Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** Early application of *SSAP No. 32R—Preferred Stock*

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: On July 30, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock.* As is traditionally the case with substantive revisions, the Working Group, as recommended by NAIC staff, implemented an effective date of Jan. 1, 2021.

While the adoption updated the definitions, measurement and impairment guidance for all preferred stock, the most significant change was noted for the balance sheet reporting of perpetual preferred stock. With adoption of SSAP No. 32R, all perpetual preferred stock is to be valued at fair value, not to exceed any currently effective call price. NAIC staff were supportive of this change in valuation requirements as reporting these assets at fair value, as opposed to historical costs, allows for a more accurate representation of the value of such assets as perpetual preferred stock is more comparable to equity securities.

At the request of industry representatives, this agenda item has been drafted to permit the early adoption of SSAP No. 32R. If adopted, the impact of substantive revisions could be reflected in the 2020 year-end financial statements. (When revising SSAP No. 32R, it was noted that fair value is already used for perpetual preferred stocks and is the more appropriate measurement method for these equity-like securities.)

Existing Authoritative Literature:

The entire substantively revised SSAP No. 32R is relevant, however only the paragraph below would be impacted by this agenda item.

### Effective Date and Transition

1. On July 30, 2020, substantive revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions, effective January 1, 2021, update definitions of preferred stock and reporting values based on characteristics of the preferred stock.

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): None

**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 recommend that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *SSAP No. 32R—Preferred Stock* to permit the early application of SSAP No. 32R*.*

SSAP No. 32R—Preferred Stock

### Effective Date and Transition

1. On July 30, 2020, substantive revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions update definitions of preferred stock and reporting values based on characteristics of the preferred stock and are effective January 1, 2021, with early adoption permitted.

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

**Status:**

On August 17, 2020, the Statutory Accounting Principles (E) Working Group voted by e-vote to move this item to the active listing, categorized as nonsubstantive, and exposed edits to *SSAP No. 32R—Preferred Stock* as detailed above. This item has a comment period deadline ending September 18, 2020.

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