Date: 11/29/21

2021 Fall National Meeting
San Diego, California

Statutory Accounting Principles (E) Working Group
Saturday, December 11, 2021
12:00 – 2:00 p.m.
Convention Center—Upper Level—Room 28

OVERVIEW AGENDA

HEARING AGENDA

	Hearing Page Number	Attachment
1. SAPWG Hearing – Adoption of Minutes—*Dale Bruggeman (OH)*	1	1-6
2. SAPWG Hearing – Review and Adoption of Non-Contested Positions —*Dale Bruggeman (OH)*		
• Ref #2019-24: SSAP No. 71 – Levelized and Persistency Commission (Issue Paper)	2	7
• Ref #2021-11: SSAP No. 43R – Credit Tenant Loans - Scope	2	8
• Ref #2021-16: SSAP No. 30R – FHLB Disclosure – Blanks Referral	3	9
• Ref #2021-17: SSAP No. 32R – Permitted Valuation Methods	4	10
• Ref #2021-19EP: Editorial Updates	5	11
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3. SAPWG Hearing – Review of Comments on Exposed Items—*Dale Bruggeman (OH)* —*Dale Bruggeman (OH)*		
• Ref #2021-18: VM-21 Scenario Consistency Update	5	12
• Ref #2021-14: Policy Statement Terminology Change – Substantive & Nonsubstantive	7	13
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MEETING AGENDA

	Meeting Page Number	Attachment
4. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2021-20: Effective Derivatives – ASU 2017-12	1	A
• Ref #2021-21: Related Party Reporting	4	B
• Ref #2021-22: Schedule D-6-1, Supplemental Reporting	5	C
• Ref #2021-23: SSAP No. 43R – Financial Modeling – Updated Guidance	6	D
• Ref #2021-24: Cryptocurrency General Interrogatory	8	E
• Ref #2021-25: Leasehold Improvements After Lease Termination	8	F
• Ref #2021-26EP: Editorial Updates (Substantive vs. Nonsubstantive)	9	G
• Ref #2021-27: *ASU 2021-04, Issuer's Accounting for Certain Modifications*	9	H
• Ref #2021-28: *ASU 2021-03, Intangibles – Goodwill and Other*	10	I
• Ref #2021-29: ASU 2021-05 - Variable Lease Payments	11	J
• Ref #2021-30: ASU 2021-06 – Amendments to SEC Paragraphs	11	K
• Ref #2021-31: Life Reinsurance Disclosure Clarifications	12	L
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Ref #2019-21: SSAP No. 43R - Update	14	M & N
• INT 20-03 & 20-07 – Troubled Debt Restructuring - COVID	15	O & P
• Review of GAAP Exposures	16	Q
• Working Group referral to CASTF - Update	16	-
• Key Items from the SAPWG Maintenance Agenda – Prioritize Projects	16	-

- **Comment Deadline for Ref #2021-31 – Friday, January 14, 2022**
- **Comment Deadline for all other items – Friday, February 18, 2022**

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Statutory Accounting Principles (E) Working Group
Hearing Agenda
December 11, 2021
Noon – 2:00 p.m. (Pacific Standard Time)

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Carrie Mears/Kevin Clark, Co-Vice Chairs	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Kimberly Rankin/Melissa Greiner	Pennsylvania
Kathy Belfi/William Arfanis	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Eric Moser	Illinois	Amy Malm	Wisconsin
Stewart Guerin/Melissa Gibson	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jim Pinegar, Jake Stultz, Jason Farr

Note: This meeting will be recorded for subsequent use.

REVIEW AND ADOPTION OF MINUTES

1. July 12, 2021, E-Vote **(Attachment 1)**
2. July 20, 2021, E-Vote **(Attachment 2)**
3. August 26, 2021 **(Attachment 3)**
4. September 10, 2021, E-Vote **(Attachment 4)**
5. October 25, 2021, E-Vote **(Attachment 5)**
6. November 10, 2021 **(Attachment 6)**

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on December 2, August 10, and July 29. These regulator sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings. The discussion for the respective dates referenced above included review of the Fall National Meeting agenda, an update on the “SSAP No. 43R Project,” and a review of certain (company specific) financial information from 2020 year-end financial statements filed with the NAIC.

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2019-24: SSAP No. 71 – Levelized and Persistency Commission (Related Issue Paper)
2. Ref #2021-11: SSAP No. 43R – Credit Tenant Loans – Scope
3. Ref #2021-16: SSAP No. 30R – FHLB Disclosure – Blanks Referral
4. Ref #2021-17: SSAP No. 32R – Permitted Valuation Methods
5. Ref #2021-19EP: Editorial Updates

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-24 SSAP No. 71 (Robin)	**Levelized and Persistency Commission - Issue Paper**	**7- Agenda Item**	**No Comments**	**IP – 3**

Summary:

On August 26, the Working Group exposed an issue paper to document the discussion, for historical retention purposes, that led to the adoption of nonsubstantive revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions* from agenda item 2019-24: Levelized and Persistency Commission. While the adopted revisions clarified existing guidance in SSAP No. 71, the Working Group elected to adopt an Dec. 31, 2021, effective date so that impacted companies would have time to prepare and communicate with their respective domestic regulator any financial impact. This agenda item also recommended a new annual statement general interrogatory to identify the use of a third party for the payment of commission expenses, which was adopted by the Blanks (E) Working Group for annual 2021 reporting (2021-04BWG Modified).

Interested Parties' Comments:

Interested parties have no further comment on this item.

Recommended Action:

NAIC staff recommends that the Working Group adopt the exposed *Issue Paper No. 165—Levelized Commissions*. The issue paper details the discussion and final adoption revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions.*

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-11 SSAP No. 43R (Julie)	**SSAP No. 43R – Credit Tenant Loans – Scope**	**8- Agenda Item**	**No Comments**	**IP – 1**

Summary:

In July 2021, the Valuation of Securities (E) Task Force adopted revisions to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to clarify that the definition of a credit tenant loan (CTL), is specific to mortgage loans in scope of *SSAP No. 37—Mortgage Loans.* (This limited amendment to the P&P Manual was suggested by the chair and vice chair of the Statutory Accounting Principles (E) Working Group to clarify that the application of the structural assessment to identify CTLs is limited to direct mortgage loans and relates to the potential reclassification of investments from Schedule B (Mortgage Loans) to Schedule D (Bonds) for qualifying investments.)

As a result of the Task Force's adopted revisions, on August 26, the Working Group exposed this agenda item proposing the three items as summarized below:

1) To nullify *INT 20-10: Reporting Nonconforming CTLs* as no longer applicable. INT 20-10 was adopted in December of 2020 and permitted continued reporting on Schedule D – Long-Term Bonds for nonconforming CTLs (and other structures which met the characteristics of a CTL) if they had been filed

for an SVO-assigned designation by Feb. 15, 2021. Although an SVO-assigned designation was not required to be received before filing the statutory financial statements, reporting entities were required to disclose the nonconforming CTLs captured on Schedule D with a CRP rating in Note 1. With the adoption of the Task Force's edits, which clarify that security structures shall be assessed for accounting and reporting in accordance with the provisions in *SSAP No. 26R—Bonds* and S*SAP No. 43R—Loan-Backed and Structured Securities*, there is no need to retain INT 20-10 as the reporting exception provided would no longer be relevant for security structures. For historical documentation purposes, regulators indicated support for the nullification of INT 20-10 despite it having automatically expired on Oct. 1, 2021.

2) Dispose agenda item *2020-24: Accounting and Reporting of Credit Tenant Loans* without statutory revisions. This agenda item had two exposures regarding CTLs prior to the development of INT 20-10 and the SVO adoption that clarified the definition of CTLs. With the limited edits incorporated by the Task Force to clarify the definition of a CTL, agenda item 2020-24 is no longer required.

3) Minor, nonsubstantive revisions to SSAP No. 43R to explicitly identify SVO-Identified CTLs in scope of SSAP No. 43R. These revisions also propose to delete the examples of "other Loan-Backed and Structured Securities" in paragraph 27.b. It was noted that paragraph 27 should not be utilized as a scope paragraph for SSAP No. 43R.

Interested Parties' Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group take the following actions:

1) Nullify INT 20-10 as no longer applicable. Even though the INT has expired prior to the Working Group's action, specific nullification language will be added to the INT for historical documentation purposes.

2) Dispose agenda item *2020-24: Accounting and Reporting of Credit Tenant Loans* without statutory revisions.

3) Adopt the exposed nonsubstantive revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to 1) explicitly identify SVO-Identified CTLs in scope of SSAP No. 43R and 2) delete the examples of "other Loan-Backed and Structured Securities" in paragraph 27.b.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-16 SSAP No. 30R (Jim)	**SSAP No. 30R – FHLB Disclosure – Blanks Referral**	**9- Agenda Item**	**In Support**	**IP – 5**

Summary:
On October 25, in response to an e-vote, the Working Group exposed this agenda item for public comment. While the agenda item did not propose statutory accounting revisions, it did result in a referral to the Blanks (E) Working Group to capture information on FHLB funding agreements in Exhibit 7 – Deposit-Type Contracts. This agenda item was in response to a regulator request and will assist with the identification of how FHLB funding agreements are categorized in Exhibit 7.

Interested Parties' Comments:
Interested parties support the proposed change in this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt this agenda item, noting that there are no actual statutory revisions. Rather, adoption will express support for the corresponding Blanks (E) Working Group exposure (2021-15BWG), which includes a supplemental data capture footnote for FHLB borrowings reported in Exhibit 7 as a deposit-type contract.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-17 SSAP No. 32R (Jim)	**SSAP No. 32R – Permitted Valuation Methods**	**10- Agenda Item**	**No Comments**	**IP – 5**

Summary:
On October 25, in response to an e-vote, the Working Group exposed this agenda item proposing revisions to 1) remove lingering references which indicate that cost is a permissible valuation method, and 2) remove descriptive language regarding redeemable preferred stock to ensure consistency with other identical edits made when SSAP No. 30 was substantively revised.

For brief historical context, in July 2020, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock*. The substantively revised SSAP No. 32R was effective January 1, 2021, however in October 2020, agenda item 2020-31, permitted early application of the newly revised standard. As described in Issue Paper No. 164, Working Group reviewed the permissible valuation methods for redeemable preferred stock – specifically the prior guidance in *SSAP No. 32—Preferred Stock* that permitted "historical cost" as an applicable measurement method. During the development of SSAP No. 32R, and consistent with prior conclusions from U.S. GAAP, the Working Group concluded that "historical cost" is generally not an acceptable measurement method for this type of instrument.

Interested Parties' Comments:
Interested parties have no comment on this item.

Recommended Action:
NAIC staff recommends that the Working Group adopt exposed nonsubstantive revisions to *SSAP No. 32R—Preferred Stock* to remove 1) references indicating that cost is an allowable valuation method, and 2) reference to "characteristics of debt securities" in paragraph 11.a.i to ensure consistency with prior approved edits to yield what is now SSAP No. 32R, paragraph 11.b.i.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-19EP SSAP Nos. 16R & 43R (Robin)	**Editorial Updates**	**11- Agenda Item**	**No Comments**	**IP – 6**

<u>*Summary:*</u>
On October 25, in response to an e-vote, the Working Group exposed editorial revisions as summarized below:

- *SSAP No.16R— Electronic Data Processing Equipment and Software* - Correct cross paragraph references in paragraphs 11.b and 12.b.

- *SSAP No. 43R—Loan-Backed and Structured Securities* - Removes outdated references to guidance which was previously deleted in Oct. 2017 (agenda item 2017-22).

<u>*Interested Parties' Comments:*</u>
Interested parties have no comment on this item.

<u>*Recommended Action:*</u>
NAIC staff recommends that the Working Group adopt the editorial revisions to SSAP No. 16R and SSAP No. 43R as final.

<u>REVIEW of COMMENTS on EXPOSED ITEMS</u>

The following items received comments during the exposure period that are open for discussion.

1. Ref #2021-18: VM-21 Scenario Consistency Update
2. Ref #2021-14: Policy Statement Terminology Change – Substantive and Nonsubstantive

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-18 SSAP No. 108 (Robin)	**VM-21 Scenario Consistency Update**	**12- Agenda Item**	**In Agreement (minor edits received)**	**IP – 6**

<u>*Summary:*</u>
On October 25, in response to an e-vote, the Working Group exposed this agenda item to propose edits to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to ensure consistency with *VM-21: Requirements for Principle-Based Reserves for Variable Annuities* (VM-21) – specifically removing reference to the "standard scenario." By removing references to the standard scenario, the agenda item proposed adding reference to the conditional tail expectation (CTE) 70 as well as reference the VM-21's guidance which allows a reporting entity to choose the company specific market path (CSMP) or CTE with prescribed assumptions (CTEPA) to calculate prescribed projection amounts for reserve purposes.

Interested Parties' Comments:
Interested parties agree with this proposal but recommend the following edits for the Working Group's consideration:

> 14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard Projection with prescribed assumption run scenario that produces ~~VM-21 adjusted run scenario that produces~~ the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted)~~,~~ but shall not exceed a period of 10 years. The ~~CTE 70 (adjusted)~~ VM-21 Standard Projection with prescribed assumption run ~~and the~~ scenario reserve closest to the CTE 70 (adjusted) ~~are~~is determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity[FN] to calculate the prescribed projections amount.

Recommended Action:
NAIC staff shared the revised wording from interested parties with LATF representatives and received additional proposed edits. These edits have been shared with interested party representatives.

Proposed language from LATF representatives:

> 14. Deferred assets and deferred liabilities recognized under paragraph 13.b. shall be amortized using a straight-line method into realized gains or realized losses over a finite amortization period. The amortization timeframe shall equal the Macaulay duration of the guarantee benefit cash flows based on the VM-21 Standard Projection[1] but shall not exceed a period of 10 years.
>
> New Footnote – The VM-21 Standard Projection calculation shall be the prescribed assumption run for the scenario that produces the scenario reserve closest to conditional tail expectation (CTE) 70 (adjusted) and a discount rate equal to the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years. The VM-21 Standard Projection with prescribed assumption run is determined using the method (company specific market path (CSMP) or conditional tail expectations (CTE) with prescribed assumptions (CTEPA)) applied by the reporting entity to calculate the prescribed projections amount. For the CSMP method, the economic scenario is Path A, with the guarantee benefit cash flows from the run to calculate Prescribed Amount A. For the CTEPA method, the economic scenario is the scenario that produces the scenario reserve closest to the CTE70 (Adjusted) from the stochastic reserve calculation, with the guarantee benefit cash flows from the VM-21 Standard Projection with prescribed assumption run for this economic scenario.

For the Fall National Meeting, it is recommended that the Working Group either adopt the revisions SSAP No. 108, reflecting the combined edits from the interested parties and LATF representatives or expose the updated revisions for an additional public comment period.

(NAIC staff note – Inquire with interested parties whether an additional exposure period is necessary.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2021-14 Policy Statement (Julie)	**Policy Statement Terminology Change – Substantive and Nonsubstantive**	**13- Agenda Item**	**Comments Received**	**IP – 2**

<u>*Summary:*</u>
On August 14, the Working Group received a referral from the Financial Condition (E) Committee which highlighted that during the recent discussions involving SSAP No. 71 (*Ref #2019-24: SSAP No. 71 – Levelized and Persistency Commission*), it was highlighted that the statutory accounting terminology of "substantive" and "nonsubstantive" to describe statutory accounting revisions being considered by the Working Group to the *Accounting Practices and Procedures Manual* (AP&P Manual) could be misunderstood by users that are not familiar with the specific definitions and intended application of those terms. To avoid the incorrect perception that these terms may reflect the degree of financial impact to companies based on their common usage, the Committee requested that the Working Group consider updating these terms to prevent future misunderstandings.

As a result, on August 26, the Working Group exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, proposing that the historical use of the term "substantive" now reference "new SSAP or new SSAP concept" and "nonsubstantive" reference the verbiage of a "SAP clarification." However, it was also noted that as these terms have been used since codification (1998) and due to the extent that these terms are currently used throughout the AP&P Manual, upon adoption of this terminology change, NAIC staff will utilize the new terminology on a go-forward basis. These updates will be limited to the guidance that describes the use of these terms and <u>will not</u> capture previously adopted SSAPs, issue papers or agenda items. The terms used in previously adopted guidance will remain, with the new terms being used prospectively when considering future revisions to statutory accounting.

<u>*Interested Parties' Comments:*</u>
After some discussion and consideration of the proposal and its impact on the implementation of new statutory accounting standards, interested parties concluded that the distinction between substantive (proposed to change to "development of new SSAPs or New SAP Concepts in an Existing SSAPs") and non-substantive (proposed to change to "Development of SAP Clarifications") is at times confusing and that there would be more transparency in the development process if the distinction were eliminated. Instead, we recommend that all new standards be handled similarly but that the effective date for each new standard be determined by evaluating the complexity of implementation (e.g., the extent that systems changes are required) and the availability of data to insurers to implement the new standard. This determination would be made as the new standard is being completed and with feedback from industry as to the time needed to adopt the new requirements.

<u>*Recommended Action:*</u>
NAIC staff recommends that the Working Group adopt the exposed revisions to the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* of the AP&P Manual with a Jan. 1, 2022, effective date. This action is in accordance with the intent of the Financial Condition (E) Committee referral to clarify the terms "substantive" and "nonsubstantive" to prevent future misrepresentations or assessment by others. That referral specifically noted that the Committee was not proposing that the Working Group reassess the classification criteria, and the suggestion from the interested parties' comment letter goes beyond Committee's requested intent. The specific effective date of Jan. 1, 2022 intends to have a clear date for which new items presented to the Working Group will be reflected with the new terminology. (This is simply to ensure consistency in how items are presented / discussed.)

Although it is recommended that the Working Group proceed with adopting the revised terms in line with the Financial Condition (E) Committee referral, if industry continues to support consideration of a revised process, an alternative approach could be sponsored in a separate agenda item. NAIC staff recognizes that under the current approach nonsubstantive revisions are generally effective upon adoption, but the current process permits the Working Group to establish effective dates that factor in various assessments. The Working Group often considers industry comments when determining an effective date, even if the change is considered a SAP clarification (nonsubstantive change).

The comment letters are included in Attachment 14 (6 pages).

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Statutory Accounting Principles (E) Working Group
Meeting Agenda
Dec. 11, 2021

A. <u>Consideration of Maintenance Agenda – Pending List</u>

1. Ref #2021-20: Effective Derivatives – ASU 2017-12
2. Ref #2021-21: Related Party Reporting
3. Ref #2021-22: Schedule D-6-1, Supplemental Reporting
4. Ref #2021-23: SSAP No. 43R – Financial Modeling – Updated Guidance
5. Ref #2021-24: Cryptocurrency General Interrogatory
6. Ref #2021-25: Leasehold Improvements After Lease Termination
7. Ref #2021-26EP: Editorial Updates (Substantive vs. Nonsubstantive)
8. Ref #2021-27: *ASU 2021-04, Issuer's Accounting for Certain Modifications*
9. Ref #2021-28: *ASU 2021-03, Intangibles – Goodwill and Other*
10. Ref #2021-29: ASU 2021-05 - Variable Lease Payments
11. Ref #2021-30: ASU 2021-06 - Amendments to SEC Paragraphs
12. Ref# 2021-31: Life Reinsurance Disclosure Clarifications

Ref #	Title	Attachment #
2021-20 SSAP No. 86 (Julie)	**Effective Derivatives – ASU 2017-12**	**A**

Summary:
This agenda item has been prepared to consider expanding the statutory accounting principles (SAP) guidance in *SSAP No. 86—Derivatives* in the determination of highly effective hedging derivatives. In 2017, the FASB issued *Accounting Standard Update* (*ASU) 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* to reduce complexity and align hedge accounting with risk management activities. The Working Group previously considered limited revisions from this ASU, mostly on documentation requirements, which occurred in agenda item *2018-30: SSAP No. 86 – Hedge Effectiveness Documentation*. That agenda item was identified as limited-scope and noted further consideration of ASU 2017-12, potentially in a broader derivative project, would subsequently occur.

Both regulators and industry representatives have requested further consideration of ASU 2017-12, particularly with regards to the permitted derivative arrangements that U.S. GAAP now allows to qualify as a highly effective hedge. However, due to the revisions from ASU 2017-12, there is a disconnect between U.S. GAAP and SAP regarding certain types of effective hedging relationships. This is problematic as it results in inconsistent documentation of hedging transactions, as well as hinders reporting entities in electing to enter hedging transactions as the benefits are not currently permitted to be reflected in statutory financials.

As detailed in the agenda item, there is support for consistency between U.S. GAAP and SAP in determining effective hedges, however, information is provided on how the differences in SAP accounting can be expanded with the new effective hedge relationships permitted under ASU 2017-12. The agenda item identifies issues and reporting elements that may not have been originally intended with the SAP provisions adopted in SSAP No. 86. It also identifies elements in SAP that may need to be clarified or modified with the expansion of effective hedging relationships to ensure the reporting impact from these derivative transactions are clearly identifiable in the statutory financial statements. <u>The elements identified for possible modification do not include a fundamental change in the SAP provisions that permit an amortized cost measurement method for highly effective derivatives based on the measurement method for the hedged item. However, regulator and industry comments are welcome as to whether a fundamental change to the measurement method of derivatives should be considered to be consistent with U.S. GAAP. If there is support for a fair value measurement approach for all derivatives, then</u>

consideration of offsetting surplus adjustments for the fair value volatility, similar to what is permitted in *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, would be considered.

The derivative arrangements / changes permitted under U.S. GAAP through ASU 2017-12 and addressed within this agenda item are identified as follows:

(Note: The agenda goes into detail on each of these approaches and provides the SAP assessment. Only key highlights are included below. Please also note that this derivative review is separate from the fixed index annuity discussion that is occurring in a separate agenda item.)

- Partial Term Hedging - This provision allows reporting entities to enter into fair value hedges of interest rate risk for only a portion of the term of the hedged financial instrument. Prior to the ASU, these sorts of arrangements were not successful in being identified as highly effective due to offsetting changes in the fair value as a result of the difference in timing between the hedged item's principal repayment and the maturity date of the hedging derivative.

  SAP Assessment - With the differences in reporting between U.S. GAAP/SAP, the key issue to highlight is that with SAP's amortized cost approach at the conclusion of the hedged period, the reporting entity would close the derivative with an offsetting entry that adjusts the basis of the hedged item. If the derivative were in a liability position and offsetting a debt / liability item, the mechanics would result in an offsetting entry to reduce the debt. However, this reduction to the debt does not reflect an actual reduction of the liability that the entity is legally obligated to pay, it just reduces the amount reported as outstanding debt in the financial statements. The debt would accrete back up to the full liability with increased entries to interest expense over the remaining term of the debt. Although this is in line with existing SSAP No. 86 guidance, under the past effective hedge provisions, the debt obligation maturity would likely be matched with the derivative term, so there would be no lingering financial statement impact to the debt obligation after the derivative transaction closed. With the partial term hedge, reporting entities have the potential to present an improved financial statement presentation over the remaining life of the hedge item (e.g., debt instrument) until accreted back to the full amount. The agenda item suggests considering changes to the guidance to revise how this derivative transaction (and other derivative transactions hedging liabilities) shall be reported in the financial statements.

- Last of Layer - Under the "last of layer" hedge method, for a closed portfolio of prepayable financial assets, the entity may designate as the hedged item, a stated amount of the asset or assets that are not expected to be affected by prepayments, defaults and other factors affecting the timing and amount of cash flows if the designation is made in conjunction with the partial term hedging election. The "last of layer" hedge provision is permitted only for a closed portfolio of prepayable financial assets, or one or more beneficial interests secured by a portfolio of prepayable financial instruments (e.g., mortgage-backed securities). Industry comment letters to FASB have requested that liabilities, particularly insurance liabilities, be added to the scope, but that is not currently permitted under U.S. GAAP.

  SAP Assessment - Although it seems that the derivative transaction is generally consistent with what would be anticipated under SSAP No. 86, except on a portfolio basis, there are key elements that should be addressed to facilitate the application of these methods under SAP:

  - To be consistent with U.S. GAAP, SAP revisions are suggested to ensure that individual assets are not adjusted at hedge termination, and that a portfolio approach is utilized.

  - Guidance should be considered to limit this derivative strategy to the same scope permitted under U.S. GAAP. This would require an explicit prohibition of the last of layer / portfolio method to liabilities, including insurance liabilities.

- A key aspect is that under U.S. GAAP, derivatives are permitted to be bifurcated in terms of effectiveness. That is, if a portion of a derivative were deemed to be highly effective in hedging an item, the fair value change related to that portion would be recognized in the income statement to match the fair value change of the hedged item. Under SSAP No. 86, the guidance is explicit that a derivative is not bifurcated as to hedge effectiveness. So, a derivative shall be either classified as an effective hedge and or classified as an ineffective hedge. To mirror U.S. GAAP on the ability to designate a portion of a derivative, revisions would need to be considered to the current SSAP No. 86 guidance. If revisions permit the bifurcating of derivatives, then consideration would have to occur on how bifurcated derivatives would be reported in the *Schedule DB – Derivative Instruments.* (Particularly, on whether the derivative BACV should reflect a combined fair value (FV) and amortized cost (AC) reported value or whether the derivative shall be divided and reported separately based on portions held at FV and AC.)

- Lastly, it is proposed that this method only be incorporated once the proposed ASU is finalized. (The last of layer is detailed in the 2017 ASU, but the clarifying portfolio guidance is in a proposed ASU which is expected to be finalized by the end of the year.)

- <u>Hedges of Interest Rate Risk When the Hedged Item Can be Settled Before Scheduled Maturity</u> - Under these U.S. GAAP revisions, an entity may consider only how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity. (For example, an entity may consider only how changes in the benchmark interest rate affect an obligor's decision to call a debt instrument.) The entity need not consider other factors that would affect this decision (for example, credit risk) when assessing hedge effectiveness.

  <u>SAP Assessment</u> - Existing guidance in SSAP No. 86 incorporates the prior criteria for fair value hedges from U.S. GAAP, which includes guidance that has been eliminated in the ASU. The U.S. GAAP guidance has been expanded to specifically capture elements related to assessing effectiveness of prepayable instruments. Like other elements, the change in assessment of effectiveness, and determining the measurement / adjustment to the hedged item will require SAP consideration as to the offsetting measurement aspects and how those should be recognized in the financial statements.

- <u>Expansion of Excluded Derivative Components in Assessment of Hedge Effectiveness</u> - Industry has also requested consideration of the FASB guidance that expands the ability to exclude components of a derivative from the assessment of hedge effectiveness. Under prior U.S. GAAP (which is adopted in SSAP No. 86), the guidance permitted the exclusion of the time value of money, and the guidance in the ASU has expanded that prior capability to also allow exclusion of the portion of the fair value of a currency swap attributable to a cross-currency basis spread.

  <u>SAP Assessment</u>: The current guidance in *SSAP No. 86, Exhibit B – Assessment of Hedging Effectiveness* incorporates U.S. GAAP guidance from FAS 133, with a significant portion addressing the exclusion of a hedging instrument's time value from the assessment of hedging effectiveness. This old U.S. GAAP guidance has been revised from ASU 2017-12, to expand the potential exclusions and update the related guidance. As previously noted, the existing guidance in Exhibit B appears to contradict the guidance in SSAP No. 86 that specifically indicates that derivatives shall not be bifurcated for effectiveness. To ensure clear and consistent application, revisions would need to be considered to specify the reporting when changes in the fair value of a derivative are separated and treated differently.

Recommendation:
It is recommended that the Working Group move this agenda item to the active listing, categorized as new SAP concepts, and direct NAIC staff to work with regulators and industry in assessing and developing

revisions to facilitate effective hedge assessments consistently between SAP and U.S. GAAP. As this guidance will reflect a change from the original concepts reflected in SSAP No. 86, it is recommended that the revisions be detailed in an issue paper for historical reference. This issue paper is recommended to be completed concurrently or subsequently to the consideration of SSAP revisions. The anticipated revisions from this agenda item are considered to reflect new SAP concepts as the effective hedge relationships that will be assessed have not been allowed under existing statutory accounting guidance.

As detailed within this agenda item, the discussion, and potential revisions, are expected to encompass the following elements:

- **Appropriate reporting lines for effective hedges when the hedged item is a liability.**
- **Recognition of hedged-item adjustments (to a closed portfolio) when the last-of-layer / portfolio method of hedging is used.**
- **Scope limitations of the last of layer / portfolio method to mirror U.S. GAAP.**
- **The potential bifurcation of derivatives, and how such items should be reported for statutory accounting, when only portions of derivatives are permitted to be designated as effective. (This pertains to potential mixed-measurement reporting values.)**

As detailed above, the Working Group also welcomes comments from regulators and industry on whether a fundamental change in SAP for derivative measurement (to be more consistent with U.S. GAAP) should be considered.

Although specific revisions are not yet detailed, it is recommended that this agenda item be exposed to solicit comments and feedback on the overall summary and potential revisions to be considered.

Ref #	Title	Attachment #
2021-21 SSAP No. 25 SSAP No. 43R (Julie)	**Related Party Reporting**	**B**

Summary:
This agenda item has been drafted in response to recent discussions on the reporting and disclosure requirements for investments with related parties. This agenda intends to encompass two main goals:

1. Clarify the reporting of affiliate transactions within existing reporting lines in the investment schedules. This clarification intends to be consistent with the definition of an "affiliate" pursuant to the *Insurance Holding Company System Regulatory Act* (Model #440), *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

2. Incorporate new reporting requirements for investment transactions with related parties. Pursuant to recent discussions, regulators desire additional information on investment transactions involving related parties, regardless of whether the related party is "affiliated" pursuant to Model #440. To preserve the affiliate definition and reporting categories, these additional proposed reporting elements will be captured outside of the current affiliate reporting requirements.

In summary, the agenda item proposes revisions to SSAP No. 25 and 43R to clarify related party / affiliate guidance as well as new reporting disclosures for investments acquired from a related party, regardless of whether the investment is captured on an "affiliate" reporting line.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a nonsubstantive change, and expose revisions to SSAP No. 25 and SSAP No. 43R to clarify application of the existing affiliate definition as well as to incorporate new disclosure requirements for investments acquired through, or in, related parties, regardless of if they meet the affiliate definition.

Although the agenda item details the revisions to SSAP No. 25 and 43R and the new reporting disclosure, the reporting codes proposed for the year-end 2022 investment schedules are detailed below:

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

Ref #	Title	Attachment #
2021-22 SSAP No. 97 (Jim)	**Schedule D-6-1, Supplemental Reporting**	**C**

Summary:
This agenda item has been drafted to propose supplemental (electronic only) reporting in *Schedule D – Part 6 – Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Entities* (Schedule D-6-1). Schedule D-6-1 captures investments which are defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

While SSAP No. 97 details several filing requirements, one such requirement is that annually, certain SCAs must be filed with the NAIC for confirmation of the values reported on Schedule D-6-1. If a reported value for a SCA investment materially differs from the value approved by the NAIC, the insurer is required to adjust the reported value in its next quarterly financial statement blank, unless otherwise directed by the insurer's state of domicile. It is important to note that the SCA review process occurs in arrears. As such, when a value is adjusted, the concepts for the adjustment shall be applied to the next year-end. For example, if a company did not incorporate required SSAP No. 97 adjustments in determining the reported value as of Dec. 31, 2020, those adjustments should be considered when determining the value reported as of Dec. 31, 2021 (or earlier if known when the quarterly financials are completed).

In 2019, the NAIC reviewed 824 SCA filings (which includes both Sub 1 and Sub 2 filings). Of the total, 720 were Sub 2 filings (the filing in which a value is approved). Of the 720 Sub 2 filings, 125 (approx. 17%) resulted in *valuation decreases*. Presumably, per SSAP No. 97, entities (unless directed by their state of domicile) adjusted the reported values in their next quarterly financial statements. However, NAIC staff have found that it is not uncommon for the same reporting entities, year after year, to have approved values that vary significantly from their reported balances. It is also important to note that while the NAIC does send monthly reports on SCA activity to state regulators, the process of reviewing the activity reports and verifying compliance with SSAP No. 97 is operationally onerous for state regulators.

Recommendation:
NAIC staff recommends that the Working Group forward a proposal to the Blanks (E) Working Group to supplement the reporting of SCA investments in Schedule D-6-1. The supplemental data to be captured is consistent with current requirements in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, however this improved reporting granularity will significantly assist regulators to 1) ensure Sub 1 and Sub 2 filings are being submitted by reporting entities, and 2) identify situations where the NAIC approved value varies significantly from the value reported on Schedule D-6-1. Note, this agenda item does not propose statutory revisions.

Ref #	Title	Attachment #
2021-23 SSAP No. 43R (Jim)	**SSAP No. 43R – Financial Modeling – Updated Guidance**	**D**

Summary:
This agenda item reflects updated NAIC designation/NAIC designation category guidance, which was adopted on Oct. 20 by the Valuation of Securities (E) Task Force (VOSTF) to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).

The P&P Manual governs the financial modeling process, however when the modeling guidance was first adopted, it was identified that a summarized process should also be reflected in the AP&P Manual. However, as the financial modeling concept is no longer new, NAIC staff have proposed two alternatives for possible exposure. **Option #1** will retain summarized modeling guidance in SSAP No. 43R, which is proposed to be updated for this and any subsequent modeling modifications when adopted by the VOSTF. **Option #2** proposes to remove the financial modeling guidance from SSAP No. 43R and refer users to the P&P manual – the source governing document for the financial modeling and related designation process.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *SSAP No. 43R—Loan-backed and Structured Securities.* Depending on the exposure options elected by the Working Group, either one, or both, of the aforementioned alternatives could be exposed for public comment.

***OPTION #1* – Retain existing guidance in SSAP No. 43R with updates to reflect recent actions of the VOSTF. (If this option is preferred, further updates are likely forthcoming as the VOSTF considers additional modifications to the financial modeling guidance.)**

Designation Guidance

27. For RMBS/CMBS securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities

Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporatinges the insurers' carrying value. ~~f~~For ~~the security~~ a modeled on-legacy security, meaning one which closed after December 31, 2012, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation office must be used. For those legacy securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. ~~securities where modeling results in zero expected loss in all scenarios and that would be equivalent to an NAIC designation and NAIC designation category of NAIC 1 and NAIC 1.A. respectively, if the filing exemption process in the P&P Manual was applied, are automatically considered to have a final NAIC designation of NAIC 1 and NAIC designation category of NAIC 1.A., regardless of the carrying value.~~ The three-step process for modeled legacy securities is as follows:

i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to each~~the six (6)~~ NAIC designations and NAIC designation category for each CUSIP to establish the initial NAIC designation.

ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.

iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the ~~six (6)~~ NAIC designations and NAIC designation category for each CUSIP or~~. The final designation~~ is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).

***OPTION #2* – Remove summarized financial modeling guidance from SSAP No. 43R and refer to the guidance in the P&P Manual. (If this option is preferred, further updates to financial modeling guidance are expected to be isolated to the P&P Manual, which is the governs the designation process.)** The paragraph below demonstrates the proposed, ending result.

Designation Guidance – (*Not shown with tracked changes as the current guidance would be mostly deleted.)*

27. NAIC designations are determined in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). The NAIC designations shall be applicable for statutory accounting and reporting purposes (including determining the carrying value and establishing the AVR charges). RMBS/CMBS securities within the scope of this statement may be subject to the financial modeling process. The P&P Manual shall be consulted for the specific process for obtaining or determining the NAIC designation.

Ref #	Title	Attachment #
2021-24 Blanks (Jake)	**Cryptocurrency General Interrogatory**	**E**

Summary:
On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted *INT 21-01: Accounting for Cryptocurrencies*, which addressed the statutory accounting treatment for cryptocurrencies, and established that directly held cryptocurrencies do not meet the definition of an admitted asset statutory accounting. While researching this topic, it was noted that some insurance companies held cryptocurrencies, but that these were not always easy to identify in the statutory financial statements.

At the request of regulators, this agenda item has been drafted to propose a new general interrogatory within the annual reporting blanks, specific to the use or acceptance of cryptocurrencies. Examples of inquiries include 1) are cryptocurrencies held (and if so, which reporting schedules are the cryptocurrencies reported), and 2) are cryptocurrencies accepted for the payment of premiums.

Recommendation:
NAIC staff recommends that the Working Group forward a proposal to the Blanks (E) Working Group to add a new general interrogatory to the annual blanks to require the disclose of when cryptocurrencies are directly held or permitted for the remittance of premiums. Note, this agenda item does not propose statutory revisions.

Ref #	Title	Attachment #
2021-25 SSAP No. 19 SSAP No. 73 (Jake)	**Leasehold Improvements After Lease Termination**	**F**

Summary:
During 2019, the Working Group adopted substantive revisions to *SSAP No. 22—Leases*, which created *SSAP No. 22R—Leases*. The updated guidance rejected financing lease treatment that was adopted in U.S. GAAP but incorporated language from ASC Topic 842, which kept SSAP No. 22R as consistent as possible with the principal concepts in the U.S. GAAP standard. The Working Group has addressed several additional FASB Accounting Standard Updates (ASU) since the initial adoption of Topic 842 and NAIC staff have received numerous inquiries from SAP reporting entities since the adoption of the substantive revisions to SSAP No. 22R.

This agenda item has been drafted to address questions about the treatment of leasehold improvements in situations where a leased property is purchased by the lessee during the lease term. It was noted that guidance for the situations was not addressed in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* nor *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*. In these scenarios, it was identified that the reporting entity had acquired the property that was initially subject to a lease; however regardless of the scenario, amortization of leasehold improvements is only permitted over the shorter of the estimated useful life of the improvement or the lease term (as defined in SSAP No. 22R). In a normal lease termination, one where the lessee does not acquire said property, any remaining leasehold improvements shall be immediately expensed. This agenda item has been drafted to clarify this guidance to articulate that in any scenario in which a lease terminates early, that all remaining leasehold improvements shall be immediately expensed.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 19 and SSAP No. 73 to ensure that the guidance for the

leasehold improvements matched the treatment provided in *SSAP No. 40R—Real Estate Investments.* These edits will clarify that amortization of leasehold improvements will immediately end when a lease is terminated and will require that any remaining, unamortized leasehold improvement balance be immediately expensed. This will include scenarios where the lease terminates naturally or when the lessee purchases a property it was leasing. It is presumed that the purchase of a property from a third party would include the leasehold improvements as part of the full purchase price.

Ref #	Title	Attachment #
2021-26EP Various (Jim)	**Editorial Update (Substantive vs Nonsubstantive)**	**G**

Summary:
Pursuant to a Aug. 14 referral from the Financial Condition (E) Committee, the edits propose herein update certain, remaining terminology references of "**substantive**" and "**nonsubstantive**," which have historically been used to describe statutory accounting revisions being considered by the Working Group to the AP&P Manual. Agenda item *2021-14: SAP Terminology*, which was previously exposed by the Working Group on Aug. 26, addresses the proposed terminology/phraseology changes in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* (Appendix F). This editorial agenda item identifies all remaining uses of the terms in the current AP&P manual for change consideration.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose proposed edits to change certain, remaining terminology references of "substantive" and "nonsubstantive." The proposed revisions are to 1) the Preamble, 2) Volume I and II's Table of Contents (How to use the Manual) and the Summary of Changes, and 3) Appendix F.

NAIC staff note - it is anticipated that terminology changes will generally only occur on a go-forward basis as amendments to previously adopted SSAPs, issue papers, agenda items or other historical documents will not occur. As such, the terms used in previously adopted guidance will remain, with the new terms being used prospectively (starting with actions/exposure occurring on/after Jan. 1, 2022) when considering future revisions to statutory accounting.

Ref #	Title	Attachment #
2021-27 SSAP No. 72 (Jake)	***ASU 2021-04 - Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options***	**H**

Summary:
In May 2021, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The amendments in this ASU impact all entities that issue freestanding written call options, that are then modified in connection with either an equity issuance, debt origination or a debt modification. In summary, the ASU directs that when a freestanding equity-classified written call option is modified, or exchanged, and the instrument remains classified as equity after the modification/exchange, the differences in fair value before and after the modification is to be accounted for as an adjustment to equity. The guidance regarding issued warrants is discussed in *SSAP No. 72—Surplus and Quasi-Reorganization*, paragraph

10. However conversely, the ASU directs that if the modification/exchange is related to a debt instrument or line-of-credit, the differences in fair value before and after the modification may be capitalized in accordance with U.S. GAAP debt issuance guidance – a concept disallowed per *SSAP No. 15—Debt and Holding Company Obligations*.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing and expose revisions to *SSAP No. 72—Surplus and Quasi-Reorganization* to reject ASU 2021-04 for statutory accounting. However, NAIC staff recommends that the FASB guidance related to accounting for the changes in fair value regarding the exchange of a free-standing equity-classified written call option be incorporated into SSAP No. 72.

Ref #	Title	Attachment #
2021-28 SSAP No. 68 (Jim)	***ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events***	**I**

Summary:
In March 2021, the FASB *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. 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.

Statutory guidance for goodwill is covered in *SSAP No. 68— Business Combinations and Goodwill*, however *INT 06-07: Definition of Phrase "Other Than Temporary"* is the authoritative guidance for when to consider that an impairment has occurred. In essence, INT 06-07 requires that impairment be assessed when 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).

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.

Ref #	Title	Attachment #
2021-29 SSAP No. 22R (Jake)	**ASU 2021-05 - Variable Lease Payments**	**J**

Summary:
In July 2021, FASB issued *ASU 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments*. This ASU was issued as part of FASB's post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. The guidance in ASU 2021-05 applies to lessors with lease contracts that: 1) have variable lease payments that do not depend on a reference index or rate, and/or 2) would have resulted in the lessor being required to recognize a day one selling loss (at lease commencement) if those leases were classified as sales-type or direct financing. The changes to Topic 842 will require a lessor to classify a lease with variable lease payments that do not depend on an index or a rate as an operating lease at lease commencement if classifying the lease as a sales-type lease or a direct financing lease would result in the recognition of a selling loss. However, as *SSAP No. 22R—Leases* requires nearly all leases to be treated as operating leases for statutory accounting, adoption of this guidance would be redundant and unnecessary.

Recommendation:
Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2021-05 in SSAP No. 22R. Under statutory accounting almost all leases are classified as operating leases, thus this U.S. GAAP guidance is deemed not necessary.

Ref #	Title	Attachment #
2021-30 Appendix D (Jake)	**ASU 2021-06 – Amendments to SEC Paragraphs**	**K**

Summary:
The Financial Accounting Standards Board issued *Accounting Standard Update* (ASU) *2021-04, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services— Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants*, which effects only SEC paragraphs in Topic 205, Topic 942 and Topic 946. These edits are predominantly formatting and paragraph references, with new guidance duplicated from SEC requirements on the presentation of financial statements for funds acquired or to be acquired.

Recommendation
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2021-04 as not applicable to statutory accounting.

Ref #	Title	Attachment #
2021-31 SSAP No. 61 (Robin)	**Life Reinsurance Disclosure Clarifications**	**L**

Summary:
This agenda item is to address questions received from members of the American Institute of Certified Public Accountants (AICPA) NAIC Task Force regarding the life reinsurance disclosures and the related audited notes that were first effective in December 2020. The disclosures were adopted in *SSAP No. 61R—Life and Health Reinsurance* in agenda item 2017-28: Reinsurance Risk Transfer for Short Duration Contracts. Preparers and auditors have highlighted unclear elements in the disclosures that could use additional clarification. Requested clarifications and responses are detailed in the recommendation section, but they include items regarding whether the disclosures apply to ceding and assuming contracts, the format expected for the audited notes and how broadly to interpret the scope of certain disclosures. In the statutory annual statement filing the disclosures are in Note 23H and are not data captured. The proposed revisions to SSAP No. 61R narrow the scope of the disclosures and clarify what is required in the disclosures.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the revisions to SSAP No. 61R disclosures illustrated below. These items are recommended for a shortened comment period to allow for possible adoption in early 2022 with a year-end 2021 effective date. The proposed revisions provide clarifications and, in some cases, narrow the scope of disclosure. No additional disclosures are proposed. Having the disclosure revisions final for year-end 2021 will assist preparers and auditors.

Recommended Revisions to SSAP No. 61R:

78. Disclosures for paragraphs 79-84 are required to be included with the annual audit report financial statements beginning with the period ended December 31, 2020, regarding reinsurance contracts. The disclosures required within paragraphs 79-84 ~~shall~~ can be included in accompanying supplemental schedules or the notes of the annual audit report beginning in year-end 2020. If not applicable, an affirmative statement that no such contracts were identified is acceptable. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1996. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the property and casualty reinsurance summary supplemental filing.

79. Disclose any ceding reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. If true, indicate the number of reinsurance contracts to which such provisions apply. For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.

80. Disclose any ceding reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph. If true, indicate the number of reinsurance contracts to which such provisions apply. If affirmative, indicate if the reinsurance credit was reduced for the risk-limiting features.

81. Disclose if any assumed or ceded reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).

b. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

82. Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.

a. Assumption Reinsurance – as discussed in paragraph 60, which are new for the reporting period.

~~b. Non-proportional reinsurance, which does not result in significant surplus relief. If yes, indicate if the insured events(s) triggering contract coverage has been recognized.~~

83. Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under U.S. generally accepted accounting principles (GAAP); or

b. Accounted for that contract as reinsurance under U.S. GAAP and as a deposit under SAP.

If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.

84. If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP

B. Consideration of Maintenance Agenda – Active List

1. Ref #2019-21: SSAP No. 43R
2. Interpretations (INT 20-03 & INT 20-07) – Troubled Debt Restructuring - COVID

Ref #	Title	Attachment #
2019-21 SSAP No. 26R SSAP No. 43R (Julie)	**SSAP No. 43R**	**M & N**

Summary:
Discussions of a principles-based bond project has been occurring since January 2020. On May 20, 2021, the Working Group exposed a principles-based bond definition, along with a glossary and appendices with examples for application purposes. On August 26, 2021, the Working Group received comments from that initial exposure and affirmed the direction of the concepts. With that action, the Working Group directed NAIC staff to utilize those concepts to develop an issue paper and proposed SSAP revisions. The Working Group also requested that the small group of regulator and industry representatives continue to meet to discuss the concepts, particularly with comments on specific issues and review proposed language to incorporate changes into statutory accounting.

Since the August 2021 Working Group direction, the small group has been meeting regularly to continue discussions. The focus of these discussions has included residual tranches of securitizations (along with the stapling of investments if an insurer reporting entity is required to acquire (or hold) residual tranches with subordinated tranches), high-level proposals to incorporate more granular reporting, and the determination and definition of "sufficiency" for purposes of whether an asset-backed security has sufficient credit enhancement.
For this 2021 Fall National Meeting, two documents have been developed for potential exposure:

1) Reporting Options – Discussion Draft
2) ABS Credit Enhancement

The first document presents possible reporting changes to incorporate improved transparency and granularity with investment reporting under the bond proposal project. This document requests information on potential changes in reporting lines, a new sub-schedule D-1 to detail certain asset-backed securities (ABS), and potential changes to the columns and reported information in Schedule D-1. A key proposal element is to move away from the current "general categories" for reporting and replace those groupings with more useful reporting lines based on the type of investment. The exposure specifically requests comments on the removal of the general categories, whether those changes would hinder any tools or analyses performed, and then on potential more-granular reporting lines. Other requests detailed in the document include information that would be beneficial on the new sub-schedule D-1 (e.g., balloon payments, expected payoff dates, etc.), as well as current reporting elements on Schedule D-1 and elements that would be beneficial to capture.

The second document presents proposed revisions to revise the "sufficiency" definition previously captured in the bond proposal definition. This pertains to the requirement for all ABS to have sufficient credit enhancement to qualify for reporting as a bond on Schedule D-1. Pursuant to continued discussion with the small regulator / industry group, it was identified that the original exposed guidance for sufficient credit enhancement could be interpreted to be satisfied if a rating from a credit rating provider (CRP) was received. The original intent was to not make the "sufficiency" determination equivalent to a credit assessment as credit ratings should not drive accounting classification. As a result of these discussions, the guidance for "sufficient credit enhancement" has been revised. The revised guidance intends to reflect more of a principal concept and instead reflects a "substantive credit enhancement." This guidance indicates that the intent is to clarify that the ABS structure puts the holder in a different economic position than if owning the underlying collateral directly. Enhancements that are nominal or lack economic substance do not put a holder in a different economic position.

Recommendation:
NAIC staff recommends that the Working Group expose 1) the discussion draft of reporting options, and 2) proposed revised guidance for defining and determining whether an asset-backed security has substantive credit enhancement to qualify for reporting as a bond on Schedule D-1.

NAIC staff has been working to develop an issue paper and revisions to the SSAPs per the August 2021 Working Group direction. Due to concerns with an extensive exposure at the same time as industry is completing and filing the annual statutory financial statements, an exposure of the preliminary documents has not been recommended at this time. Rather, the regulator / industry small group will continue to meet and refine the guidance to allow for a broad exposure in the first quarter of 2022.

Update on Bond Proposal Small Group Discussions / Development:
The bond proposal small group has met weekly to continue discussion on the principle concepts and the application of the concepts to investment structures. As an update on key items discussed and open items:

- Residual Tranches – Discussion on Collateralized Fund Obligations (CFOs) and equity-backed ABS led to the discussion of residual tranches and the resulting SAPWG changes adopted Nov. 10 and the corresponding blanks change expected for year-end 2022.

- Informal Coordination of VOSTF / SAPWG / CATF – Discussion on appropriate RBC charges for residual tranches and other potential RBC impacts from the development of the principles-based bond definition resulted with the development of an informal coordination group involving the chairs / vice chairs of the Statutory Accounting Principles (E) Working Group, Valuation of Securities (E) Task Force, Capital Adequacy (E) Task Force and the related RBC Working Groups.

- Open Items on 43R – The small group is continuing discussion on the refinancing restrictions for equity-backed securities as well as stapled investments. Other elements still pending include clarification of an “operating entity” for determining insurer credit obligations as well as accounting and reporting guidance for investments that no longer qualify for Schedule D-1 under the principles-based bond definition.

Ref #	Title	Attachment #
INT 20-03 INT 20-07 (Julie)	**Troubled Debt Restructuring Due to COVID-19 & Troubled Debt Restructuring of Certain Debt Instruments Due to COVID- 19**	**O & P**

Summary:
INT 20-03 and INT 20-07 were adopted in response to modifications that were made to loans and debt securities in response to COVID-19. The adopted INTs provided exceptions to the application of guidance in *SSAP No. 36—Troubled Debt Restructuring*. The INTs were originally scheduled to expire as of Dec. 31, 2021, but were extended to January 2, 2022, in accordance with the extension of the CARES Act. These INTs have been included within this agenda to explicitly identify that the INTs are scheduled to expire. From preliminary information received, it is appropriate at this time to let the INTs expire.

- INT 20-03 provided provisions to allow reporting entities to follow the April 7, 2020 “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” and provisions of the CARES Act in determining whether the modification shall be reported as a troubled debt restructuring.

- INT 20-07 provided limited-time practical expedients in determining whether a modification under SSAP No. 36 is insignificant, and therefore is not a concession. If a modification is not a concession, recognition of the modification as a troubled debt restructuring is not required. For practical expedients, it was determined that if a restructuring 1) results with a change that reflects a 10% or less shortfall amount in the contractual amount due, and 2) results in an extension of the maturity of the debt by no more than three years, the modification shall be considered insignificant and thus not requiring troubled debt accounting. Additionally, the interpretation clarified that restructurings that solely modify debt covenants are not considered troubled debt restructurings.

Recommendation:
Unless comments are received otherwise, NAIC staff recommends that the Working Group allow the INTs to automatically expire on Jan. 2, 2022.

ANY OTHER MATTERS

a. Review of GAAP Exposures – Attachment Q - (Jim)
The attachment details the items currently exposed by FASB. NAIC staff recommends reviewing the issued ASUs under the standard SAP maintenance process.

Industry is invited to provide additional comments on FASB projects and developments.

b. Update on Working Group referral to CASTF – (Robin)

Casualty Actuarial and Statistical (C) Task Force met on December 7th to initially discuss a recommendation regarding the Working Group referral on agenda item 2019-49 regarding diversity in reporting for retroactive intercompany reinsurance contracts which meet the exception which allows for prospective reporting. NAIC staff will provide a verbal update on CASTF actions.

c. Identify Key Pending Items from SAPWG Maintenance Agenda and Prioritize Projects *(as time allows)*

- FASB Current Expected Credit Loss (CECL) Model (ASU 2016-13) – Under the Consolidated Appropriations Act (CAA) signed Dec. 27, 2020, which provided a variety of economic relief matters, the effective date of the FASB guidance in *ASU 2016-13, Financial Instruments – Credit Losses* was further delayed. Under the CAA, large public insured depository institutions, bank holding companies and their affiliates have the option of postponing implementation of the CECL standard until 2022. (The effective date for these entities was originally 2020 and the effective date has been delayed three times.) The effective date for non-SEC filers (public and private) is believed to be January 2023. NAIC staff continues to monitor discussions on this standard but believes discussion on this issue should resume. Comments from regulators and industry are welcome on bringing this issue back to the forefront as well as potential proposals to consider for statutory accounting.

- Goodwill – Prior to the COVID-19 pandemic there were ongoing discussions involving goodwill, particularly with pushdown goodwill and attributing goodwill to underlying entities held in a holding company. A summary of the agenda items and actions previously taken by the Working Group are summarized below. Although continued discussion and clarification is likely warranted, NAIC staff highlights that enhanced goodwill disclosures will be captured in the year-end 2021 statutory financial statements. NAIC staff suggests a review of the disclosure results prior to continuing discussion on this topic.

    - Agenda item 2019-12 seeks to address *ASU 2014-17, Business Combinations – Pushdown Accounting, a Consensus of the FASB Emerging Issues Task Force*. This ASU was issued to provide guidance on whether and at what threshold an acquired entity can apply pushdown accounting in its separate financial statements. Pushdown accounting is a convention where the purchase of a subsidiary is recorded (on the subsidiary's books) for its purchase price, rather than its historical book value. In effect, the acquiree's assets and liabilities are adjusted to reflect the purchase price and to the extent that the purchase price exceeds fair value, the excess is recognized as goodwill. The issue discussed was that the application of pushdown could cause optionality in the financial statements as entities elect to or not to apply pushdown accounting to U.S. GAAP entities.

- Agenda item 2019-14: Attribution of Goodwill proposed to expand the statutory guidance regarding the "attribution" of purchase price, and more specifically, goodwill in situations where an insurance company acquires a holding company that itself owns multiple companies. This agenda item was drafted to ensure consistency in the application of goodwill (and purchase price) to the ultimate underlying SCAs. The primary item was to ensure that "associated" goodwill of a particular SCA (in the holding company) was removed from an insurer's financial statements in the event the SCA is sold/disposed. Interested parties contended that allocation of goodwill (outside of pushdown accounting), would not be reflected in the audited financial statements of the SCA. As SCAs generally require an audit for admission, the SCA audit would not individually reflect "associated goodwill" as the audited financials only entail the SCA's assets, liabilities, or equity. NAIC staff concur with this concern.

- ➢ Response - in December 2019, the Working Group adopted revisions to SSAP No. 68 to clarify that all goodwill from an insurance entity's acquisition of SCAs, **regardless of whether pushdown accounting is applied**, is subject to the existing 10% admittance limitation. This control will ensure that regardless of if pushdown has been applied, the goodwill that has been pushed down, is still subject to the aggregate 10% admittance limitation.

- ➢ Response – in July 2020, the Working Group adopted <u>several</u> additional goodwill disclosures from agenda item 2020-03: Enhanced Goodwill Disclosures. Effective for year-end 2021, Footnote 3(A) will now require that the original amount of goodwill associated with a purchase be disclosed. In addition, the Working Group adopted a new disclosure, implemented through a data-capture footnote, to detail the intangible assets used to calculate a reporting entity's adjusted capital and surplus. Further, the footnote will identify the current period admitted goodwill as a percentage of adjusted capital and surplus. These new goodwill disclosures will improve the validity and accuracy of intangible assets currently being reported in the financial statements and will greatly assist in regulatory review, especially in cases where a reporting entity may be nearing the goodwill admission limitation of 10%. It is anticipated that annual reports regarding goodwill percentages will be provided to the Working Group by NAIC staff.

- <u>Derivatives Hedging Fixed Indexed Products (Agenda Item 2020-36)</u> – NAIC staff has identified this topic to be priority project but the development of SAP revisions are currently paused as NAIC staff is monitoring discussions at the Index-Linked Variable Annuity (A) Subgroup. Prior Working Group and industry comments have noted that it would be ideal for both the reserve calculation and derivative guidance to move in tandem. However, if regulators support moving forward with separate derivative guidance, NAIC staff will proceed in that direction. Comments from regulators and industry on the desired direction are welcome.

- <u>State ACA Reinsurance Programs (Agenda Item 2021-19) –</u> This agenda item is to provide accounting and reporting guidance regarding State ACA reinsurance programs being run under Section 1332 waivers. NAIC staff will work with industry to develop additional revisions for Working Group consideration that expand the principles-based guidance to address the diversity in state programs identified in the prior exposure. The primary issue identified is that while some state programs have a flow of funds similar to the original federal transitional reinsurance program, other state programs have different arrangements.

Comment Deadline for Exposures is Friday, February 18, 2022, for all items except agenda item 2021-31, which has a January 14, 2022, comment deadline to allow for possible adoption prior to the filing of the financial statements and their audited reports.

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