

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

**Issue:** *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events*

**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:**

In March 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) *2021-03, Intangibles – Goodwill and Other – Accounting Alternative for Evaluating Triggering Events* to provide private companies and not-for-profit entities with an optional accounting alternative for the performance of a goodwill impairment triggering evaluation. Goodwill impairment guidance requires entities to evaluate if the fair value of a reporting entity (that possesses goodwill) is less than its carrying value. Under guidance prior to this ASU, if it were deemed that it was more likely than not that goodwill was impaired, goodwill was tested for impairment using the triggering event date as the measurement date.

Several concerns regarding triggering event evaluations were raised by certain entities, specifically that the cost and complexity to evaluate interim triggering events was burdensome and operationally many private entities likely only evaluate impairment at the end of a reporting period. With these circumstances, the ASU referenced that it may be unduly difficult for these entities to determine a specific triggering date or even identify that a triggering event had occurred. Additionally, the temporary variability in values as a result of the COVID-19 pandemic likely exacerbated this issue.

Accordingly, the amendments in this ASU allow an accounting alternative to perform a goodwill impairment triggering event evaluation only as of the end of a reporting period, regardless of if that is an interim or an annual period. If an entity elects this alternative, they will only evaluate goodwill for impairment as of each reporting date. As a key note, this election is permitted for private and not-for-profit entities regardless of which U.S. GAAP accounting treatment was elected for goodwill (i.e., impairment only or straight-line amortization).

**Existing Authoritative Literature:**

**Staff note** – while the calculation of goodwill differs between U.S. GAAP and Statutory Accounting, the foundation of goodwill is similar. For completeness of this document, applicable goodwill references, as well as impairment guidance, have been included herein. Certain relevant items have been bolded for emphasis.

**SSAP No. 68—Business Combinations and Goodwill**

**Statutory Purchases of SCA Investments**

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition.<sup>(INT 00-28)</sup> Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date.

4. **For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 97, and joint venture, partnership or limited liability company entities accounted for in accordance with paragraph 8 of SSAP No. 48, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity's share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity's share of the book value, positive goodwill exists.** When the cost of the acquired entity is less than the reporting entity's share of the book value, negative goodwill exists. Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.

5. **A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii., 8.b.iii. or, 8.b.iv. of SSAP No. 97 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity's share of the GAAP net book value of the acquired entity, adjusted to a statutory basis of accounting in accordance with paragraph 9 of SSAP No. 97 in the case of acquired entities valued in accordance paragraphs 8.b.ii. or 8.b.iv. of SSAP No. 97. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, paragraph 8.b.i. of SSAP No. 97 shall determine the amount of positive or negative goodwill created by the business combination using the insurer's share of the statutory book value of the acquired entity.**

6. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. of SSAP No. 97 under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

7. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA's financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring entity's capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted. When negative goodwill exists, it shall be recorded as a contra-asset.

8. Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction.<sup>(INT 01-18)</sup>

### **Impairment**

9. **For any decline in the fair value of an entity, acquired through a purchase, that is other than temporary<sup>(INT 06-07)</sup>, the investment shall be written down to fair value as the new cost basis and the amount of the write down shall be accounted for as a realized loss.** The write down shall first be considered as an adjustment to any portion of the investment that is nonadmitted (e.g., nonadmitted goodwill). The new cost basis shall not be changed for subsequent recoveries in fair value. Future declines in fair value, which are determined to be other than temporary, shall be recorded as realized losses. A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such triggering events or changes in circumstances:

- a. A significant decrease in the fair value of a long-lived asset

- b. A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition
  - c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator
  - d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset
  - e. A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset
  - f. A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life
10. **An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the carrying amount of the investment or there is evidence indicating inability of the investee to sustain earnings which would justify the carrying amount of the investment.** A fair value of an investment that is below the carrying amount based on the statutory equity method or the existence of investee operating losses may indicate a loss in value; however, they are not necessarily indicative of a loss in value that is other than temporary.

**Staff note:** In addition to the guidance in SSAP No. 68, *INT 06-07: Definition of Phrase “Other Than Temporary”* also provides authoritative guidance for when an impairment has occurred. While INT 06-07 has been included below, with certain relevant items bolded for emphasis, the requirement for impairment is an assessment - if an impairment indicator is present. Thus, it does not permit the delaying of an impairment assessment until a reporting period, nor does it permit assessment differentiation based on entity type (public vs. private or a not-for-profit entity).

#### *INT 06-07: Definition of Phrase “Other than Temporary”*

1. The *Accounting Practices and Procedures Manual* contains guidance for determining when an investment is considered impaired within each of the above identified statements. Those statements should also be used to determine the measurement of an impairment loss. Each of the above statements also makes reference to an “other than temporary” decline in fair value. This interpretation is designed to address questions related to that phrase, as well as summarize the statutory accounting process for determining when an investment is considered impaired.

#### **Step 1: Determine Whether an Investment Is Impaired**

2. The decision for determining when an investment is considered impaired is dictated by the applicable SSAP and the respective impairment indicators included in each of the SSAPs. **If an impairment indicator is present, the determination of an impairment shall be assessed at the individual security or investment level as reported in the annual statement and supporting schedules.** For those SSAPs that require the reporting entity to use the fair value to determine if an impairment has occurred, the determination of that value shall be consistent with how the term fair value is defined within *SSAP No. 100—Fair Value*. Once a reporting entity has determined that an impairment indicator is present, the reporting entity shall continue to evaluate whether the investment is impaired each subsequent reporting period until either (a) the investment experiences a recovery of the fair value up to (or beyond) its carrying value or (b) the investor recognizes an other-than-temporary impairment loss.

#### **Step 2: Evaluate Whether an Impairment Is Other Than Temporary**

3. **There are numerous factors to be considered when determining whether an impairment is other than temporary and their relative significance will vary from case to case.** The Emerging Accounting Issues (E) Working Group (Working Group) has been asked if the phrase “other than temporary” should be interpreted to mean “permanent.” The Working Group believes the Statutory Accounting Principles (E) Working Group consciously chose the phrase “other than temporary” as the analysis was not

intended to determine whether an individual security or investment was “permanently impaired.” **The fair value of assets may decline for various reasons. The market price may be affected by general market conditions, which reflect prospects for the economy as a whole, or by specific information pertaining to an industry or an individual company. Such declines require further investigation by management. Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the fair value of its investment.**

4. **The Working Group believes that the following items are only a few examples of the factors, which, individually or in combination, indicate that a security’s decline in value is specific to an issuer’s fundamental credit difficulties, or that a non-interest related decline is other than temporary and that a write-down of the carrying value is required:**

- a. **The length of time and the extent to which the fair value has been less than cost;**
- b. **The financial condition and short-term prospects of the issuer, including any specific events that may influence the operations of the issuer, such as changes in technology, that may impair the earnings potential of the asset or the discontinuance of a segment of the business that may affect the future earnings potential; or**
- c. **The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in value.**

5. **An interest related impairment should be deemed other-than-temporary when an investor has the intent to sell an investment, at the reporting date, before recovery of the cost of the investment.** The investor should consider whether its cash or working capital requirements and contractual or regulatory obligations indicate that the investment may need to be sold before the forecasted recovery occurs. The term “interest related” includes a declining value due to both increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest related. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due.

6. **Unless evidence exists to support the assertion that the decline in fair value below carrying value is temporary, a write-down, accounted for as a realized loss, should be recorded.** In accordance with the guidance of the SSAPs, such loss should be recognized in income for the period in which other than temporary impairment is determined to have occurred. The adjusted carrying value reflecting the impairment loss of the individual security or investment shall be the new cost basis of the individual security or investment.

7. The Working Group has also been asked if it is appropriate for reporting entities, independent auditors or state examiners to apply predefined thresholds to the phrase “other than temporary”? The Working Group is aware that certain insurers, independent auditors and state examiners, over time, have developed quantitative thresholds as “rules of thumb” to assist in the evaluation of asset impairment. One rule of thumb in particular suggests that if the fair value is less than its carrying value by 20 percent or more, then it is considered to be other than temporarily impaired. Another suggests that an asset is other than temporarily impaired if the fair value has been less than cost for more than 6 months. The use of a numerical threshold may provide the basis for a preliminary assumption that – without considering all relevant circumstances – an impairment may have occurred. Identifying the impairment is only the beginning of the analysis; it cannot appropriately be used as a substitute for a full analysis of all relevant qualitative considerations. Exclusive reliance on such thresholds removes the ability of management to apply its judgment, a concept inherent to the impairment model.

**Step 3: If the Impairment is Other Than Temporary, the Cost Basis of the Individual Asset Shall Be Written Down to a New Cost Basis and the Amount of the Write-Down Is Accounted for as a Realized Loss**

8. If an impairment is considered other than temporary, the cost or carrying value of the asset should be written down to reflect its value in accordance with the relevant SSAP. A company's management should follow the impairment guidance in the SSAP pertaining to that particular asset class while considering various factors on a case-by-case basis in determining the amount of the realized loss that should be recorded.

**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):** Not applicable – *IAS 36 Impairment of Assets*, requires an annual assessment of the impairment for goodwill.

**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. 68—Business Combinations and Goodwill* to reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events for statutory accounting*. Rejecting this ASU will result with continuation of existing guidance from INT 06-07, which does not permit delays in impairment assessment or variations in assessment based on type of entity.

Proposed revisions to SSAP No. 68 (Relevant Literature section – paragraph 22):

22. This statement rejects [ASU 2021-03, Intangibles – Goodwill and Other – Accounting Alternative for Evaluating triggering Events](#), [ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities](#), [ASU 2017-04, Simplifying the Test for Goodwill Impairment](#), [ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging](#); [ASU 2014-02, Accounting for Goodwill \(a consensus of the Private Company Council\)](#), [ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment](#), [ASU 2011-08, Testing Goodwill for Impairment](#) and [ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts](#); [Accounting Principles Board Opinion No. 16, Business Combinations](#); [FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, an amendment of APB Opinion No. 16](#); [Accounting Principles Board Opinion No. 17, Intangible Assets](#); [FASB Statement No. 79, Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises](#); [FASB Statement No. 141, Business Combinations](#); and [FASB Statement No. 142, Goodwill and Other Intangible Assets](#).

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – October 2021

**Status:**

On December 11, 2021, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 68—Business Combinations and Goodwill* to reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events for statutory accounting*.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2021/13.FallNationalMeeting/Exposures/21-28-ASU2021-03-ImpairmentTriggerEvents.docx>