



Date: 3/7/2023

*2023 Spring National Meeting
Louisville, Kentucky*

Statutory Accounting Principles (E) Working Group
Wednesday, March 22, 2023
10:00 a.m. – 12:00 p.m. (ET)

OVERVIEW AGENDA

HEARING AGENDA

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OVERVIEW AGENDA

MEETING AGENDA

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5. SAPWG Meeting – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)		
• Receive & Discuss Valuation of Securities (E) Task Force Referral	8	M-O
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• Review of U.S. GAAP Exposures	9	S
➤ Comment Deadline for Ref #2023-03 & #2023-11EP – Friday, May 5		
➤ Comment Deadline for all other items – Friday, June 9		



Hearing Agenda

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
March 22, 2023
10:00 a.m. – 12:00 p.m. (ET)**

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman/Matt Milford	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

REVIEW AND ADOPTION OF MINUTES

1. Fall National Meeting **(Attachment 1)**

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator sessions on January 17, 20 and February 22. 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 as the discussion previewed the Spring National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

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 #2017-33: *Issue Paper No. 16X—Derivatives and Hedging*
2. Ref #2022-15: SSAP No. 25 – Affiliate Reporting Clarification
3. Ref #2022-16: ASU 2022-03: *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*
4. Ref #2022-18: ASU 2022-04, *Disclosure of Supplier Finance Program Obligations*

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2017-33 (Julie)	<i>Issue Paper No. 16X— Derivatives and Hedging</i>	2 – Issue Paper	No Comments	IP-2

Summary:

During the 2022 Fall National Meeting, the Working Group exposed a draft *Issue Paper No. 16X—Derivatives and Hedging* to detail revisions previously adopted from *ASU 2017-12, Derivatives and Hedging* and *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*. This issue paper details, as tracked changes, the revisions adopted in the following agenda items:

- Ref #2018-30: This agenda item incorporated revisions, effective January 1, 2019, with early application permitted, limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness: 1) provisions allowing more time to perform the initial qualitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut method for assessing hedge effectiveness.
- Ref #2021-20: This agenda item resulted with both the new Exhibit A that adopts with modification U.S. GAAP guidance in determining hedge effectiveness and the revisions to SSAP No. 86 to incorporate measurement method guidance for excluded components. These revisions were adopted with a January 1, 2023, effective date, with early adoption permitted.
- Ref #2022-09: The revisions incorporate the U.S. GAAP portfolio layer method and the partial-term hedging method, with modifications to limit application of the partial-term hedging method to recognized assets. These revisions were adopted with a January 1, 2023, effective date, with early adoption permitted.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed *Issue Paper No. 16X—Derivatives and Hedging* to detail the historical actions resulting in new SAP concepts within *SSAP No. 86—Derivatives*. (As the statutory accounting guidance has already been adopted, the issue paper adoption is for historical documentation and does not change authoritative guidance.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-15 (Jake)	Affiliate Reporting Clarification	3 – Agenda Item	No Comment	IP-14

Summary:

During the 2022 Fall National Meeting, the Working Group exposed SAP clarifications to *SSAP No. 25—Affiliates and Other Related Parties* to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed SAP clarification to SSAP No. 25.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-16 (Jake)	<i>ASU 2022-03, Fair Value Measurement of Restricted Securities</i>	4 – Agenda Item	No Comment	IP-14

Summary:

During the 2022 Fall National Meeting the Working Group exposed SAP clarification revisions to *SSAP No. 100R—Fair Value* to adopt *ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* with modification to be consistent with statutory language in the respective statutory accounting statements. As detailed within the agenda item, the exposure does not incorporate the new proposed GAAP disclosures on sales restrictions, but identifies those items restricted as to sale would be captured as restricted assets per SSAP No. 1 and subject to admittance considerations under SSAP No. 4.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed SAP clarifications to SSAP No. 100R, which adopts *ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions* with modification regarding SAP terminology and modification to exclude the sales restrictions disclosures in the ASU.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-18 (Robin)	<i>ASU 2022-04, Disclosure of Supplier Finance Program Obligations</i>	5 – Agenda Item	No Comment	IP-15

Summary:

During the 2022 Fall National Meeting, the Working Group exposed SAP clarifications to *SSAP No. 105R—Working Capital Finance Investments* to reject *ASU 2022-04, Disclosure of Supplier Finance Program Obligations* for statutory accounting as the disclosures are for borrowers in these programs and as such, are not relevant for insurance preparers that may invest in these programs.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed SAP clarifications to *SSAP No. 105R—Working Capital Finance Investments* to reject *ASU 2022-04, Disclosure of Supplier Finance Program Obligations* for statutory accounting.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2019-21: Principles-Based Bond Definition
2. Ref #2022-01: Conceptual Framework - Updates
3. Ref #2022-11: Collateral for Loans
4. Ref #2022-12: Review of INT 03-02: Modifications to an Existing Intercompany Pooling Arrangement
5. Ref #2022-14: New Market Tax Credits
6. Ref #2022-17: Interest Income Disclosure Update
7. Ref #2022-19: Negative IMR

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 (Julie)	Proposed Bond Definition	6 – SSAP No. 26R 7 – SSAP No. 43R 8 – SSAP No. 21R 9 – Other SSAP 10 – Schedule BA	Comments Received	IP-1 IP -18

Summary:

In November 2022 and at the 2022 Fall National Meeting, the Working Group exposed revisions to *SSAP No. 26R—Bonds*, *SSAP No. 43R—Asset-Backed Securities*, as well as revisions to other SSAPs as necessary to update for the principles-based bond project. These revisions also included edits to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to restrict asset-backed securities from being captured in scope and *SSAP No. 21R—Other Admitted Assets* to provide guidance for debt securities that do not qualify as bonds. In addition to the SSAP revisions, an updated issue paper detailing the discussions and revisions as well as proposed reporting changes were also exposed.

Interested Parties' Comments:

The interested parties submitted a separate comment letter dated February 10, 2023, on the proposed SSAP revisions. The interested parties also identified that they have not provided comments on the reporting exposure as they believe comments can be optimized once the reporting changes are exposed by the Blanks (E) Working Group.

The letter indicates that interested parties continue to support the development of high-quality bond standards and believe they are headed in the right direction. It also notes that Staff has tackled this project with appropriate rigor and their collaboration with interested parties has been greatly appreciated. The letter identifies that interested parties stand ready to continue to assist as this project gets nearer the finish line.

Rather than including the full scope of the interested parties' comments on the bond revisions, they are summarized as follows:

- SSAP No. 26R, Paragraph 6d – Interested parties agree with the exclusions detailed in this paragraph but suggest modifications from “credit-rating related” to “credit-quality related” to encompass the broader range of adjustments that align interests of debtholders and issuing entities (e.g., debt to EBITDA ratio, interest coverage ratio, debt service coverage ratio, etc.). Such bonds are prevalent in insurer portfolios.
 - *NAIC staff note - Revisions have been reflected for this comment.*
- SSAP No. 26R, Paragraph 6d – Interested parties believe this paragraph would inappropriately capture certain bonds with an interest coupon rate linked to sustainability goals. For example, the debt may have coupon interest equal to either a fixed or floating rate (e.g., SOFR) that is adjusted based on one or more sustainability goals or variables. Interested parties therefore suggest either a special exclusion for these type

of debt instruments such as “SLB-linked bonds with de minimis interest rate adjustments” or “SLB-linked bonds with interest rate adjustments with the potential to adjust the total return from interest by no more than 10%”. Quite possibly, it may be more appropriate for such a “de minimis” exclusion to be applied to other non-debt variables more broadly so there is not an abrupt cliff effect for non-schedule D reporting due to the potentially punitive risk-based capital treatment, for de minimis non-debt variables in general.

- *NAIC staff note - Revisions have been reflected for this comment.*
- SSAP No. 26R, Paragraph 6di – Interested parties have proposed edits to ensure that Replication Synthetic Assets (RSATs) continue to meet the replication accounting requirements regardless of changes to the definition of a Schedule D bond. They also request additional discussion with staff on revisions to SSAP No. 86 that currently addresses the accounting for replication transactions as changes may be needed to coincide with the effective date of the principles-based bond definition.
 - *NAIC staff note - Revisions have been reflected for this comment.*
- SSAP No. 26R, Paragraph 10 – Interested parties noted an inconsistency with the treatment of residual tranches in the proposed SSAP No. 26R and SSAP No. 43R, with reference to SSAP No. 21R as the source of the guidance. As residual guidance is not captured in SSAP No. 21R, they have proposed revisions to include the reporting treatment on Schedule BA within SSAP No. 26R.
 - *NAIC staff note - Revisions have been reflected for this comment. These revisions propose to capture information on residuals in SSAP No. 21R.*
- SSAP No. 26R, Paragraphs 43-46 (and corresponding paragraphs in SSAP No. 43R)– Interested parties have proposed minor editorial edits to the transition guidance to reflect what they believe was the intent. They have also requested revisions to clarify that the revised bond categories from the annual statement shall be applied prospectively beginning with the first year of adoption and not result with a restatement of the prior year’s reporting.
 - *NAIC staff note - Revisions have been reflected for this comment.*
- SSAP No. 26R, Example 2 – Interested parties have proposed two editorial changes to provide a nuanced technical clarification and a more formal conclusion within the example rationale.
 - *NAIC staff note - Revisions have been reflected for this comment.*
- SSAP No. 21R, Paragraph 22 (Debt Securities That Do Not Qualify as Bonds) – Interested parties have provided general comments on the categories when for when a debt instrument does not meet the principle-based bond definition as laid out in SSAP No. 26R as well as the accounting and measurement basis. They have identified that they would like to think through the guidance with staff to determine if further refinement is necessary especially if the intent of these categories is to feed risk-based capital factors where additional refinement may be necessary.
 - *NAIC staff note – Limited revisions have been proposed, but further discussion with interested parties is recommended.*
- SSAP No. 21R, Paragraph 22 (Debt Securities That Do Not Qualify as Bonds) – Interested parties have provided comments on the guidance that limits admittance of debt securities, when the source of repayment is derived through rights to underlying collateral, to the extent that they are secured by admitted invested assets. These comments have identified that they understand the rationale for the guidance, as the resulting security is very similar to a collateral loan, but they have noted that it is a meaningful penalty and would like more time to discuss with staff. These comments have noted that it is conceivable that a securitization with a residual tranche could be reported as an admitted asset, whereas a more-senior debt tranche would be a nonadmitted asset.
 - *NAIC staff note – Limited revisions have been proposed, but further discussion with interested parties is recommended.*

Recommendation:

NAIC staff appreciates the comments from interested parties and interim discussions which have continued to discuss key comments and potential revisions. For the Spring National Meeting, **it is recommended that the Working Group expose updated documents to detail the statutory accounting guidance. Revisions have been proposed to reflect a majority of the interested parties’ comments, and a summary of revisions is detailed within the documents. With exposure, it is requested that interim discussions continue to occur with interested parties.** Updated documents proposed for exposure:

- SSAP No. 26R—Bonds
- SSAP No. 43R—Asset-Backed Securities
- SSAP No. 21R—Other Admitted Assets
- Other SSAP Revisions – (This document only includes proposed changes to SSAP No. 86 for RSATs.)

In addition to the documents proposing SSAP revisions, NAIC staff has drafted a proposal to revise the reporting lines on Schedule BA to encompass the debt securities that do not qualify as bonds, as well as to consolidate existing reporting lines. **NAIC staff recommends that this document also be exposed for initial comment. This document only proposes the changes to schedule BA. Once comments are considered, subsequent revisions to incorporate the changes through other schedules as appropriate (such as AVR) would be drafted.**

NAIC staff notes that revisions to the issue paper will be presented to the Working Group for subsequent consideration. Also, on March 7, 2023, the Blanks (E) Working Group exposed blanks proposals to detail the bond reporting changes, as well investment schedule changes identified from the bond project.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-01 (Robin)	Conceptual Framework – Updates	11 – Agenda Item 12 – Issue Paper	Pending	IP-2

Summary:

During the 2022 Fall National Meeting, the Working Group re-exposed revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets* and *Issue Paper No. 16X—Updates to the Definition of a Liability*. The revisions incorporate the definition of a liability from Financial Accounting Standards Boards (FASB) *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 7, Presentation*, and *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which updates the definition of an asset and of a liability.

FASB has updated the **definition of an ASSET** to be defined as a present right of an entity to an economic benefit. The asset definition possesses two essential characteristics in that 1) an asset is a present right and 2), the right is to an economic benefit. On August 10, 2022, the Statutory Accounting Principles (E) Working Group adopted, the previously exposed revisions, to the Preamble and *SSAP No. 4—Assets and Nonadmitted Assets* and *Issue Paper No. 166—Updates to the Definition of an Asset*.

FASB has updated the **definition of a LIABILITY** to be defined as a present obligation of an entity to transfer an economic benefit. The liability definition possesses two essential characteristics in that 1) the liability is a present obligation, and 2) the obligation requires an entity to transfer or otherwise provide economic benefit to others. (For the purposes of this characteristic, *transfer* is typically used to describe obligations to pay cash or convey assets, while the term *provide* is used to describe obligations to provide services or stand by to do so.)

There are some existing GAAP and SAP standards which provide liability guidance which do not meet the existing or proposed revised definitions of a liability for GAAP or SAP. Because SAP treats the definitions of an asset and a liability as authoritative, updating these definitions requires careful consideration. Statutory accounting variations from the definition of a liability are typically topic specific items which are often for purposes of conservatism or implementing other regulatory objectives. Examples of existing SAP variations from the definition of a liability are:

- *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserves* – AVR and IMR establish liabilities for regulatory objectives.
- *SSAP No. 62R—Property and Casualty Reinsurance* – contains the provision for reinsurance liability guidance which results in a liability that is a regulatory valuation allowance for overdue and slow paying reinsurance and also enforces Credit for Reinsurance (Model No. 785) collateral requirements.
- *SSAP No. 92—Post Retirement Benefits Other than Pensions*, provides liability recognition, which adopts several GAAP standards with modifications.

Interested Parties' Comments:

Interested parties are currently reviewing the additional materials provided by NAIC staff and will comment at a later date.

Recommendation:

NAIC staff recommends exposure of additional clarifications regarding: deferring to SSAP guidance which provides topic specific variations from the definition of a liability in SSAP No. 5R and the related *Issue Paper No. 16X—Updates to the Definition of a Liability* as illustrated under “Proposed Revisions” below.

These clarifications are recommended because of the authoritative treatment that statutory accounting provides to the definition of an asset and a liability in SSAP No. 4 and SSAP No. 5R. For GAAP, the FASB Conceptual statements definitions are not authoritative, but rather are concepts to consider when developing and applying guidance. The FASB basis for conclusions noted that some existing authoritative FASB literature regarding liabilities is inconsistent with the updates to Concepts Statement No. 8. **Therefore, a modification regarding topic specific liabilities guidance is recommended.**

Lastly, because of previous comments on this agenda item from interested parties, NAIC staff have prepared a new agenda item in meeting which proposes a project to ensure that accounting guidance from annual statement instructions are incorporated into the SSAPs - **See agenda item 2023-01)**

- **Proposed revisions – Topic Specific Footnote** - This language is proposed for incorporation as a footnote to the liability definition in SSAP No. 5R and its related and *Issue Paper No. 16X—Updates to the Definition of a Liability*.

New Footnote:

The guidance in this statement regarding the definition of a liability is applicable unless another authoritative statement of statutory accounting principles provides more topic specific contradictory guidance. In such cases the topic specific guidance shall apply.

- Proposed revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets* and *Issue Paper No. 16X—Updates to the Definition of a Liability* (New language shaded):

Relevant Literature

39. This statement adopts *FASB Statement No. 5, Accounting for Contingencies* (FAS 5), *FASB Statement 114, Accounting by Creditors for Impairment of a Loan* only as it amends in part FAS 5 ~~and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements~~. *FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation*

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of FASB Statement No. 5 (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14. This statement adopts with modification ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* with the same statutory modification adopted for FIN 14. This statement incorporates the definition of a liability from FASB Statement of Financial Accounting Concepts No. 8, Chapter 4, Elements of Financial Statements, paragraphs E37 and E38 with modification reflected in this Statement regarding topic specific guidance.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-11 (Robin)	Collateral for Loans	13 – Agenda Item	Comments Received	IP-2

Summary:

During the 2022 Fall National Meeting, the Working Group re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

Interested Parties' Comments:

The impact of the new exposed language can be interpreted to affect requirements for collateral loans which are backed by investments in joint ventures, partnerships, and LLCs. As commented during the 2022 NAIC National Fall Meeting, we believe that audits of joint ventures, partnerships, and LLCs, while required under SSAP No. 97 and SSAP No. 48 for those assets held directly, are not necessarily suited for the task of assessing sufficiency of collateral, because an audit does not validate fair value of the investment, which is a core standard of collateral guidance, and audits may be unreasonably costly for this narrow purpose.

Interested parties noted that regulators indicated concern over arrangements in which the collateral asset or the collateral loan itself may be related to or affiliated with the reporting entity. We believe that this concern is more directly addressed in recent industry exposures and adoptions over related party reporting; a collateral loan involving a related party is required to be labeled as such in annual statement filings. A collateral loan which is backed by a related joint venture, partnership, or LLC, is expected to be disclosed as such under existing SSAP No. 25 guidance. It is our view that in cases where an audit is not performed, allowing an unrelated third party to perform a fair value assessment would address objectivity concerns for this narrow purpose, noting that primary guidance over related party transactions is addressed elsewhere outside of SSAP No. 21R.

Interested parties propose that the following footnote be included in SSAP No. 21R which would effectively permit companies with these investments to obtain a third-party valuation assessment in place of an audit, where the third-party assessment would satisfy both the admitted asset requirement as well as the fair value sufficiency requirement applicable to collateral assets.

Footnote:

Because an audit, which is required for certain investments in joint ventures, partnerships, and LLCs to be admitted assets, does not necessarily provide assurance over the fair value of such an investment which is collateral for a loan, companies are permitted to obtain a fair value assessment provided by an unrelated third party in place of an audit, in order for a collateral asset which is a joint venture, partnership, or LLC to qualify as an admitted asset under this standard.

Recommendation:

NAIC staff recommends revisions to SSAP No. 21R be re-exposed with the shaded revisions illustrated under proposed revisions below.

The regulators which originated the request for this agenda item believe it is imperative to uphold the existing requirement to maintain audit requirements if joint venture, partnerships, limited liability companies or investments that would qualify as subsidiary controlled or affiliated entities (SCA) if the collateral was directly held as these investments must qualify as admitted investments under SSAP No. 48 and SSAP No. 97 to qualify as collateral for loans. In their view, allowing fair value without an audit would lower the collateral requirement standard and allow potential arbitrage within RBC and admissibility of assets by using a collateral loan as the conduit. Additionally, they note concerns that a level 3 fair value without a deep active secondary market is subject to varying expert opinions and is difficult to take regulatory action on.

NAIC staff recommends continuing to require the use of audits of collateral where indicated for admissibility and to revise the standard to note that a fair value comparison is required unless the collateral would be considered a SSAP No. 48 or a SSAP No. 97 investment, in which case the comparison is to audited net equity value. We note that audited equity value reflects the value that would likely be the day 2 value reported in the event the collateral was used to make the debt holder whole for these assets. (At initial recognition, the reporting entity would report the investment at fair value, but with the guidance in SSAP No. 48/97, the reporting entity would then subsequently report the investment at net audited equity value.)

Proposed revisions to *SSAP No. 21 – Revised—Other Admitted Assets* (new wording shown **tracked and shaded**)

Collateral Loans

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of **an qualifying** investment² and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments **which would otherwise be admitted** shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. **For qualifying investments which are pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, such as joint ventures, partnerships and limited liability companies and investments that would qualify as SCAs if held directly, the proportionate audited equity valuation shall be used for the comparison for the adequacy of pledged collateral. If the collateral loan exceeds the audited equity valuation of these pledged investments, then the excess shall be nonadmitted.**

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: **A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would if held by the insurer qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-**

party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-12 (Robin)	Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement	14 – Agenda Item 15 – INT 03-02	Comments Received	IP-3

Summary:

During the 2022 Fall National Meeting, the Working Group re-exposed the intent to nullify INT 03-02. With this re-exposure, the Working Group requested industry to provide comments on specific instances in which the interpretation was being applied and specific staff identified items noted in the agenda.

Interested Parties' Comments:

Staff provided the following comments regarding some of the key points from industry. Interested parties' response to each comment is provided in italics below following each comment:

1. In the current interest rate environment, the fair value of many bonds is below book value. For example, a bond with an amortized cost of \$100 with a fair value of \$85. The way INT 03-02 is written a bond with a fair value of 85 could be used to settle an intercompany reinsurance pooling obligation of \$100. If the reporting entity paid with cash, they would be required to pay \$100. The actual cash value of obligations when they are extinguished is a relevant measure of the transaction.

If a bond was transferred at market value in order to settle the \$100 pooling obligation as proposed by NAIC staff in the example above, a bond with a fair value of \$100 would have to be used to settle the obligation. In the event that the bond was in an unrealized loss position at the time of the transfer, a realized loss would be recognized on the transferring entity's books and the combined pool's books. To avoid this situation, a legal entity could use cash to settle the obligation, but the use of such cash may not be the most efficient use of the transferring entity's resources.

*If the bond was transferred at FV as proposed by NAIC staff but the bond was in an unrealized gain position, a more significant issue would arise. Realized gains would be recorded in the financial statements of the transferring entity, thus resulting in an initial gain in surplus at the legal entity level of reporting as part of the intercompany pooling modification **and requiring the intercompany pooling reinsurance to be accounted for as retroactive reinsurance.***

There are extreme anomalies with transferring bonds at market value, as illustrated above.

2. Using book value for measurement of payments between affiliates can result in either unrecognized [gains or losses] of in effect dividend or losses. SSAP No. 25 requires such transfers of assets between affiliates to use fair value. If a subsidiary can pay the parent with assets that have a lower fair value than book value (ex, owes \$100 but pays with a bond of 85), this has a similar effect as an unrecognized capital contribution to the subsidiary. SSAP No. 72 requires a capital contribution to be valued using fair value.

The hypothetical capital contribution noted by NAIC staff is mitigated by the fact that, in actual practice, the transferring company would likely have two options if it did not transfer the bond:

- *The company could sell the bond, recognize a realized loss, and reinvest in a higher interest-bearing bond which would offset the realized loss over time.*
- *The company could hold the bond until maturity, at which point it is redeemed at the \$100 par value.*

We also note that modifications to intercompany pooling arrangements are subject to prior regulatory review and approval, and if the example noted by NAIC staff were part of a planned intercompany pooling transaction, the regulator could address it before granting approval to the intercompany pooling modification.

3. Staff agrees that at the ultimate parent level such transfer of assets (in accordance with SSAP No. 25 guidance) may be noneconomic in that the parent continues to hold an interest in the same assets. Therefore, at the parent level, such transfers of assets may result in the deferral of gains. Staff believes that losses would not be deferred at the ultimate parent level.

The issue noted by interested parties is not that the bond transaction may be economic at the subsidiary level but non-economic at the parent level. Rather, the interested parties letter notes that the transfer of reserves in an intercompany pooling modification is a non-economic transfer, and INT-03-02 treats the transfer of bonds consistently (i.e., non-economic) with the transfer of the liabilities.

4. Staff notes that while it may be more expedient to pay intercompany reinsurance pooling transactions with assets, the valuation used should be similar to if the obligation was extinguished with cash. Therefore, an entity can still choose to pay with assets, they just need to be valued consistently with SSAP No. 25 guidance.

This comment seems to imply that staff disagrees with the views of the Statutory Accounting Principles Working Group, which deliberated this issue in 2003 and decided that the appropriate guidance is SSAP No. 62 and not SSAP No. 25.

5. SSAP No. 62R, paragraph 36d provides an exception to retroactive reinsurance accounting guidance which allows for prospective accounting treatment for intercompany reinsurance among 100% owned affiliated provided there is no gain to the ceding entity. If there is a gain to the ceding entity, there is guidance in SSAP No. 62R, paragraph 37 which requires a more punitive method of accounting than either prospective or retroactive reinsurance accounting. Therefore, NAIC staff comment is that the statutory accounting objective is to provide different treatment for retroactive reinsurance contracts if there is a gain to the ceding entity. This is another reason that the guidance in INT 03-02 is problematic. The object is to correctly measure the effects of the contract, which drives the accounting. The objective is not to obscure whether there is a gain to the ceding entity, which can happen in the event that the assets used in payment are not measured correctly.

INT 03-02 avoids the gain in surplus issue by requiring that the transfer of bonds be at book value. This avoids inconsistent accounting of intercompany pooling modifications between prospective reinsurance accounting and retrospective reinsurance accounting. INT 03-02 provides consistent accounting for all such modification transactions.

Interested parties believe that INT 03-02 was not meant to address whether assets used as payments in an intercompany pooling modification are measured correctly, but rather the INT was meant to address which accounting is appropriate given the facts and circumstances of the transaction. We still believe that INT 03-02 provides a reasonable approach with respect to accounting for intercompany pooling modifications and provides consistency in reporting across companies.

6. Interested parties noted that modifications to intercompany pooling arrangements are typically effective retroactive to the beginning of the year. Staff notes that the payment value when the transaction is settled should be equivalent to the cash value of what is owed on the date of extinguishment of the liability.

This view raises the question of whether the “fair value” of the reserves need to be considered. That would be unprecedented and not consistent with any statutory accounting guidance.

7. Many of the interested parties’ comments regarding GAAP use of book value are more relevant to consolidated basis accounting which is not consistent with the legal entity basis of statutory accounting.

Interested parties respectfully disagree. The interested parties comment letter references the example of accounting for mergers, which is not the same as consolidation accounting.

8. Interested parties’ comments noted that there is a difference in treatment for intercompany pooling participants who are not 100% owned by a common parent. NAIC staff notes that retroactive pooling agreement changes with participants that are not 100% under common control do not meet the exception to retroactive accounting provided in SSAP No. 62R, paragraph 36d. NAIC staff notes that SSAP No. 62R, paragraph 37 provides guidance for retroactive reinsurance agreements among affiliates where there is a gain to the ceding entity.

This comment appears to conflate the issue of being under the control of a common parent versus under 100% common control of a group. The interested parties comment letter was distinguishing between intercompany pool entities which have a common parent versus intercompany pool entities which do not have a common parent. All of the intercompany pool entities are under 100% common control, but not necessarily under the same common parent.

As an example, there may be downstream insurance subsidiaries of two top-tier insurance entities. The downstream insurance subsidiaries do not have common parents but are under 100% common control of the group.

We believe that nullification of the existing INT will likely result in inconsistent interpretation of the guidance by both companies and regulators and will result in inconsistent accounting treatment.

Recommendation:

NAIC Staff continues to recommend nullification of the INT 03-02, as it is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions. NAIC staff requests Working Group direction on effective date for nullification and suggests December 31, 2022.

INT 03-02, for intercompany reinsurance transactions, takes an approach that either SSAP No. 25 or SSAP No. 62R applies, however but multiple Working Group discussions have noted that SSAP No. 25 provides the overarching guidance that is relevant in evaluating **all related party transactions**. INT 03-02, paragraph 8 indicates that the statutory accounting intention is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. However, the guidance in SSAP No, 62R, paragraph 37 uses a more punitive method of accounting if there is a gain in surplus to the ceding entity as a result of the intercompany reinsurance transaction. Therefore, NAIC staff would characterize the SSAP No. 62R guidance as imposing an accounting penalty if there is a gain, rather than seeking to avoid recognizing such a gain. The INT also characterizes SSAP No. 25 as being for isolated transactions, which is inconsistent with discussions of the Working Group on the applicability of SSAP No. 25.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-14 (Julie / Wil)	New Market Tax Credits	16 – Form A 17–Discussion Document	Comments Received	IP-6 IP-16

Summary:

During the 2022 Fall National Meeting, the Working Group exposed a discussion document to expand current statutory accounting guidance in *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria.

Interested Parties' Comments:

Interested parties agree with having uniformity in accounting and reporting for equity investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. We are providing responses to the questions exposed in the Discussion Paper in this document. There are two key take aways from our responses summarized as follows:

1. Interested parties ask the Working Group to consider allowing for the reporting of both the amortization of the investments and the use of the tax credits themselves in the same income statement line similar to what is required under U.S. GAAP.
2. Interested parties have concerns regarding tax credit investments that are issued in debt form and requiring those investments to be reported on Schedule BA instead of Schedule D. Interested parties believe that tax credit investments issued in debt form are better suited for Schedule D reporting.

NOTE: *In addition to these two comments, interested parties have provided responses to the questions detailed in the discussion document. These responses are detailed in the comment letter but have not been duplicated within this hearing agenda.*

Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to proceed with drafting revised statutory accounting guidance and a related issue paper to expand the guidance in SSAP No. 93 for tax credits, as well as to draft revisions to SSAP No. 94—Transferable and Non-Transferable State Tax Credits for future Working Group discussion. NAIC staff proposes to consider the feedback from interested parties on the discussion document as well as the revised FASB guidance, which is expected to be issued in the near future, in updating the proposed revised statutory accounting guidance for subsequent exposure consideration.

With regards to the two key takeaways from interested parties, NAIC staff notes the following:

1. **Income Statement Reporting:** Regarding the interested parties' request to capture amortization and tax credits in the same income statement line similar to U.S. GAAP as a component of income tax expense (or benefit). It is noted that the current SAP reporting which amortizes the investment as the investment tax credits are proportionately used and recognizes tax credits used as a reduction in the related tax expense category was an intentional Working Group decision when the guidance was originally adopted, but this divergence from U.S. GAAP will be detailed and presented to the Working Group so the Working Group can choose whether to alter their prior conclusion.

2. **Bond Classification:** The interested parties’ comments have noted concerns with tax credit investments issued in debt form being reported on Schedule BA and not Schedule D-1. From initial regulator feedback received, tax credit investments shall not be reported as bonds and shall be reported on Schedule BA. NAIC staff requests Working Group comments on this assessment.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-17 (Jake)	Interest Income Disclosure Update	18 – Agenda Item	Comments Received	IP-14

Summary:

During the 2022 Fall National Meeting, the Working Group exposed SAP clarifications to *SSAP No. 34—Investment Income Due and Accrued* to add additional disclosures and to data-capture the disclosures.

Interested Parties’ Comments:

Interested parties propose that the exposed changes which are an outgrowth of the Bond project should share the same effective date. This will also allow companies to make the system changes needed to provide this information.

Interested parties also suggest the following editorial revisions to the disclosures contained in SSAP No. 34 for clarification and to be consistent with the proposed Blanks changes:

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)
 - a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
 - b. Disclose total amount excluded;
 - c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued.
 - d. ~~Disclose aggregate deferred interest and cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.~~
 - e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 34—Investment Income Due and Accrued*, with the minor revisions that were suggested by the Interested Parties’ comment and illustrated above, effective for year-end 2023. NAIC staff will work staff from the Blanks (E) Working Group to create an agenda item to incorporate the changes into the annual statement blanks. NAIC staff recognizes that this item was identified from bond project discussions, but this new disclose is not contingent on the bond proposal and is pertinent to existing investments held.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-19 (Julie)	Negative IMR	19 – Agenda Item	Comments Received	ACLI-26

Summary:

During the 2022 Fall National Meeting, the Working Group exposed the agenda item as a new SAP Concept with a request for comments by industry on potential guardrails and details on unique considerations. The Working Group directed NAIC staff to coordinate with the Life Actuarial (A) Task Force and requested regulator-only sessions with industry to receive company specific information.

American Council of Life Insurers (ACLI) Comments:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the above referenced exposure as well as the thoughtful and timely attention this important topic is receiving from SAPWG and LATF. The ACLI stands ready to continue working with the NAIC to create sufficient, yet practical, safeguards to ensure that the most appropriate treatment of Interest Maintenance Reserve (IMR) can be applied, and a company's surplus and financial strength are properly reflected, while not disincentivizing prudent investment and risk management in the best interest of all.

A rising interest rate environment from historically low rates is generally favorable to the financial health of the life insurance industry. However, ACLI is concerned that without a change to the current treatment of negative IMR, the environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital ratios. This problem will only be exacerbated if interest rates remain at or near their current levels or increase further; therefore, it is imperative that we work together toward developing an industry-wide solution for implementation by year-end 2023.

Upon the sale of and subsequent reinvestment in a fixed income instrument, the reflection in surplus of either a gain or loss is not reflective of the true economics, as there is no change to solvency, liquidity, or claims paying ability because the difference between the reported amortized cost value and fair value is equal to the IMR. This letter addresses our assessment of the suitability of the five potential guardrails proposed at the SAPWG fall national meeting and raises two additional proposals for consideration.

Background

While this letter will focus on potential additional safeguards, as suggested at the SAPWG fall national meeting, this is a complex topic and we want to summarize, review, and expand on relevant background information largely included in our previous letter dated October 31, 2022.

The NAIC's statutory accounting framework is largely an "amortized cost framework" in that fixed income investments are generally reported at amortized cost and long-term insurance liabilities are generally reported with locked and conservative assumptions.

We strongly support the NAIC framework, as it facilitates the issuance of long-term insurance products in the US market by not overly focusing on current market fluctuations. This is unlike many market valuation regimes where over-reliance or misapplication of current market conditions often distorts the financial solvency of insurance companies and can lead and has led to the decrease or elimination of such long-term product issuances in those regimes.

However, an amortized cost framework could also potentially distort the financial solvency of insurance companies through the misrepresentation of surplus. The IMR was developed as a safeguard to ensure surplus is properly reflected within the NAIC's framework.

Specifically, in a declining interest rate environment, an insurance company could sell its fixed income investment portfolio, recognize gains, increase surplus and show increased financial strength. This increase in surplus would largely be illusory as the increased surplus would be offset by a lower yielding investment portfolio.

IMR requires deferrals of those gains from surplus, and the gains are amortized through income over the remaining life of the bonds sold to:

- Ensure accurate representation of a company's reported surplus by eliminating the potential for overstatement of surplus, and
- Keep the relationship of anticipated investment yield consistent with that needed to support the liabilities.

But without IMR, a rising interest rate environment could result in similarly misleading surplus (in this case an illusory lack of surplus) because a company would be investing in higher yielding bonds.

When IMR was developed, it was anticipated that the IMR would work consistently for both net realized gains and losses; however, the allowance of a net negative IMR was not initially adopted upon implementation in 1992. It was expected that the issue would be addressed in subsequent years and remained on the SAPWG agenda at least until 2005 but was never addressed in any substantive way. This was largely because of a lack of urgency due to the decades-long declining interest rate environment where IMR was largely positive for life insurance companies.

This issue had been referred to SAPWG from the AVR/IMR working group which believed the basic rationale for the IMR would conclude that neither a maximum nor minimum is appropriate. It was fully expected that the IMR, whether negative or positive, would be included in asset adequacy testing and addressed by the actuarial opinion.

We are very appreciative that SAPWG and LATF are looking to substantively revisit the negative IMR issue as anticipated during its original development. The current interest rate environment has changed circumstances in a meaningful way. While rising interest rates from historically low levels are beneficial to insurance companies, the recent rapid rise of interest rates has increased the urgency to address the negative IMR issue to avoid the misrepresentation of capital positions of insurance companies.

The current interest rate environment or a further rise in interest rates would only exacerbate the urgency as losses from bond sales could result in a significantly inappropriate portrayal of surplus that would be inconsistent with the rationale for which IMR was initially developed. In this case, insurers would show a significant illusory lack of surplus because they would be investing in higher yielding bonds.

IMR is an important construct that effectively adjusts liabilities so that the balance sheet liabilities net of IMR remain on the same basis as the reported balance sheet assets, limiting artificial volatility within surplus. As discussed above, negative IMR, from an asset-liability perspective, represents either high future income from reinvestments or future reserve releases that will be available to pay claims from an asset liability perspective.

Although the status quo use of permitted practices may grant relief for specific companies, it may lead to an unlevel playing field. Consequently, the ACLI wants to emphasize the importance of developing a uniform national standard for consistently ensuring the appropriate theoretical and practical treatment of IMR (e.g., symmetrical treatment of both gains and losses).

The ACLI would like to work with the NAIC to fulfill the original intent of IMR that ensures surplus and financial strength are properly reflected and do not disincentivize prudent investment and risk management. At the same time, we want to work with regulators to ensure IMR cannot somehow be circumvented in a rising interest rate environment, whether intentionally or inadvertently, to misrepresent financial strength.

Common Interest to not Disincentivize Prudent Behavior

We want to reiterate the importance of not disincentivizing prudent portfolio and asset liability management.

In addition to prudent portfolio management and managing credit/investment risk exposure, insurance companies manage duration. These prudent risk management processes all require on-going transactions that impact the IMR, such as whether it is sales and reinvestment in fixed income investments, which we discussed in our previous letter dated October 31, 2022, or use of derivatives to achieve the same appropriate end. We would note that bond sales may trigger derivative terminations that offset in IMR; however, derivatives settlements can impact IMR without an offset impact from a bond sale.

Hedging strategies are used to address product risks like contract guarantees, disintermediation, and reinvestment risks as part of prudent risk management practices utilized by life insurance companies. These hedging strategies may involve interest rate swaps, caps, floors, swaptions, interest rate futures, among others, that also may generate IMR gains and losses.

For example, negative IMR can be generated by hedging strategies utilized for pension risk transfers. Once the contract is executed, insurers will enter hedging contracts to ensure interest rate certainty while awaiting cash and assets in-kind and/or the right investment opportunities to meet the long-term goals for the accounts. As the hedges are unwound to meet pricing and investment targets, immediate losses and negative IMR may be generated as interest rates rise, but the losses are ultimately offset over time with higher fixed instrument yields.

Further, many life insurance and annuity products have significant long term reinvestment risk, where premiums are received for many decades before benefit payments may be made. Companies may use interest rate futures, swaps, or bond forwards, to reduce reinvestment risk by locking in interest rates at which the future premiums will be invested. When interest rates rise, these hedging transactions may settle, roll-over, or be terminated, leading to expected IMR losses but are ultimately offset by future higher reinvestment yields. Without these hedging transactions, returns might not be equivalent to policyowner obligations, exposing the company to significant interest rate risk.

Similarly, life insurance companies may utilize stochastic asset liability modeling to establish asset duration targets that may include setting different asset duration targets by product if appropriate, through an asset segmentation plan. This considers scenarios where interest rates increase rapidly (where there is potential for disintermediation risk) and very low interest rates (considering product guarantees). Such analysis is refreshed on a regular basis to update the duration target based both on the liability in force characteristics and the economic environment. Portfolio asset duration is managed to the target on an ongoing basis and requires asset sales /purchases or use of derivatives that affect IMR. These are but several distinct examples of the types of prudent risk management practices utilized by life insurance companies.

A rising interest rate environment is generally favorable to the financial health of the life insurance industry. Without a change to the treatment of negative IMR, a rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital ratios, which is both counterintuitive and not reflective of the economics. It may create undesirable incentives for companies to deviate from prudent investment/risk management to avoid creating negative IMR.

It essentially creates two equally objectionable alternatives for insurers and their policyowners.

- Applying the current statutory guidance will improperly reflect financial strength through understating surplus,
- Insurers could take steps to manage their current capital position by limiting trading of fixed income investments and/or usage of derivatives, which would diminish significant economic value or worse, create a mismatch between assets and liabilities and prevent the ability to fulfil long-term contract obligations.

Insurers may avoid hedging or trading to ensure future reinvestment risks are mitigated, by being incentivized to overly focus on managing misrepresented short-term financial position by effectively keeping asset duration shorter than their liabilities and taking on interest rate risk.

We do not believe this is in the best interest of insurance companies or their policyowners and believe it is a common interest we share with regulators. Consequently, developing a national standard for allowing negative IMR with appropriate safeguards should be a common goal for all.

Existing Safeguards

As noted above, IMR itself is a safeguard for the NAIC's amortized cost framework that accomplishes two main objectives:

- Addresses the risk of misrepresentation of surplus, and
- Keeps the relationship of anticipated investment yield consistent with that needed to support the liabilities.

Excess Withdrawal Safeguard

An Excess Withdrawal safeguard is already embedded in the IMR framework for the situations in which asset sales are "forced", either due to reputational or disintermediation events, and the liability that the assets supported no longer exists. At such a point, deferring gains and losses to IMR ceases.

While we believe this safeguard was primarily developed to address troubled companies or potential disintermediation in a rising interest rate environment, we understand regulators may want to re-assess the safeguard's robustness. The ACLI supports such a re-assessment and looks forward to working with the NAIC.

Asset Adequacy Testing (AAT)

AAT is an additional safeguard that helps protect against further unintended consequences when IMR goes negative. Reflecting all admitted negative IMR in AAT would replace assets that generate investment income in AAT, where the starting point is statutory assets are equal to statutory liabilities. Unless the remaining assets can earn a sufficient yield due to reinvestment, there will be negative impacts to the results, which could lead to additional asset adequacy reserves and hence a reduction in statutory surplus. AAT provides a framework to ensure that there are sufficient margins to support claims alongside a negative IMR asset that eventually amortizes to zero, hence ensuring adequate reserves and proper representation of surplus. A simplified example of how AAT works with negative IMR in different reinvestment scenarios is included in Appendix I of this letter.

While we believe that AAT provides a robust safeguard that prevents a misuse of allowable negative IMR, we understand the NAIC wants to contemplate additional safeguards, as AAT may not be applied uniformly across states and practitioners and is only shared with regulators annually.

Additional Potential Safeguards

At the SAPWG fall national meeting the following five potential safeguards were discussed:

- 1) Ensure there is reinvestment in fixed income securities (see below),
- 2) Enhancement to asset adequacy testing (see below),
- 3) Shorten the amortization period for negative IMR (see Appendix II),
- 4) Limit negative IMR as a percentage of surplus, assets, etc. (see Appendix II), or
- 5) Restrict surplus via the special surplus funds (see Appendix II).

ACLI proposes two additional possibilities:

- 1) Limit based on the risk-based capital framework (see below), or

- 2) Create an “Opt-in Framework” with structured governance (see below).

The remainder of this letter outlines a broad framework of the aforementioned additional safeguards that we believe are responsive to regulators’ specific concerns. Redundant or more arbitrary potential safeguards are further discussed in Appendix II attached to this letter.

Ensure there is reinvestment in fixed income securities

IMR theory assumes sales of fixed income investments are reinvested in new fixed income investments. When doing so, the reinvestment is done in the current interest rate environment, and the difference in earnings arising from the reinvestment is roughly equal in magnitude, but opposite in direction, to the gain or loss realized on the old investment.

In a rising interest rate environment, a sale essentially transforms the loss to negative IMR. There is essentially no difference in balance sheet economics pre- and post-trade, related to liquidity or claims paying ability, as the difference between the reported amortized cost value, and fair value, upon sale, is equal to the negative IMR.

While AAT would arguably address any deficit in reinvestment as illustrated in our example in Appendix I, ACLI is open to supporting additional demonstrations of reinvestment in fixed income investment. This could be done, for example, by generally requiring the sum of the proceeds from the sale and maturity of bonds (line 12.1) and mortgage loans (line 12.3) are less than the sum of the cost of bonds acquired bonds (line 13.1) and mortgage loans (line 13.3) from the cash flow statement ultimately submitted to regulators in the annual statement.

Such a requirement would provide the following benefits:

- 1) It is objective, easily verifiable, and ultimately rolls up into the audited financial statements,
- 2) It eliminates the issue surrounding the “fungibility of cash” – that is “proving” reinvestment of each sale, which would be difficult and potentially inappropriate, if on a macro basis there was a major shift to equities for example, and
- 3) It demonstrates on a macro basis significant reinvestment is occurring.

We note that even if there were a significant shift to equities, in theory, this should be captured by AAT with equity investments being appropriately stressed, but it would also significantly reduce risk-based capital ratios which would provide significant dis-incentivization for this to occur.

Lastly, such a metric could be coupled with the “Opt-in Approach” proposed below, that would provide additional structure by requiring documentation and controls on prudent strategies for investment management, asset liability management or hedging deemed appropriate and against which future transactions could subsequently be verified as appropriate by the company’s domiciliary regulator.

Enhancement to Asset Adequacy Testing

We propose that negative IMR should only be allowed if it is included in AAT. This would replace assets that generate investment income in AAT when starting with statutory assets equal to statutory liabilities. Unless the remaining assets can earn a higher yield through reinvestment at higher rates, there will be negative impacts to the results, which could lead to additional asset adequacy reserves and a reduction in statutory surplus.

Fixed income investments that sit in surplus or non-product portfolios could be sold generating IMR. Therefore, we recommend the allowance of negative IMR only if it is included in AAT. This would further prevent any potential balance sheet manipulation, whether intentional or unintentional, through shifting assets with losses to non-insurance portfolios and admitting losses on assets that are not offset by matched liabilities. This concept could also be coupled with the “Opt-in Approach” proposed below.

Limit based on the risk-based capital framework

One potential safeguard that was not mentioned by SAPWG at the fall national meeting is to allow negative IMR only if a company's risk-based capital threshold showed that they were financially strong. This would have the following benefits:

- 1) Address regulator concerns on allowing negative IMR if a company was or was nearing being financially troubled,
- 2) Would not be arbitrary and would be based on an objective and verifiable threshold that would be available to regulators, potentially quarterly, and provide early warning to any concerns they may have in this regard, and
- 3) Would essentially achieve the same ends as shortening the amortization period, restricting capital, or creating an arbitrary limit.

We are willing to work with the NAIC to think through an appropriate threshold as well as what would occur if that threshold was subsequently crossed so there would not be inappropriate cliff effects.

This concept could also be coupled with the "Opt-in Approach" proposed below.

Create an "Opt-in Framework" with Structured Governance

An "Opt-in Framework," similar to the framework included within SSAP No. 108 – Derivative Hedging Variable Annuity Guarantees (SSAP No. 108), could be developed.

SSAP No. 108 recognizes the prudence of hedging guarantees embedded within variable annuity contracts while also recognizing the non-economic volatility created (and therefore inappropriate under/overstatement of surplus). It also recognized that this volatility was created because derivatives used in a dynamic hedging approach were required to be reported at fair market value, as they would not meet the strict hedge accounting requirements, while the liabilities did not require marking to market of the hedged guarantees.

To not disincentivize this prudent dynamic hedging, SSAP No. 108 requires additional structure and governance to avoid misrepresentation. The allowance of negative IMR has similar parallels.

Key provisions of SSAP No. 108 that could be considered for a framework for negative IMR allowability include:

- Explicit approval of a company's domiciliary regulator prior to implementation,
- A clearly defined portfolio and asset liability management strategy (with documentation; analogous to SSAP No. 108 but tailored more appropriately for portfolio and asset liability management strategies),
- Actuarial certification of the asset liability management strategy, and
- Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual portfolio and asset liability management strategies).

This framework provides sufficient tools that allow for timely and appropriate regulatory review; additional tools could be specifically tailored for IMR.

In the context of a negative IMR, the approach could be tailored to incorporate documentation and controls of prudent strategies for investment management, asset liability management, and hedging strategies deemed appropriate and against which future transactions could subsequently be verified as necessary by the company's domiciliary regulator.

Achieving the “opt-in” in the context of negative IMR could require satisfying these documentation requirements, in addition to incorporating and complying with a combination of one or more of the other potential safeguards mentioned above. This package of requirements and safeguards would constitute a national standard for allowing negative IMR that can be consistently applied across all companies.

In the current interest rate environment, and with additional interest rate increases potentially on the horizon, the disallowance of negative IMR has become a serious and pressing issue for industry as we seek to execute prudent portfolio and risk management strategies that align with our economic realities. The ACLI looks forward to working with the NAIC to expedite a reasonable, permanent solution that fulfills the original intent of IMR and work on the appropriate additional safeguards that may be needed for year-end 2023 implementation. Lastly, ACLI recalls a specific question raised by regulators at the NAIC’s fall national meeting. We would like to understand this question and/or concern more fully and discuss with regulators or NAIC staff.

Recommendation:

NAIC staff recommends that the Working Group provide feedback and direction for future consideration.

The comment letters are included in Attachment 20 (42 pages).

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/3-22-23-Spring/Hearing/0-03-2023-SAPWGHearingAgenda.docx>



**Statutory Accounting Principles (E) Working Group
Meeting Agenda
March 22, 2023
10:00 a.m. – 12:00 p.m. (ET)**

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2023-01: Review Annual Statement Instructions for Accounting Guidance
2. Ref #2023-02: SSAP No. 43R – CLO Financial Modeling
3. Ref #2023-03: New C-2 Mortality Risk Note
4. Ref #2023-04: Corporate Alternative Minimum Tax Guidance
5. Ref #2023-05: ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848*
6. Ref #2023-06: Additional Updates on ASU 2021-10, Government Assistance
7. Ref #2023-07: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606
8. Ref #2023-08: ASU 2019-07, Codification Updates to SEC Sections
9. Ref #2023-09: ASU 2020-09, Codification Updates to SEC Sections
10. Ref #2023-10: ASU 2022-05, Transition for Sold Contracts
11. Ref #2023-11EP: Editorial

Ref #	Title	Attachment #
2023-01 (Julie)	Review Annual Statement Instructions for Accounting Guidance	A – Form A

Summary:

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.

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.

Ref #	Title	Attachment #
2023-02 (Julie)	SSAP No. 43R – CLO Financial Modeling	B – Form A

Summary:

This agenda item proposes revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to incorporate edits to reflect changes adopted by the Valuation of Securities (E) Task Force on Feb. 21, 2023, to include collateralized loan obligations (CLOs) in the SVO financial modeling process.

This agenda item has been drafted to ensure the financial modeling guidance summarized in *SSAP No. 43R—Loan-Backed and Structured Securities* reflects the practices as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*. (Note, while the *Accounting Practices and Procedures Manual* is higher than the P&P manual in the statutory hierarchy, the primary source of authoritative guidance for financial modeling is the P&P manual. Only a general description of the modeling process is included in SSAP No. 43R). The methodology to model CLOs is still being developed, but guidance that permits the SVO to model CLOs has been adopted and should be followed once CLOs begin to be financially modeled.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 43R—Loan-backed and Structured Securities* to incorporate changes to add CLOs to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities. These revisions reflect the guidance adopted for the P&P Manual in February 2023.

Ref #	Title	Attachment #
2023-03 (Robin)	New C-2 Mortality Risk Note	C – Form A

Summary:

The Life Risk-Based Capital (E) Working Group is working on a project to modify its C-2 mortality risk charges. The Working Group, in cooperation with the C-2 Mortality Work Group of the American Academy of Actuaries, developed structural updates to the life risk-based capital (RBC) treatment of group permanent life and miscellaneous other instruction updates. The proposal assigns the same factors to group permanent life as individual permanent life for policies with and without pricing flexibility.

A new financial statement note will provide the development of net amounts at risk in the categories needed for the Life C-2 mortality risk charges. These categories are designed to create a direct link to a financial statement source and accompanying Life RBC C-2 mortality risk updates.

As the notes to the financial statements are maintained by the Statutory Accounting Principles (E) Working Group, this agenda item is to add the requirement for the new proposed note into the *Accounting Practices and Procedures Manual*. An annual statement blanks proposal is being simultaneously exposed as the Life Risk-Based Capital (E) Working Group, has requested year-end 2023 as the effective date for the note.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 51R—Life Contracts, SSAP No. 59—Credit Life and Accident and Health Insurance Contracts and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance as illustrated in the Form A, with a proposed effective date of year end 2023. The Blanks (E) Working Group proposal 2023-09BWG, which illustrates the data to be captured in tables, is being simultaneously exposed to allow for a year end 2023 effective date.

Ref #	Title	Attachment #
2023-04 (Robin)	Corporate Alternative Minimum Tax Guidance	D – Form A

Summary:

The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT) which goes into effect for 2023 tax years. In December 2022, the Working Group adopted temporary guidance to address the CAMT in INT 22-02: *Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*.

This agenda item is to begin the project of providing guidance regarding the CAMT for periods after the first quarter 2023. Interested parties of the SAPWG have submitted initial informal recommendations to assist with preparing the guidance. The CAMT is more complex than the prior alternative minimum tax and it is assessed at the consolidated return level using book income.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification and direct NAIC staff, to continue to work with industry on developing guidance for the reporting of the CAMT for future Working Group discussion.

The CAMT presents several accounting challenges, Working Group input will be needed on several decision points including: treatment of tax sharing agreements, consideration regarding the CAMT DTA in the statutory valuation allowance, and the treatment of CMATs DTAs, in the overall DTA admissibility calculation. Staff will also need Working Group input on whether to maintain an RBC threshold for the SSAP No. 101, paragraph 11b admissibility test and the overall extent of admissibility of the CAMT DTAs.

Ref #	Title	Attachment #
2023-05 (Jake)	ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848	E – Form A F – INT 20-01

Summary:

FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848* to extend the sunset date of the reference rate reform guidance that was included in ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and ASU 2021-01, *Reference Rate Reform (Topic 848), Scope*.

As background, reference rate reform refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it would no longer require banks to continue rate submissions after 2021 – thus, likely sunsetting both the use and publication of LIBOR. An important item to note is that while LIBOR is the primary interbank offering

rate, other similar rates are potentially affected by reference rate reform. For simplicity, LIBOR will be the sole IBOR referenced throughout this agenda item.

With a significant number of financial contracts referencing LIBOR, its discontinuance will require organizations to reevaluate and modify any contract which does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.

To address ASU 2020-04 the Working Group issued *INT 20-01: Reference Rate Reform*, and this interpretation was then revised to incorporate guidance from ASU 2021-01. This agenda item intends to again revise INT 20-01 to include the revised sunset date of December 31, 2024.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as SAP clarification and expose temporary (optional) expedient and exception interpretative guidance, to revise the expiration date of the guidance in INT 20-01: ASU 2020-04 & 2021-01 - Reference Rate Reform to be December 31, 2024.

The proposed modifications to INT 20-01 temporarily override SSAP No. 15, SSAP No. 22R and SSAP No. 86 guidance, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Ref #	Title	Attachment #
2023-06 (Robin)	Additional Updates on ASU 2021-10, Government Assistance	G – Form A

Summary:

On August 10, 2022, the Statutory Accounting Principles (E) Working Group adopted, revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* in agenda item 2022-04: ASU 2021-10, Government Assistance. The revisions incorporate certain disclosures, adopted with modification from ASU 2021-10, to supplement existing disclosures regarding unusual or infrequent items.

This agenda item is to provide additional clarifications to SSAP No. 24, regarding follow-up questions, that NAIC staff received regarding the adoption of the disclosures about government assistance in ASU 2021-10. The primary questions were regarding whether the adoption with modification of the ASU disclosures intended to allow insurers to use the grant and contribution model. If the intent was not to allow for the use of the grant and contribution model, then the question becomes in what situation would these disclosures be required. Because NAIC staff understanding is that the grant and contribution model is not intended to be permitted for statutory accounting, additional modifications to clarify this point have been proposed which reject ASU 2021-10 but still incorporate government assistance disclosures.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 24 as illustrated below. These revisions will clarify the

rejection of ASU 2021-10, Government Assistance and the incorporation of disclosures regarding government assistance.

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is as the result of government assistance, ~~(as defined in ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance)~~ disclosure shall additionally include the form in which the assistance has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies.

Relevant Literature

24. This statement ~~adopts~~ ~~rejects~~ ASU 2021-10, *Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. ,with modification to require disclosure by all entity types.

Ref #	Title	Attachment #
2023-07 (Wil)	ASU 2019-08, Codification Improvements to Topic 718 and Topic 606	H – Form A

Summary:

In November 2019, FASB issued *ASU 2019-08 Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*, which includes amendments to Topics 718 and 606. The changes to Topic 718 include share-based payment transactions for acquiring goods and services from nonemployees and in doing so superseded guidance in Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The changes to Topic 606 expand the scope of the codification to include share-based payment awards granted to a customer in conjunction with selling goods or services.

The amendments in ASU 2019-08 require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified, and the grantee is no longer a customer.

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104R—Share-Based Payments*. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts. (For example, statutory reporting lines, nonadmittance of prepaid assets, etc.)

Recommendation:

Staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to adopt with modification ASU 2019-08 Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer for statutory accounting. These revisions would add language to include share-based consideration payable to customers under SSAP No. 104R

guidance in the same manner as U.S. GAAP. With the revisions proposed to SSAP No. 104R, revisions are also proposed to *SSAP No. 95—Nonmonetary Transactions* to update previously adopted U.S. GAAP guidance. In addition, proposed revisions to *SSAP No. 47—Uninsured Plans*, reject Topic 606 guidance in ASU 2019-08. The proposed revisions to SSAP No. 95, SSAP No. 104R, and *SSAP No. 47—Uninsured Plans*, are illustrated in the Form A.

Ref #	Title	Attachment #
2023-08 (Wil)	ASU 2019-07, Codification Updates to SEC Sections	I – Form A

Summary:

FASB issued *ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*, which primarily effects the codifications of Financial Services—Depository and Lending (Topic 942), Financial Services—Insurance (Topic 944), and Financial Services—Investment Companies (Topic 946). The update amends and supersedes certain SEC sections in Topic 942, 944, and 946 to align codification guidance with SEC Releases No. 33-10532, 33-10231, and 33-10442. These SEC Releases amend a wide range of disclosure requirements which were determined to be redundant, duplicative, overlapping, outdated, or superseded by other relevant literature. Additionally, the SEC Releases include several miscellaneous updates and corrections intended to clarify SEC guidance. Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates* as not applicable to statutory accounting.

Ref #	Title	Attachment #
2023-09 (Wil)	<i>ASU 2020-09—Amendments to SEC Paragraphs</i>	J – Form A

Summary:

FASB issued *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*, which effects the codification in Debt (Topic 470). The update amends and supersedes certain SEC sections in Topic 470 to align codification guidance with SEC Release No. 33-10762. No. 33-10762 amends the SEC financial disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered, and issuers' affiliates whose securities collateralize securities registered or being registered in Regulation S-X to improve those requirements for both investors and registrants. The changes are intended to provide investors with material information given the specific facts and circumstances, make the disclosures easier to understand, and reduce the costs and burdens to registrants. SEC guidance from ASUs have generally been rejected as not applicable for statutory accounting in Appendix D, but all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)* as not

applicable to statutory accounting. This guidance is not applicable as it pertains to an exception of issuers or guarantors filing financial statements with the SEC when the issuer or guarantor is included in filed consolidated financial statements and other conditions are met.

Ref #	Title	Attachment #
2023-10 (Wil)	<i>ASU 2022-05, Transition for Sold Contracts</i>	K – Form A

Summary:

This agenda item has been drafted to consider *ASU 2022-05, Transition for Sold Contracts* (ASU) for statutory accounting. The FASB issued the ASU in December 2022 to amend specific sections of *ASU 2018-12, Targeted Improvements for Long-Durations Contracts* (LDTI). The amendments made by the ASU are intended to reduce implementation costs and complexity associated with the adoption of LDTI for contracts that have been derecognized in accordance with the ASU before the LDTI effective date. The revisions captured in the ASU are summarized as follows:

The amendments in the ASU amend the LDTI transition guidance to allow an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts that meet certain criteria from applying the amendments in the LDTI. To qualify for the accounting policy election, as of the LDTI effective date both of the following conditions must be met:

- a. The insurance contracts must have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities.
- b. The entity has no significant continuing involvement with the derecognized contracts.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose proposed revisions to reject *ASU 2022-05, Transition for Sold Contracts* as not applicable for statutory accounting in *SSAP No. 50—Classifications of Insurance or Managed Care Contracts*; *SSAP No. 51R—Life Contracts*; *SSAP No. 52—Deposit-Type Contracts*; *SSAP No. 56—Separate Accounts*; *SSAP No. 71—Policy Acquisition Costs and Commissions* and *SSAP No. 86—Derivatives*. The guidance in *ASU 2022-05* provides updated transition guidance for *ASU 2018-12*, which had previously been rejected for statutory accounting.

Ref #	Title	Attachment #
2023-11EP (Julie)	AP&P Manual Editorial Updates	L – Form A

Summary:

This agenda item details editorial updates for the *Accounting Practices and Procedures Manual*. These revisions are captured in three broad categories:

- *SSAP No. 86—Derivatives*: Change to a disclosure category from ‘intrinsic value’ to ‘volatility value.’
- Various – Streamline references to the *Purposes and Procedures Manual*
- Various – Changes to consistently reference percent (with % sign and not ‘percent’) throughout SSAPs.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as SAP Clarifications and expose the agenda item.

ANY OTHER MATTERS

a. Receive & Discuss Valuation of Securities (E) Task Force Referral (Attachments M, N and O)

The Working Group received a referral (along with a number of other groups) to inquire on the NAIC SVO obtaining the ability to calculate analytical information by utilizing commercially available data sources and investment models instead of requesting individual insurance companies to incur the costs to implement system changes. The referral identifies that if the SVO has the capabilities, they could calculate for regulators various measures include, key rate duration, sensitivity to interest rate volatility, principal and interest cash flow projections for any security or portfolio for any given interest rate projection, loss estimates, and many other measurements. The referral asks each group to respond by May 15 on the following questions:

1. Indicate if your group is supportive of creating this capability within the SVO.
2. List the investment analytical measures and projections that would be most helpful to support the work performed by your respective group.
3. Describe how your group would utilize the data and why it would be of value.
4. Are there other investment data or projection capabilities that would be useful to your group that could be provided by commercially available data sources or investment models? And if so, please list them.
5. Any other thoughts you may have on this initiative.

NAIC staff requests feedback from the Working Group members to draft a response.

b. 2023 NAIC Accounting Practices and Procedures Manual – Julie (Attachment P and Q)

On January 9, 2023, interested parties provided comments to the NAIC Chief Executive Office and the Chief Operating Officer / Chief Legal Officer on the Bookshelf product limitations and the need for industry have a searchable and printable PDF of the *Accounting Practices and Procedures Manual*.

On February 6, 2023, a response letter was provided informing that for the 2023 Manual, the NAIC is proud to announce that a copyrighted PDF will be made available, at no additional charge, to those who purchase a subscription to the Manual. Similar to the current subscription process, access will be restricted to the individual level, however, the PDF will be searchable and printable as any other PDF document. This process is only specific to the 2023 Manual, and for the 2024 Manual, the NAIC is dedicated to finding an amicable, long-term solution that will result in ease of access for industry users.

The process to obtain the PDF is anticipated to be automatic upon purchase of the 2023 AP&P Bookshelf subscription through Account Manager. Acquiring through Account Manager is key to obtaining the PDF download, and manual processing will not be available.

Please note the updated copyright included in the 2023 Manual:

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c. American Academy of Actuaries Request – Robin (Attachment R)

On February 23, the Financial Reporting and Solvency Committee (“the committee”) of the Health Practice Council of the American Academy of Actuaries, submitted a request to the Long-Term Care Actuarial (B) Working Group and to the Statutory Accounting Principles (E) Working Group which requests clarifications regarding some observed diversity in practice across issuers of long-term care insurance with regard to how the new guidance in *Actuarial Guideline LI The application of Asset Adequacy Testing to Long Term Care Insurance Reserves* (AG 51), and specifically Section 4.C, on determining when additional reserves may be necessary, interacts with existing guidance on accident & health insurance reserve adequacy, as found in paragraph 24 of the Statement of Statutory Accounting Principles (SSAP) No. 54R—Individual and Group Accident and Health Contracts, and paragraph 26 of Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*. NAIC staff will work with the Academy representatives and the staff support of the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group, to develop an agenda item for future Working Group discussion.

d. Update on International Activity – IAIS Accounting and Auditing Working Group (AAWG) - Julie

NAIC staff Julie Gann participates in the International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group (AAWG). This group focuses on the development of, or providing input on, IAIS high-level principles-based supervisory and supporting material related to the accounting, auditing, valuation, reporting and public disclosures of insurers. The group monitors international developments and prepares comments letters and other papers in relation to the above focus as deemed appropriate.

Recent discussions of the IAIS AAWG have focused on updates to *Insurance Core Principle (ICP) 14: Valuation*. Public consultation of the draft revised ICP 14 (as well as *ICP 17: Capital Adequacy* and related terms) is expected to occur in July 2023.

Other discussions of the IAIS AAWG have focused on the implementation of IFRS 17: Insurance Contracts by other jurisdictions and future discussions are expected to review the International Auditing and Assurance Standards Board (IAASB) proposed strategy and work plan for 2024-2027 as well as the International Standard on Auditing (ISA) proposed International Standard on Auditing 500: Audit Evidence. NAIC staff is monitoring these discussions and requests comments from regulators or industry if there are positions or concerns that should be communicated to the AAWG. NAIC staff anticipates including regular updates as an any other matter within National Meeting agendas.

e. Review of U.S. GAAP Exposures (Attachment S)

The attachment details the items currently exposed by the FASB. NAIC staff recommends reviewing the issued ASUs under the standard SAP maintenance process. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

f. Comment Deadline for Exposures is **May 5th** for items with Blanks implications (2023-03: New C-2 Mortality Risk Note and 2023-11EP: AP&P Editorial Updates) and **June 9, 2023**, for all other items.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/3-22-23-Spring/Meeting/0-03-2023SAPWGMeetingAgenda.docx>