zero. This calculation will determine the resulting balance from PIK interest over time as well as paydowns / disposals, etc. The intent of this calculation is to prevent companies and investment software vendors from creating a schedule that details PIK interest and paydowns received retroactively since the origination of the investment. The practical expedient calculation from the original to current par / principal value shall result with the same resulting PIK interest amount included in the cumulative balance without the retroactive scheduling required.

The adopted disclosure in SSAP No. 34 is not intended to change, but the proposed clarification and practical expedient guidance is intended to be captured in the annual statement instructions. This agenda item is being exposed at the SAPWG, as the source of the adopted disclosure, and will be used to subsequently provide a memo to blanks for year-end 2023 application and to revise the formal instructions for 2024.

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this agenda item to clarify and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure for SSAP No. 34 and annual statement instruction purposes.

For annual statement purposes, this instruction will be an editorial change only and can be provided by the SAPWG in a memo posted on the Blanks Working (E) Group page if adopted after the deadline to incorporate into the annual statement instructions for 2023.

Comments on this exposure are requested by June 30, 2023, to allow for adoption consideration at the 2023 Summer National Meeting.

Ref #	Title	Attachment #
2022-14 SSAP No. 93 SSAP No. 94R (Julie / Wil)	**New Market Tax Credit Projects**	**C – Agenda Item D – SSAP No. 93R E – SSAP No. 94R**

Summary:
During the 2022 Fall National Meeting, the Working Group exposed a discussion document to expand current statutory accounting guidance in *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria. During the 2023 Spring National Meeting, the Working Group received comments and directed NAIC staff to also draft an issue paper and revisions to *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. NAIC staff has completed its initial drafts of the SSAP No. 93 and 94R revisions, which are attachments to this agenda item for Working Group consideration for exposure The related Issue Paper will be drafted and presented for Working Group consideration at a later date.

The following are significant revisions detailed in the exposure of SSAP No. 93 and 94R:

- *SSAP No. 93— Investments in Tax Credit Structures* – In response to comments received from interested parties, the scope of the SSAP has been expanded to include tax credit investments irrespective of structure which is a departure from GAAP guidance which is only applicable to tax equity investments. Additionally, SSAP No. 93 has been revised so that it provides guidance on the investment structure whereas SSAP No. 94R provides guidance on state and federal tax credits, which would include tax credits allocated from tax credit investments. This statement applies the proportional amortization method in *2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.*

- *SSAP No. 94R—State and Federal Tax Credits* – The scope of the SSAP has been expanded to include all state and federal tax credits which have been allocated to or purchased by the reporting entity. The previous version of SSAP No. 94R required tax credits which were purchased at a discount to be recorded at cost which effectively deferred the gain on purchase by creating an off-balance sheet asset that could not be recognized until the cost basis was utilized by the reporting entity. The revised version of SSAP No. 94R eliminates the off-balance sheet asset requirement and instead requires tax credits to be recorded at face value; acquisitions at a premium require the loss to be immediately recognized whereas acquisitions at a discount require the gain be deferred as an "other liability" until the reporting entity has utilized tax credits in excess of the acquisition cost.

Recommendation:
NAIC staff recommend that the Working Group expose the draft revisions to SSAP No. 93 and SSAP No. 94R as a new SAP concept. These revisions are intended to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria.

Comment deadline on the exposed items is June 30.

ANY OTHER MATTERS

a. **VOSTF Referral Response (Julie):** After reviewing the Valuation of Securities (E) Task Force referral on the acquisition of commercially available analytical data and confirming that a response is only necessary with an affirmative answer, the Working Group has decided not to provide a response letter. Although the analysis contemplated by the VOSTF may be useful to other NAIC groups, the analysis of commercially available analytical data will not have a direct impact on the work of the SAPWG, because investment and reporting classifications follow the provisions in the SSAPs and are not dependent on investment analytics or performance. Regulators are encouraged to respond directly to the VOSTF if they have specific comments on the Task Force initiative to acquire commercially available analytical data.

b. **Verbal update on the Life Actuarial (A) Task Force Update on Negative Interest Maintenance Reserve (IMR) Referral** (**Rachel Hemphill, chair of LATF**).

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/05-16-23/0 5-16-23 Agenda.docx