Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** SSAP No. 103R – Disclosures

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

This agenda item has been drafted to propose additional disclosures and to data-capture certain existing disclosure elements in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* The additional disclosures proposed herein are in response to the Working Group’s continued deliberation of agenda item 2019-21: SSAP No. 43R – Equity Instruments. Agenda item 2019-21 is a substantive project to consider what investments fall within scope of *SSAP No. 43R—Loan-Backed and Structured Securities* and on Oct. 13, 2020, this project was expanded to include a review of the investments eligible for reporting on Schedule D-1: Long Term Bonds. During the continued work on this project, regulators expressed a desire to identify situations in which a reporting entity has entered into a securitization, asset-backed financing or similar transfer transaction where a significant economic interest in the transferred assets is retained by the reporting entity, its related parties or another member within the holding company group.

The existing disclosures discussed (and proposed for data-capture) are currently completed in a narrative (pdf) format. With the proposal to data-capture certain disclosures, regulators can utilize system inquiries to determine which reporting entities have a securitization, asset backed financing arrangement, or other similar transfers that have been accounted for as a sale when the transferor has continued involvement.

Note – the disclosures discussed below are only required in the event a reporting entity as entered into a securitization, asset-backed financing arrangement or other similar transfer in which it also retains a continuing involvement with the transferred financial asset. Due to the numerous circumstances that may require disclosure, data-capture of most of the applicable disclosures would not sufficiently relay the particular characteristics or circumstances of the transaction – as is required in SSAP No. 103R. However, the need for regulators to have the ability to query the global population regarding the nature of these transactions remains a primary reason for this agenda item. Nonetheless, certain consistent numerical disclosures are suitable for data-capture, which will significantly assist with regulator’s ability to identify which reporting entities have such transactions, at which time further analysis of the narrative disclosures can be performed.

Existing Authoritative Literature:

*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

1. A reporting entity shall disclose the following:
2. For securitizations, asset-backed financing arrangements, and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary) with the transferred financial assets:
3. For each income statement presented:
4. The characteristics of the transfer (including a description of the transferor’s continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(2) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses).

1. Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees, and cash flows received from a transferor’s beneficial interests.
2. For each statement of financial position presented, regardless of when the transfer occurred:
3. Qualitative and quantitative information about the transferor’s continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor’s risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:

(1) The total principal amount outstanding, the amount that has been derecognized, and the amount that continues to be recognized in the statement of financial position.

(2) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.

(3) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:

1. The type and amount of support
2. The primary reasons for providing the support

(4) Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor’s exposure to loss or risk of the related transferor’s interest.

1. The entity’s accounting policies for subsequently measuring assets and liabilities that relate to the continuing involvement with the transferred financial assets;
2. The key inputs and assumptions used in measuring the fair value of assets or liabilities that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses);
3. For the transferor’s interests in the transferred financial assets, a sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under paragraph 28.g.ii.(c) independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test
4. Information about the asset quality of transferred financial assets and any other assets that it manages together with them. This information shall be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets as well as in other assets and liabilities that it manages together with transferred financial assets. For example, information for receivables shall include, but is not limited to:
5. Delinquencies at the end of the period; and
6. Credit losses, net of recoveries, during the period.

Current Annual Statement Illustrations for Completing Disclosures:

**Note 17: Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

(4) For securitizations, asset-backed financing arrangements and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary of the *Accounting Practices and Procedures Manual*) with the transferred financial assets:

a. For each income statement presented:

1. The characteristics of the transfer including a description of the transferor’s continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from the sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

(a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3).

(b) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of prepayable financial assets; and anticipated credit losses, including expected static pool losses)

* If an entity has aggregated multiple transfers during a period, it may disclose the range of assumptions.
* The weighted-average life of prepayable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.
* Expected static pool losses can be calculated by summing the actual and projected future credit losses and dividing the sum by the original balance of the pool of assets.

2. Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees and cash flows received from a transferor’s beneficial interests.

b. For each statement of financial position presented, regardless of when the transfer occurred:

1. Qualitative and quantitative information about the transferor’s continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor’s risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk and other risks), including:

(a) The total principal amount outstanding, the amount that has been derecognized and the amount that continues to be recognized in the statement of financial position.

(b) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.

(c) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:

* The type and amount of support.
* The primary reasons for providing the support.

(d) Information is encouraged about any liquidity arrangements, guarantees and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor’s exposure to loss or risk of the related transferor’s interest.

2. The entity’s accounting policies for subsequently measuring assets and liabilities that relate to the continuing involvement with the transferred financial assets.

3. The key inputs and assumptions used in measuring the fair value of assets or liabilities that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of pre-payable financial assets; and anticipated credit losses, including expected static pool losses).

4. For the transferor’s interests in the transferred financial assets, a sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported per *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* independently from any change in another key assumption, and a description of the objectives, methodology and limitations of the sensitivity analysis or stress test.

5. Information about the asset quality of transferred financial assets and any other assets that it manages together with them. This information shall be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets, as well as in other assets and liabilities that it manages together with transferred financial assets. For example, information for receivables shall include, but is not limited to:

* Delinquencies at the end of the period.
* Credit losses, net of recoveries, during the period.

Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): N/A

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

**Convergence with International Financial Reporting Standards (IFRS) and U.S. GAAP:** N/A

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive to 1) expose new disclosure elements and 2) propose data-capture templates for existing disclosures in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. A blanks proposal exposure is anticipated to occur concurrently with the Working Group’s exposure. With inclusion of the data templates, narrative (pdf) reporting shall still occur to provide additional information regarding transfers accounted for as a sale when the transferor maintains continuing involvement in the transferred financial assets. The purpose of the data-capture templates is so regulators can perform system inquiries to identify which reporting entities have such transactions, at which time further analysis of the narrative disclosures can be performed.

**Proposed disclosures to SSAP No. 103R**

28. A reporting entity shall disclose the following:

1. For securitizations, asset-backed financing arrangements, and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary) with the transferred financial assets:
2. For each income statement presented:
3. The characteristics of the transfer (including a description of the transferor’s continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(2) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses).

1. Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees, and cash flows received from a transferor’s beneficial interests.
2. For each statement of financial position presented, regardless of when the transfer occurred:
3. Qualitative and quantitative information about the transferor’s continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor’s risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:

(1) The total original principal amount, the amount that has been derecognized, and the outstanding amount that continues to be recognized in the statement of financial position. The percentage of original principal held in the company group and the percentage of derecognized principal held by related parties.

(2) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.

(3) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:

1. The type and amount of support
2. The primary reasons for providing the support

(4) Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor’s exposure to loss or risk of the related transferor’s interest.

Proposed Data Capture Templates:

This data-template includes aspects from SSAP No. 103R paragraphs 28g.i.(a & b), and 28.g.ii(a) as well as the new proposed disclosure elements.

**Proposed Data-Capturing Templates:**

Each Material Transaction Listed Separately:

*(Identification of each transaction should be consistent so that the circumstances for each item are adequately associated with the applicable transaction)*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Identification of Transaction | OriginalPrincipal  | % of Original Principal held within the company group | Amount Derecognized | % of derecognized held by related parties | Outstanding amount still recognized in the statement of financial position | Net cashflows between transferor and transferee | FV of proceeds received | Gain/loss from sale of transferred assets |

Staff Review Completed by: Jim Pinegar – January 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 revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to propose 1) new disclosure elements, and 2) a data-capture template for existing disclosures in SSAP No. 103R to capture disclosures for when a reporting entity has transferred (or sold) assets but still retains a material participation. A blanks proposal is anticipated to be concurrently exposed.

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