

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

**Issue: Accounting for Cryptocurrencies****Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

NAIC staff have received several inquiries related to the statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority, such as the Federal Reserve System. These questions generally inquiry whether Bitcoin is permitted to be admitted, but a recent inquiry asked whether Bitcoin is captured in the cash definition within *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*.

The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009. Cryptocurrencies are currently purchased and exchanged using a limited number of unregulated digital currency exchanges. As of February 2021, there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of total outstanding cryptocurrencies nearing \$1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions. Additionally, the recently steep increase in value has attracted speculative investors.

For statutory accounting, cash is defined in SSAP No. 2R as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” **Cryptocurrencies do not meet this definition because these assets are not able to be deposited or exchanged with most U.S. banks and financial institutions.** There have been some recent changes in the market as PayPal now allows users to buy, sell and hold some cryptocurrencies. It is important to note that PayPal is not recognized as a bank. In addition to Bitcoin, some banks have shown interest in stablecoins, which trade like cryptocurrencies but are pegged to existing government-backed currencies, such as the U.S. dollar. NAIC staff are aware that this treatment is evolving and that in the future banks may accept cryptocurrencies in the same manner as true government-backed currencies, which could then meet the statutory accounting definition of cash. However, at this time, NAIC staff note that cryptocurrencies currently do not meet the definitions of cash equivalents, drafts, or short-term investments as they are defined in SSAP No. 2R.

With regards to the inquiry on whether cryptocurrencies are considered admitted assets, pursuant to *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, assets are not permitted to be admitted unless specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*. As such, as cryptocurrencies are not specifically identified as admitted, these are nonadmitted assets.

At this time, no Committees or groups at the NAIC, including the Securities Valuation Office (SVO), have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.

**Existing Authoritative Literature:**

Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” *SSAP No. 4—Assets and Nonadmitted Assets* provides guidance that assets which are not

addressed in the *Accounting Practices and Procedures Manual* default to nonadmitted status. Nonadmitted assets are detailed in *SSAP No. 20—Nonadmitted Assets*.

#### SSAP No. 4

3. As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2, which is accorded limited or no value in statutory reporting, and is one which is:

- a. Specifically identified within the *Accounting Practices and Procedures Manual* as a nonadmitted asset; or
- b. Not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*.

**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):** IFRS has not yet taken a firm position on cryptocurrencies.

#### **Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the interpretative guidance provided by *INT 21-01T: Statutory Accounting Treatment for Cryptocurrencies*. This guidance clarifies that cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and are nonadmitted assets for statutory accounting. NAIC staff will continue to monitor the evolution of cryptocurrencies and address this topic further, including addressing any statements made by FASB or the AICPA, for any significant changes in the usage and design of cryptocurrencies.

With this exposure, the Working Group requests input from Interested Parties and the insurance company trade groups that follow the Working Group to gather information from their members on current ownership of cryptocurrencies. The Working Group requests information on:

1. Extent to which companies currently hold cryptocurrencies,
2. How the acquisition in cryptocurrency is held (held directly by the insurer or indirectly through and SCA),
3. Which cryptocurrencies they are acquiring in (Bitcoin, Ethereum, Litecoin, etc.), and
4. General level of interest for future investment by both companies that currently do and do not own cryptocurrencies.

**Staff Review Completed by: Jake Stultz, February 2021**

#### **Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the interpretative guidance in *INT 21-01T: Statutory Accounting*

*Treatment for Cryptocurrencies* to clarify that cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and are nonadmitted assets for statutory accounting. With the exposure, information from industry is requested per the above recommendation.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, *INT 21-01: Statutory Accounting Treatment for Cryptocurrencies*. The INT clarifies that directly held cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* nor, when directly held, meet definition of an admitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*. The adoption included minor edits to the exposure, which added the phrase “directly held.”

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