Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** Disclosure of Rolled Cash Equivalent Investments

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: On May 20, the Working Group adopted agenda item *2019-20: Rolling Short-Term Investments,* incorporating additional principle concepts restricting the classification of certain related party or affiliated investments as cash equivalents or short-term investments. These restrictions would apply for items in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets.” With adoption, an additional disclosure element was required stating that short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed) shall be disclosed in the financial statements.

The scope of agenda item 2019-20 covered both cash equivalents and short-term investments and although cash equivalent investments were referenced throughout the agenda item, the adopted disclosure only specifically stated that disclosure was required for short-term investments (or substantially similar investments) that remain on the short-term schedule for more than one year. Due to the importance of identifying certain rolled or renewed cash equivalent investments, the SAPWG requested that an agenda item be drafted to clarify that the disclosure elements as adopted for short-term investments shall also apply to cash equivalent investments.

Additionally, at the request of interested parties, clarification of the disclosure requirements is proposed to identify that the disclosure is satisfied through the use of an identifier code as specified in the applicable reporting instructions in the investments schedules of the statutory financial statements (i.e. Blanks) and not required in a narrative format.

Existing Authoritative Literature:

### *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*

### Disclosures

1. The following disclosures shall be made for short-term investments in the financial statements:
2. Fair values in accordance with *SSAP No. 100R—Fair Value*;
3. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;
4. Basis at which the short-term investments are stated.
5. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26R—Bonds*, paragraph 30.f.
6. **Identification of short-term investments or substantially similar investments in which remain on the short-term schedule for more than one year.**

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):

* Agenda item 2019-20: Rolling Short-Term Investments. As referenced in the “Description of Issue” section, this agenda item was adopted by the SAPWG in May 2020, incorporating additional principle concepts that would restrict the classification of certain related party or affiliated investments as a cash equivalent or short-term investments. These restrictions apply for items in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets.” With adoption, an additional disclosure element was required, incorporating language stating that short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed) shall be disclosed in the financial statements.
* Agenda item 2019-42: Cash Equivalents – Cash & Liquidity Pools. This agenda item was adopted by the SAPWG in May 2020, incorporating additional provisions that direct certain cash / liquidity pools, meeting defined criteria, to be reported as cash equivalents.

**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

Staff Recommendation:

**NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to require the identification/disclosure of cash equivalents and short-term investments, or substantially similar investments, which remain on the same reporting schedule for more than one consecutive reporting period.** (This revision expands current disclosure requirements to include cash equivalent investments.) Furthermore, the revisions clarify that the disclosure is satisfied through the use of the code on the investment schedules.

SSAP No. 2R – Proposed Updates

1. The following disclosures shall be made for short-term investments in the financial statements:
2. Fair values in accordance with *SSAP No. 100R—Fair Value*;
3. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;
4. Basis at which the short-term investments are stated.
5. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26R—Bonds*, paragraph 30.f.
6. Identification of cash equivalents and short-term investments, (or substantially similar investments), which remain on the same reporting schedule for more than one consecutive reporting period. This disclosure is satisfied by use of a designated code in the investment schedules of the statutory financial statements.

Staff Review Completed by: Jim Pinegar, NAIC Staff – June 2020

**Status:**

On July 30, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*, as shown above, to require the identification/disclosure of cash equivalents and short-term investments, or substantially similar investments, which remain on the same reporting schedule for more than one consecutive reporting period. (This revision expands current disclosure requirements to include cash equivalent investments.) Furthermore, the revisions clarify that the disclosure is satisfied through the use of the code on the investment schedules.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2020\Summer\NM Exposures\20-20 - Cash Equivalent Disclosures.docx