Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Review Annual Statement Instructions for Accounting Guidance**

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [ ]  [x]  [ ]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: This agenda item has been developed to establish a project to review the annual and quarterly statement instructions to ensure that all accounting guidance is properly reflected within the Statements of Statutory Accounting Principles (SSAPs). Although duplication or reference of accounting guidance may occur for ease of application the reporting guidance, the focus of this project is to ensure that the annual or quarterly statement instructions are not the source of statutory accounting guidance. For purposes of this agenda item, accounting guidance is intended to refer to measurement, valuation, admittance / nonadmittance, as well as when assets and liabilities should be recognized or derecognized within the statutory financial statements.

This agenda item and project is proposed due to limited situations in which the annual statement instructions have been identified to reflect more detailed accounting guidance than the SSAPs. Under the Statutory Hierarchy, the SSAPs are Level 1 and are the authoritative source for accounting provisions. If guidance does not exist in the SSAPs, then other sources of guidance can be considered based on the statutory hierarchy, but it is not intended that guidance purposely be captured in the annual statement instructions (which are level 3) in lieu of the inclusion of guidance in the SSAPs.

Although it is anticipated that only limited situations will be identified, this agenda item proposes a broad project of the Statutory Accounting Principles (E) Working Group, in collaboration with industry, to review the instructions and identify where accounting guidance may need to be captured in the SSAPs.

**Existing Authoritative Literature:**

The Preamble of the NAIC Accounting Practices and Procedures Manual includes the statutory hierarchy:

## V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

### Level 1

1. SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[[1]](#footnote-2) (FASB Codification or GAAP guidance)

### Level 2

1. Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)
2. Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

### Level 3

1. NAIC Annual Statement Instructions
2. Purposes and Procedures Manual of the NAIC Investment Analysis Office

### Level 4

1. Statutory Accounting Principles Preamble and Statement of Concepts[[2]](#footnote-3)

### Level 5

1. Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

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):

* Pursuant to the discussion on agenda item 2022-01: Conceptual Framework, interested parties have identified that accounting guidance resides in the annual statement instructions.
* Pursuant to the discussion on agenda item 2022-19: Negative IMR, it has been identified that the accounting guidance for IMR, including the provisions on negative IMR, are currently captured in the Annual Statement Instructions. *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, points to the Annual Statement Instructions for the IMR and AVR calculation.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** NA

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this agenda item with a request for regulator and industry viewpoints on situations in which guidance in the annual statement instructions should be captured within a SSAP.

Staff Review Completed by: Julie Gann - NAIC Staff, February 2023

**Status:**

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, with a request for regulator and industry viewpoints on situations in which guidance in the annual statement instructions should be captured within a SSAP.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Exposures/23-01 - ASI to SSAP Project.docx

1. Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting. [↑](#footnote-ref-2)
2. The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements Five and Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4. [↑](#footnote-ref-3)