**Meeting Agenda**

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

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

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 that 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 decisions 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**<br>**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)** | ***ASU 2020-09—Amendments to SEC Paragraphs*** | **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)** | ***ASU 2022-05, Transition for Sold Contracts*** | **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.



 

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

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

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☐ | ☒ | ☐ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

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

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

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

## Existing Authoritative Literature:

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

V. Statutory Hierarchy

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

**Level 1**

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

[1] Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

**Level 2**

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

**Level 3**

- *NAIC Annual Statement Instructions*
- *Purposes and Procedures Manual of the NAIC Investment Analysis Office*

**Level 4**

- *Statutory Accounting Principles Preamble and Statement of Concepts*[2]

**Level 5**

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

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

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

[2] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements Five and Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**

- Pursuant to the discussion on agenda item 2022-01: Conceptual Framework, interested parties have identified that accounting guidance resides in the annual statement instructions.

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

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

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

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

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

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

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

**Issue:** SSAP No. 43R – CLO Financial Modeling

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:** 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.

**Existing Authoritative Literature:**

***SSAP No. 43R—Loan-Backed and Structured Securities***

**Designation Guidance**

27. For RMBS/CMBS securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

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

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

ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then

determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.

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

b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26.

**Specific Interim Reporting Guidance Financially Modeled Securities**

28. For securities that will be financially modeled under paragraph 27, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 27, regardless of the quarterly methodology used.

a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 27.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.

b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 27.a.) for these securities acquired subsequent to year-end.

c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPS, and are not captured within paragraphs 28.a. or 28.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate). Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.

d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate).

**SSAP No. 43R - EXHIBIT A – Question and Answer Implementation Guide**
**Index to Questions**

| Questions 8-10 are specific to securities subject to the financial modeling process. (This process is limited to qualifying RMBS/CMBS securities reviewed by the NAIC Structured Securities Group.) The guidance in questions 8-10 shall not be inferred to other securities in scope of SSAP No. 43R. | |
|---|---|
| 8 | Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis? |
| 9 | The NAIC Designation process for LBSS may incorporate loss expectations that differ from the reporting entity's expectations related to OTTI conclusions. Should the reporting entities be required |

| | |
|---|---|
| | to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R? |
| 10 | For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account? |

**8.** ***Question*** – Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the "final" NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

**9.** ***Question*** – The NAIC Designation process for LBSS subject to the financial modeling process may incorporate loss expectations that differ from the reporting entity's expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?

9.1 In accordance with *INT 06-07: Definition of Phrase "Other Than Temporary*," reporting entities are expected to "consider all available evidence" at their disposal, including the information that can be derived from the NAIC designation.

**10.** ***Question*** - For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

10.1 The financial modeling process for qualifying RMBS/CMBS securities is required for applicable securities held in either the general or separate account.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**

The following edits have previously been reflected in the financial modeling guidance:

- Agenda Item 2018-19: To be consistent with the prior SVO P&P Manual revisions, eliminated the multi-step designation guidance for modified filing exempt (MFE) securities. The elimination of MFE was effective March 31, 2019, with early application permitted for year-end 2018. With the elimination of MFE, for securities that are filing exempt, the NAIC designation reported will correspond to the Credit Rating Provider (CRP) rating without adjustment based on carrying value.

- Agenda Item 2018-03: Clarified that securities acquired in lots shall not be reported with weighted average designations. With the adopted guidance, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment

schedule. If reporting separately, the investment may be aggregated by NAIC designation. With the elimination of MFE, the instances of different designations by lot are not expected to be prevalent, but could still occur with the financial modeling process for residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS).

- Agenda Item 2020-21: Edits incorporated adopted guidance to the P&P manual detailing the use and mapping of NAIC designations to NAIC designation categories. Reporting entities were to then utilize the new NAIC designation categories for accounting and reporting purposes.

- Agenda Item 2021-23: Adopted changes to summarize the financial modeling guidance in SSAP No. 43R This guidance continues to refer users to the detailed financial modeling guidance in the P&P Manual.

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

**Convergence with International Financial Reporting Standards (IFRS):** Not Applicable

Staff 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.**

**Proposed Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities***

**Designation Guidance**

27. For Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and Collateralized Loan Obligations (CLOs), ~~RMBS/CMBS~~ securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

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

        i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint

values assigned to each NAIC designation and NAIC designation category for each CUSIP to establish the initial NAIC designation.

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

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

b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26.

**Specific Interim Reporting Guidance Financially Modeled Securities**

28. For securities that will be financially modeled under paragraph 27, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 27, regardless of the quarterly methodology used.

a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 27.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.

b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 27.a.) for these securities acquired subsequent to year-end.

c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPS, and are not captured within paragraphs 28.a. or 28.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27.a, as appropriate). Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.

d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27.a, as appropriate).

**Staff Review Completed by:** Julie Gann, NAIC Staff – February 2023

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

**Issue: New C-2 Mortality Risk Note**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
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.

**Existing Authoritative Literature:**

- *SSAP No. 51R—Life Contracts*, contains the notes for life insurance products.
- *SSAP No. 59—Credit Life and Accident and Health Insurance Contracts* contains the notes for credit life insurance products.
- *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* contains the notes for life and health reinsurance.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

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

**Convergence with International Financial Reporting Standards (IFRS): Not applicable.**

**Staff Review Completed by:** Robin Marcotte – NAIC Staff

**Staff 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, SSAP No. 59 and SSAP No. 61R as illustrated below, 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,**

 

**Proposed revisions to *SSAP No. 51R—Life Contracts*** (*Drafting notes are for ease of review and will be removed from the final publication)***:**

54. Disclose for life insurance net amount at risk for the following: 1) gross of reinsurance, plus 2) assumed reinsurance, 3) less ceded reinsurance, will provide 4) net of reinsurance amounts by product characteristics, separately for individual and industrial life as described below. Note that these amounts are intended for data capture using the tables and detailed line references in the annual statement instructions.

a. Individual and industrial life -Within individual and industrial life, the categories are by contract type depending on the degree of pricing flexibility. Pricing Flexibility is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. The individual and industrial life product categories are as follows:

i. Total individual and industrial life. Paragraph 54.a.i total individual and industrial life amounts are then disaggregated to disclose the following information in more detail. Note that the totals of paragraph 54.a.i (a)-(c) should be equal to the sum of total individual and industrial life total in paragraph 54.a.i.

(a.) Individual and industrial life policies with pricing flexibility;

(b.) Individual and industrial term life policies without pricing flexibility;

(c.) Individual and industrial permanent life policies without pricing flexibility;

b. For the individual and industrial life products in paragraph 54.a., provide the following details:

i. Life in Force - Exhibit of Life Insurance Amount of Insurance for Industrial and Ordinary Life - life insurance in-force end of the year and reinsurance ceded end of the year. *(Drafting note: Lines 21 and 22);*

ii. Exhibit 5 Life Reserves - Exhibit 5 for Industrial and Ordinary Life - gross total plus reinsurance ceded. *(Drafting note: Lines 0199997 and 0199998)*

iii. Separate Account Life Reserves – Separate Accounts, Exhibit 3 - Aggregate Reserve of Life , Annuity and Accident and Health Contracts, Column 3 - Ordinary, life insurance total line. *(Drafting note: Line 0199999)*

iv. Modified Coinsurance Life Reserves – The portion of modified coinsurance life reserves which relates to policy reserves that, if written on a direct basis would be included on Exhibit 5. For Assumed (column 2) the portion of the modified coinsurance life reserves would be from Schedule S, Part 1, Section 1, Reinsurance Assumed (Life Insurance, Annuities and Deposit Funds and Other Liabilities), Column 12 - Modified Coinsurance Reserve. For the ceded, the portion of the modified coinsurance life reserve would be from Schedule S, Part 3, Section 1, Reinsurance Ceded (Life Insurance, Annuities and Deposit Funds and Other liabilities), and column 14 Modified Coinsurance Reserve.

v. The total of the above life reserves in paragraph 54.b.ii., plus paragraph 54.b.iii. plus paragraph 54.b.iv.;

~~i.~~vi. Life net amount at risk paragraph 54.b.i. minus paragraph 54.b.v.

**Proposed revisions to *SSAP No. 59—Credit Life and Accident and Health Insurance* Contracts** (*Drafting notes are for ease of review and will be removed from the final publication):*

20. Disclose for credit life insurance net amount at risk for the following: 1) gross of reinsurance, plus 2) assumed reinsurance, 3) less ceded reinsurance, will provide 4) net of reinsurance amounts by credit life product characteristics, separately as described below. Note that these amounts are intended for data capture using the tables and detailed line references in the annual statement instructions. Amounts for Servicemen's Group Life Insurance (*SGLI*) or Federal Employees' Group Life Insurance (FEGLI) are excluded from the disclosures in this paragraph.

a. Group and Individual Credit Life (excluding FEGLI/SGLI) - Within group and individual credit life, the categories are by the remaining length of the premium rate term by group contract and on the degree of pricing flexibility. Pricing flexibility is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices.

i. Total group and individual credit life (excluding FEGLI/SGLI) - Paragraph 20.a.i total group and individual credit life (excluding FEGLI and SGLI) amounts are then disaggregated to disclose the following information in more detail. Note that the totals of paragraph 20.a.i (a)-(d) should be equal to the sum of total individual and industrial life total in paragraph 20.a.i.

(a.) Group and individual credit term life (excluding FEGLI/SGLI) with remaining rate terms 36 months and under.

(b.) Group and individual credit term life (excluding FEGLI/SGLI) with remaining rate terms over 36 months.

(c.) Group and individual credit permanent life policies (excluding FEGLI/SGLI) with pricing flexibility.

(d.) Group and individual credit permanent life policies (excluding FEGLI/SGLI) without pricing flexibility.

b. For the group and individual credit life products in paragraph 20.a., provide the following details (excluding amounts for FEGLI/SGLI):

i. Life in force - Exhibit of Life Insurance Amount of Insurance for group and individual credit life, life insurance inforce end of the year and reinsurance ceded end of the year. *(Drafting note: Lines 21 and 22)*

ii. Exhibit 5 Life Reserves - Exhibit 5 for group and individual credit life - gross total plus reinsurance ceded. *(Drafting note: Lines 0199997 and 0199998)*

iii. Separate Account Life Reserves – Separate Accounts, Exhibit 3 - Aggregate Reserve of Life-, Annuity and Accident and Health Contracts, Column 4 Group, life insurance totals line. *(Drafting note: Line 0199999)*

iv. Modified Coinsurance Life Reserves – The portion of modified coinsurance life reserves which relates to policy reserves that, if written on a direct basis would be included on Exhibit 5. For Assumed (column 2 below) the portion of the modified coinsurance life reserves would be from Schedule S, Part 1, Section 1, Reinsurance Assumed (Life Insurance, Annuities and Deposit Funds and Other Liabilities), Column 12 - Modified Coinsurance Reserve. For the Ceded, the portion of the modified coinsurance life reserve would be from Schedule S, Part 3, Section 1, Reinsurance Ceded (Life Insurance, Annuities and Deposit Funds and Other liabilities), Column 14 Modified Coinsurance Reserve.

v. The total of the above life reserves in paragraph 20.b. ii., plus paragraph 20. b.iii., plus paragraph 20.b.iv.

vi. Life net amount at risk - paragraph 20.b.i. minus paragraph 20.b.v.

**Proposed revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance:***

85. The disclosures regarding the life net amount at risk for individual and industrial life and group and individual credit life which include information regarding modified coinsurance reserves in SSAP No. 51R, paragraph 54 and SSAP No. 59, paragraph 20 are required in the categories and detail specified in those statements. Note that these amounts are intended for data capture using the tables and detailed line references in the annual statement instructions.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/C 23-03 - C-2 Mortality risk note.docx

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
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**Issue: Corporate Alternative Minimum Tax Guidance**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). In December 2022, the Working Group adopted temporary guidance to address the CAMT in *INT 22-02: Third Quarter 2022 through First Quar 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 Act and the CAMT go into effect for tax years beginning after 2022. A high-level summary regarding the CAMT is as follows:

a. The CAMT is 15% of the corporation's "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit. The CAMT differs from the previous traditional alternative minimum tax (AMT) in that it starts at a financial statement measure (book income) – not an Internal Revenue Code tax calculation.

b. The CAMT will only apply to corporations (determined on an affiliated group basis) with an average adjusted financial statement income in excess of $1 billion for the three prior tax years. This threshold is reduced to $100 million in the case of certain foreign-parented corporations. When a corporation becomes subject to the CAMT, it remains subject to the calculation of the CAMT, even if its average adjusted financial statement income is less than $1 billion, unless an exception applies.

c. A corporation's adjusted financial statement income is the amount of net income or loss the corporation reports on its applicable financial statement. The income is adjusted for various purposes including certain adjustments in the case of consolidated returns or for foreign income tax.

d. The Act includes references to the tax codes which provides a hierarchy for determining the "applicable financial statement." At a high level, the first choice is U.S. generally accepted accounting principles (GAAP) financial statements; the second choice is international financial reporting standards (IFRS) financial statements. If GAAP and IFRS financial statements are not available, the financial statements filed by the taxpayer with any other regulatory or government body is acceptable. If the taxpayer is part of an affiliated group of corporations filing a consolidated return the adjustable financial statement income for the group considers the group's applicable financial statement.

e. To determine its U.S. federal income tax liability, a corporation will need to compute taxes under both systems — the regular tax system and the CAMT system. The CAMT is payable to the extent the tentative CAMT exceeds the regular corporate income tax. The tentative corporate alternative minimum tax will be the excess of the tentative corporate alternative minimum tax over regular income tax + base erosion and

anti-abuse tax (BEAT) liability. A foreign tax credit (FTC) will reduce the tentative minimum CAMT. Note that unused FTCs can be carried forward 5 years.

f. General business credits can generally offset up to 75% of regular and minimum tax.

g. Any CAMT paid is available indefinitely as a tax credit carryover that could reduce future regular tax if the regular tax liability plus the base erosion and anti-abuse tax (BEAT) exceeds the tentative minimum tax is in excess of CAMT tax liability. That is, the CAMT tax credit (CAMT DTA) can be used to reduce the regular tax but not below CAMT liability.

h. The Act directs the Treasury to issue regulations and other guidance relate to implementing the CAMT. As of February 2023, several issues are pending detailed clarifications from the Treasury.

The CAMT presents several accounting challenges including:

1. Financial Projections - There will be challenges estimating future applicable financial statement income for a group of companies outside of the reporting entity. In addition, there are challenges related to projecting partnership / alternative investment income for applicable financial statement income projections.

2. Payment of the CAMT creates a deferred tax asset which can be carried forward indefinitely. Determining the future period when the CAMT credit can be used will require projections of future regular tax and CAMT, which may also require information external to the reporting entity.

3. Tax sharing agreements and allocation of the CAMT liability which is determined on a consolidated basis.

4. The CAMT DTA (tax credit) can be used to reduce the general tax liability but not below the CAMT. Therefore, the Working Group will need to review treatment under the statutory valuation allowance and also the interaction of the realizability of the CAMT DTA on other DTAs. That is,use of the CAMT DTA, may reduce the realizability of other DTAs. Related topics are as follows:

    a. Is an estimate of future CAMT required for the determination of DTA realization under the "with and without" calculation? CAMT DTAs would reduce realization under the with and without approach,

    b. Under GAAP, for the analysis of realizably of non-AMT credit deferred tax assets, company may elect to consider or disregard its AMT status as long as it is consistent. If company elects to consider AMT, must book the valuation allowance in the period of enactment (period that includes August of 2022). If material, company has to disclose the accounting policy election.

    c. Admissibility of CAMT DTAs under SSAP No. 101, particularly for the paragraph 11b admissibility calculation, presents challenges.

**Existing Authoritative Literature:**
*SSAP No. 101—Income Taxes* provides the federal income tax guidance for statutory accounting.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** In December 2022, the Working Group adopted *INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*.

In addition, *INT 22-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* was exposed for comment in October 2022, but not finalized.

In 2019 the Working Group revised the *SSAP No. 101—Income Taxes-Implementation Q&A* to update examples and guidance in response to the federal Tax Cuts and Jobs Act which repealed of the Alternative Minimum Tax in agenda item 2019-09: SSAP No. 101 – Q&A Updates – TCJA.

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

**Convergence with International Financial Reporting Standards (IFRS): None.**

**Staff Review Completed by:** Robin Marcotte– NAIC Staff, February 2023

**Staff 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 decisions 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.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/D 23-04 - CAMT.docx

**Statutory Accounting Principles (E) Working Group**
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**Issue:** ***ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848***

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
The Financial Accounting Standards Board (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.

**Existing Authoritative Literature:**
The Working Group adopted INT 20-01 to address ASU 2020-04, and further revised that interpretation to address ASU 2021-01. The modifications in ASU 2020-04 address hedge accounting and the allowance for a reporting entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the hedging relationship. Alternative benchmark interest rates were previously addressed in agenda item 2018-46 – Benchmark Interest Rate.

ASU 2021-01 increased the scope of the optional, expedient accounting guidance for derivative instruments in ASU 2020-04 which would primarily affect *SSAP No. 86—Derivatives*. While detailed in the original agenda item (Ref #2020-12), additional SSAPs impacted by ASU 2020-04 were *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 22R—Leases.*

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**

The Working Group has taken several actions related to reference rate reform; each are summarized below.

1. Agenda item 2018-46 – Benchmark Interest Rate, incorporated revisions to SSAP No. 86, adding the Securities Industry and Financial Markets (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as acceptable benchmark interest rates for hedge accounting. Prior to this change, only LIBOR and the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) were considered acceptable benchmark interest rates.

2. Agenda item 2020-12 reviews ASU 2020-04, the foundation of which this agenda item and related ASU (2021-01) are based. Agenda item 2020-12 resulted in the Working Group adopting INT 20-01.

3. *INT 20-01: ASU 2020-04 - Reference Rate Reform*, adopted by the Working Group in April 2020, broadly adopted ASU 2020-04 for statutory accounting stating that for statutory accounting:

    - For all contracts within scope of ASU 2020-04, modifications due to reference rate reform are afforded an optional expedient to be accounted for as a continuation of the existing contract.
    - Debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as *SSAP No. 15—Debt and Holding Company Obligations* states such liabilities should only be derecognized if extinguished.
    - Lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under *SSAP No. 22R—Leases.*
    - For derivative transactions within scope of ASU 2020-04, a change to the critical terms of the hedging relationship (due to reference rate reform), shall be afforded similar treatment in that the hedging relationship can continue the original hedge accounting rather than dedesignate the hedging relationship.

4. *INT 20-09: Basis Swaps as a Result of the LIBOR Transition*, adopted by the Working Group in July 2020, provided statutory accounting and reporting guidance for basis swaps issued by CCPs. This INT designated that basis swaps, issued by CCPs, in response to reference rate reform (i.e., the discounting transition), shall be classified as a derivative used for hedging. This categorization allowed for the basis swap derivatives to be admitted under SSAP No. 86. Additionally, the INT directed that basis swap derivatives shall not be reported as "effective" unless the instrument qualifies, with the required documentation, as highly effective under SSAP No. 86.

5. Agenda item 2021-09 further revised INT 20-01 and increased the scope of the optional, expedient accounting guidance for derivative instruments in ASU 2020-04.

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

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff 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.

**Staff Review Completed by:** Jake Stultz—February 2023

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# Interpretation of the Statutory Accounting Principles (E) Working Group

## INT 20-01: *ASUs 2020-04, ~~&~~ 2021-01 & 2022-06 - Reference Rate Reform*

**INT 20-01 Dates Discussed**

March 26, 2020; April 15, 2020; March 15, 2021, May 20, 2021, March 22, 2023

**INT 20-01 References**

**Current:**
*SSAP No. 15—Debt and Holding Company Obligations*
*SSAP No. 22R—Leases*
*SSAP No. 86—Derivatives*

*This INT applies to all SSAPs with contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.*

**INT 20-01 Issue**

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of *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)*, and *ASU 2022-06, Reference Rate Reform (Topic 848)* for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued ~~both~~ ASU 2020-04, ~~and~~ ASU 2021-01 and ASU 2022-06 to provide optional, transitional and expedient guidance as a result of reference rate reform.

2. "Reference rate reform" typically 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 will no longer require banks to continue LIBOR submissions after 2021 – likely sunsetting both the use and publication of LIBOR. An important note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform.

3. With a significant number of financial contracts solely referencing IBORs, their discontinuance will require organizations to reevaluate and modify any contract that 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.

4. The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing such contracts and treating the modified contract as an entirely new contract or hedging relationship would 1) not provide decision-useful information to financial statement users and 2) require a reporting entity to incur significant costs in the financial

 

statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

5. Guidance in ASU 2020-04 allows a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or dedesignation if certain criteria are met.

6. Guidance in ASU 2021-01 expanded the scope of ASU 2020-04 by permitting the optional, transitional, expedient guidance to also include derivative contracts that undergo a similar transition but do not specifically reference a rate that is expected to be discontinued. While these contract modifications do not reference LIBOR (or another reference rate expected to be discontinued), the changes are the direct result of reference rate reform and were deemed to be eligible for similar exception treatment. ASU 2021-01 allows for modifications in interest rates indexes used for margining, discounting or contract price alignment, as a result of reference rate reform initiatives (commonly referred to as a "discounting transition") to be accounted for as a continuation of the existing contract and hedge accounting. The guidance in ASU 2022-06 only acts to defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief from the prior ASUs.

7. The optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04, ~~and~~ ASU 2021-01 and ASU 2022-04 are applicable for all entities. However, they are only effective as of March 12, 2020 through December 31, 2024~~2022~~. This is because the amendments are intended to provide relief related to the accounting requirements in generally accepted accounting principles (GAAP) due to the effects of the market-wide transition away from IBORs. The relief provided by the amendments is temporary in its application in alignment with the expected market transition period. However, the FASB will monitor the market-wide IBOR transition to determine whether future developments warrant any changes, including changes to the end date of the application of the amendments in this ASU. If such an update occurs, the Working Group may also consider similar action. It is not expected that the Working Group will take action prior to or in the absence of a FASB amendment.

8. The accounting issues are:

a. Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?

b. Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?

c. Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?

d. Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?

e. Issue 5: Should the optional, expedient and exception guidance in ASU 2021-01 apply to derivative transactions addressed in SSAP No. 86?

**INT 20-01 Discussion**

9. For Issue 1, the Working Group came to the consensus that ASU 2020-04 shall be adopted, to include the same scope of applicable contracts or transactions for statutory accounting with the only modification related to a concept not utilized by statutory accounting, as noted below. The Working Group agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:

a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.

i. All contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.

b. Allows hedging relationships to continue without dedesignation upon a change in certain critical terms.

c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.

d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.

e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.

f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

10. For Issue 2, the Working Group came to the consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

11. For Issue 3, the Working Group came to the consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a consensus that if an eligible lease affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

12. For Issue 4, the Working Group came to the consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:

a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than dedesignate the hedging relationship.

b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.

c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.

d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

13. For Issue 5, the Working Group came to a consensus on May 20, 2021, that ASU 2021-01 shall be applied to derivative transactions for statutory accounting. Accordingly, derivative instruments that are modified to change the reference rate used for margining, discounting, or contract price alignment that is a result of reference rate reform (regardless of whether the reference rate that is expected to be discontinued) are eligible for the exception

guidance afforded in ASU 2020-04 in that such a modification is not considered a change in the critical terms that would require dedesignation of the hedging relationship. In addition, for all derivatives (those qualifying for hedge accounting, those that do not qualify for hedge accounting and replication (synthetic asset) transactions (RSAT)), a reporting entity may account for and report modifications (that are within the scope of INT 20-01) as a continuation of the existing contract even when the legal form of the modification is a termination of the original contract and its replacement with a new reference rate reform contract. This includes in-scope modifications of centrally cleared swap contracts whether they are automatically transitioned at a cessation date or voluntarily executed prior to cessation.

14. Additionally, for GAAP purposes, if an entity has not adopted the amendments in *ASU 2017-12, Derivatives and Hedging*, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.

**INT 20-01 Status**

15. ~~No further~~Further discussion is planned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/F INT 20-01 - Reference Rate Reform (ASU 2022-06).docx

**Statutory Accounting Principles (E) Working Group**
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**Issue: Additional Updates on ASU 2021-10, Government Assistance**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
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.

In November 2021, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) *2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance* to increase financial statement transparency regarding certain types of government assistance by increasing the disclosure of such information in the notes to the financial statements.

The new disclosure aims to increase transparency by enhancing the identification of 1) the types of assistance received, 2) an entity's accounting for said assistance, and 3) the effects of the assistance in an entity's financial statements. The disclosures will contain information about the nature of the transactions, which includes a general description of the transaction and identification of the form (cash or other) in which the assistance was received. In terms of the effects on the financial statement, disclosure will include identification of the specific line items in both the balance sheet and income statement and a description of the extent to which they have been impacted by any government assistance. In addition, an entity will be required to disclose information about any significant terms of the transaction with a government entity, with items including durations of such agreements and any provisions for potential recapture.

ASU 2021-10 defines "government assistance," in a comprehensive manner to capture most types of assistance from governmental entities and includes examples of tax credits, cash grants, or grants of other assets. ASU 2021-10 does not apply to not-for-profit entities or benefit plans, and only applies to government assistance transactions analogizing either a grant or contribution model.

With the specificity of these additional disclosures only applying in certain circumstances (only applicable in cases where the government assistance is not accounted for in accordance with other accounting standards – i.e., revenue in the normal course of business or debt), NAIC staff believe the occurrence of such items requiring disclosure per ASU 2021-10 will likely be relatively infrequent.

**NAIC Staff Note –** as mentioned above, NAIC staff believe that as these additional disclosures are not applicable for transactions that are in scope of other accounting standards, and only apply when the transaction is accounted for by analogy using the grant or contribution model, the prevalence of such items will be infrequent. As such, the most appropriate location for these items is reflected in SSAP No. 24.

**Existing Authoritative Literature:**
The following revisions were adopted to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* in agenda item 2022-04

**Disclosures [Unusual/Infrequent Items]**

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 *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance,* with modification to require disclosure by all entity types.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**
Agenda item 2022-04: ASU 2021-10, Government Assistance was adopted on August 10, 2022.

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

**Convergence with International Financial Reporting Standards (IFRS): None.**

**Staff Review Completed by:** Robin Marcotte – NAIC Staff

**Staff 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.**

17. 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~~.



 

**Statutory Accounting Principles (E) Working Group**
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**Issue: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:** 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.)

**Existing Authoritative Literature:**
Stock Compensation is covered by *SSAP No. 104R—Share-Based Payments* and *SSAP No. 95—Nonmonetary Transactions*.

The ASUs related to ASC Topic 606 have been rejected in *SSAP No. 47—Uninsured Plans.*

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups)**:
Agenda item 2018-35 adopted with modification *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting* and incorporated the U.S. GAAP amendments from that project into SAP.

Agenda items 2016-19 and 2017-37 address the main ASUs related to *ASC Topic 606* and there have been several other agenda items for minor updates to revenue recognition guidance, all of which have been rejected in SSAP No. 47.

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

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

None.

**Staff 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.**

***Proposed Revisions to SSAP No. 95—Nonmonetary Transactions***

**Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or Services and Cash (in combination or individually), or ~~a Combination of Goods or Services and Cash~~as Consideration Payable to a Customer**

17. The guidance in paragraph 18 addresses a convertible instrument that is issued or granted to a nonemployee in exchange for goods or services or a combination of goods or services and cash or consideration payable to a customer. The convertible instrument contains a nondetachable conversion option that permits the holder to convert the instrument into the issuer's stock.

19. To determine the fair value of a convertible instrument granted as part of a share-based payment transaction to a nonemployee in exchange for goods or services or as consideration payable to a customer that is equity in form or, if debt in form, that can be converted into equity instruments of the issuer, the entity shall first apply SSAP No. 104R.

***Proposed Revisions to SSAP No. 104R—Share-Based Payments***

**SUMMARY OF ISSUE**

2. The objective of accounting for transactions under share-based payment arrangements is to recognize in the financial statements the goods or services received in exchange for equity instruments granted or liabilities incurred and the related cost to the entity as those goods or services are received. This statement uses the terms "compensation" and "payment" in their broadest senses to refer to the consideration paid for goods, ~~or~~ services, or the consideration paid to a customer.

**Scope and Scope Exceptions**

4. This statement applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations or provides consideration payable to a customer by issuing (or offering to issue) its shares, share options, or other equity instruments or by incurring liabilities to an employee or nonemployee that meet either of the following conditions:

a. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments.

b. The awards require or may require settlement by issuing the entity's equity shares or other equity instruments.

5. Share-based payments awarded to a grantee by a related party or other holder of an economic interest in the entity as compensation for goods or services provided to the reporting entity are share-based payment transactions to be accounted for under this statement unless the transfer is clearly for a purpose other than compensation for goods or services to the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to the grantee in exchange for services rendered or goods received. An example of a situation in which such a transfer is not compensation is a transfer to settle an obligation of the economic interest holder to the grantee that is unrelated to goods or services to be used or consumed in a grantor's own operations.

6. The guidance in this statement does not apply to:

a. Equity instruments held by an employee stock ownership plan. Such equity instruments shall follow the guidance in SSAP No. 12—Employee Stock Ownership Plans.

b. Transactions involving equity instruments granted to a lender or investor that provides financing to the issuer.

c. Transactions involving equity instruments granted in conjunction with selling goods or services to customers as part of a contract (for example, sales incentives). If consideration payable to a customer is payment for a distinct good or service from the customer, then the entity shall account for the purchase of the good or service in the same way it accounts for other purchases from suppliers. Therefore, share-based payment awards granted to a customer for a distinct good or service to be used or consumed in the grantor's own operations are accounted for under this statement.

**Recognition**

11. This guidance does not address the period(s) or the manner (that is, capitalize versus expense) in which an entity granting the share-based payment award (the purchaser or grantor) to a nonemployee shall recognize the cost of the share-based payment award that will be issued, other than to require that a nonadmitted prepaid asset or expense be recognized (or previous recognition reversed) in the same period(s) and in the same manner as if the grantor had paid cash for the goods or services instead of paying with or using the share-based payment award.

Initial Measurement

35. An entity shall account for the compensation cost from share-based payment transactions in accordance with the fair-value-based method set forth in this statement. That is, the cost of goods obtained or services received in exchange for awards of share-based compensation generally shall be measured based on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred. The cost of goods obtained or services received by an entity as consideration for equity instruments issued or liabilities incurred in share-based compensation transactions with employees shall be measured based on the fair value of the equity instruments issued or the liabilities settled. The portion of the fair value of an instrument attributed to goods obtained or services received is net of any amount that a grantee pays (or becomes obligated to pay) for that instrument when it is granted. For example, if a grantee pays $5 at the grant date for an option with a grant-date fair value of $50, the amount attributed to goods or services provided by the grantee is $45.

Measurement Objective – Fair Value at Grant Date

38. The measurement objective for equity instruments awarded to grantees is to estimate the fair value at the grant date of the equity instruments that the entity is obligated to issue when grantees have delivered

the good or rendered the service and satisfied any other conditions necessary to earn the right to benefit from the instruments (for example, to exercise share options). That estimate is based on the share price and other pertinent factors, such as expected volatility, at the grant date.

a. Measurement Objective and Measurement Date for Awards Classified as Liabilities: At the grant date, the measurement objective for liabilities incurred under share-based compensation arrangements is the same as the measurement objective for equity instruments awarded to grantees as described in paragraph 38. However, the measurement date for liability instruments is the date of settlement.

b. Intrinsic Value Option for Awards Classified as Liabilities: A reporting entity shall make a policy decision of whether to measure all of its liabilities incurred under share-based payment arrangements (for employee and nonemployee awards) issued in exchange for goods or services at fair value or ~~to measure all such liabilities~~ at intrinsic value. However, the reporting entity shall initially and subsequently measure awards determined to be consideration payable to a customer at fair value.

52. A reporting entity may not be able to reasonably estimate the fair value of its equity share options, nonemployee awards and similar instruments because it is not practicable for the reporting entity to estimate the expected volatility of its share price. In that situation, the entity shall account for its equity share options, nonemployee awards and similar instruments based on a value calculated using the historical volatility of an appropriate industry sector index instead of the expected volatility of the entity's share price (~~the calculated~~ permitted value). A reporting entity's use of ~~calculated~~ permitted value shall be consistent between employee share-based payment transactions and nonemployee share-based payment transactions. Throughout the remainder of this statement, provisions that apply to accounting for share options, nonemployee awards and similar instruments at fair value also apply to calculated value.

*Staff Note: Paragraph 98 references "permitted value in accordance with paragraph 52", but terminology was not consistent between paragraphs. NAIC staff changed "calculated value" to "permitted value" to allow for easier cross-referencing.*

54. A reporting entity that elects to apply the practical expedient in paragraph 53 shall apply the practical expedient to a share option or similar award that has all of the following characteristics:

c. The share option or similar award is granted at the money.

d. The grantee has only a limited time to exercise the award (typically 30-90 days) if the grantee no longer provides goods ~~or~~, terminates service after vesting, or ceases to be a customer.~~.~~

e. The grantee can only exercise the award. The grantee cannot sell or hedge the award.

f. The award does not include a market condition.

**Subsequent Measurement**

68. The total amount of compensation cost recognized for share-based payment awards to nonemployees shall be based on the number of instruments for which a good has been delivered or a service has been rendered. To determine the amount of compensation cost to be recognized in each period, an entity shall make an entity-wide accounting policy election for all nonemployee share-based payment awards, including share-based payment awards granted to customers, to do either of the following:

a. Estimate the number of forfeitures expected to occur. The entity shall base initial accruals of compensation cost on the estimated number of nonemployee share-based payment awards for which a good is expected to be delivered or service is expected to be rendered. The entity shall revise that estimate if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimates shall be recognized in compensation cost in the period of the change.

b. Recognize the effect of forfeitures in compensation cost when they occur. Previously recognized compensation cost for a nonemployee share-based payment award shall be reversed in the period that the award is forfeited.

80. A freestanding financial instrument issued to a grantee ~~in exchange for goods or services received (or to be received)~~ that is subject to initial recognition and measurement guidance within this statement shall continue to be subject to the recognition and measurement provisions of this statement throughout the life of the instrument, unless its terms are modified after a ~~nonemployee~~ grantee vests in the award and is no longer providing goods or services, a grantee vests in the award and is no longer a customer, or a grantee is no longer an employee. Only for purposes of this paragraph, a modification does not include a change to the terms of an award if that change is made solely to reflect an equity restructuring provided that both of the following conditions are met:

a. There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole) or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring.

b. All holders of the same class of equity instruments (for example, stock options) are treated in the same manner.

81. Other modifications of that instrument that take place after a ~~nonemployee~~ grantee vests in the award and is no longer providing goods or services, is no longer a customer, or ~~a grantee~~ is no longer an employee shall be subject to the modification guidance in paragraph 83. Following modification, recognition and measurement of the instrument shall be determined through reference to other applicable statutory accounting principles.

**Subsequent Measurement - Awards Classified as Liabilities**

97. Changes in the fair value (or intrinsic value for a reporting entity that elects that method) of a liability incurred under a share-based payment arrangement issued in exchange for goods or services that occur during the employee's requisite service period or the nonemployee's vesting period shall be recognized as compensation cost over that period. The percentage of the fair value (or intrinsic value) that is accrued as compensation cost at the end of each period shall equal the percentage of the requisite service that has been rendered for an employee award or the percentage that would have been recognized had the grantor paid cash for the goods or services instead of paying with a nonemployee award at that date. Changes in the fair value (or intrinsic value) of a liability issued in exchange for goods or services that occur after the end of the employee's requisite service period or the nonemployee's vesting period are compensation costs of the period in which the changes occur. Any difference between the amount for which a liability award issued in exchange for goods or services is settled and its fair value at the settlement date as estimated in accordance with the provisions of this statement is an adjustment of compensation cost in the period of settlement.

98. Reporting entities shall measure a liability award under a share-based payment arrangement based on the award's fair value (or permitted value in accordance with paragraph 52) remeasured at each reporting

date until the date of settlement. Compensation costs for each period until settlement shall be based on the change (or a portion of the change, depending on the percentage of the requisite service that has been rendered for an employee award or the percentage that would have been recognized had the grantor paid cash for the goods and services instead of paying with a nonemployee award at the reporting date) in the fair value of the instrument for each reporting period. A reporting entity shall subsequently measure awards determined to be consideration payable to a customer at fair value.

**Effective Date and Transition**

132. Since the initial adoption of SSAP No. 104, subsequent revisions were effective as follows:

b. *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.*

**REFERENCES**

**Other**

- *SSAP No. 12—Employee Stock Ownership Plans*
- *SSAP No. 95—Nonmonetary Transactions*

***Proposed Revisions to SSAP No. 47—Uninsured Plans***

**RELEVANT LITERATURE**

15. This statement rejects *ASU 2014-09, Revenue from Contracts with Customers; ASU 2015-14, Revenue From Contracts With Customers; ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers; ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606,* the Topic 606 guidance included in *ASU 2019-08, Codification Improvements to Stock Compensation (Topic 718) and Share-Based Consideration Payable to a Customer (Topic 606), ASU 2021-02, Franchisors—Revenue from Contracts with Customers, ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

**Staff Review Completed by:**
NAIC Staff – William Oden, February 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/H 23-07 - ASU 2019-08 - Stock Comp.docx

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

**Issue: ASU 2019-07, Codification Updates to SEC Sections**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
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.

**Existing Authoritative Literature:**
Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Debt is covered in *SSAP No. 15— Debt and Holding Company Obligations*, surplus is covered in *SSAP No. 72—Surplus and Quasi-Reorganizations*, and consolidation guidance is discussed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

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

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff 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.** This item is proposed to be rejected as not applicable as ASU 2019-07 is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

**Staff Review Completed by:** William Oden – February 2023



 

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

**Issue:** *ASU 2020-09—Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
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.

**Existing Authoritative Literature:**
Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Debt is covered in *SSAP No. 15— Debt and Holding Company Obligations.* Basic discussion of the nature of liabilities is covered in *SSAP No. 5R— Liabilities, Contingencies and Impairments of Assets*.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**
None

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

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff 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.**

**Staff Review Completed by:** William Oden – February 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/J 23-09 - ASU 2020-09 - SEC Updates.docx

 

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

**Issue:** *ASU 2022-05, Transition for Sold Contracts*

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:** 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.

ASU 2018-12, as amended by 2022-05, is effective for public entities for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For nonpublic entities, the LDTI is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. The LDTI includes different transition provisions as follows:

- For the liability for future policyholder benefits and deferred acquisition costs, insurance entities should apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in accumulated other comprehensive income. Insurance entities are permitted to apply the amendments retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings), using actual historical experience information as of contract inception. (Estimates of historical experience may not be substituted for actual historical experience.) If electing retrospective application, it must be applied entity-wide for the same contract issue year, and all subsequent contract issue years. (Meaning, it must be used to all products and contracts issued in the first year in which retrospective application will be applied, and all subsequent products and contracts issued in later years.)

- For market risk benefits, insurance entities should apply the amendments retrospectively as of the beginning of the earliest year presented. An insurance entity may use hindsight in instances in which assumptions in a prior period are unobservable or otherwise unavailable and cannot be independently substantiated. The difference between fair value and the carrying value at the transition date, excluding the effect of changes in the instrument-specific credit risk, requires an adjustment to the opening balance of retained earnings.

**Existing Authoritative Literature:**

 

The key changes reflected in ASU 2018-12 revised U.S. GAAP guidance previously rejected for statutory accounting. (In a couple instances, the prior U.S. GAAP guidance was not reviewed for SAP - as the guidance was not Board Directed, or was still pending SAP review.)

References from Appendix D – Cross-Reference to SAP:

| U.S. GAAP | SAP Accounting Provisions |
|---|---|
| *FAS 60, Accounting and Reporting by Insurance Entities* | Rejected in SSAP No. 40R, SSAP No. 50, SSAP No. 51R, SSAP No. 52, SSAP No. 53, SSAP No. 54R, SSAP No. 57, SSAP No. 59 and SSAP No. 71 |
| *FAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* | Rejected in SSAP No. 50, SSAP No. 51R, SSAP No. 52 and SSAP No. 71 |
| *FSP FAS 97-1, Situations in Which Paragraphs 17(b) and 20 of FAS 97 Permit or Require Accrual of an Unearned Revenue Liability* | Not Board Directed |
| *SOP 95-1, Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises* | Rejected in SSAP No. 51R and SSAP No. 52 |
| *SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* | Rejected in SSAP No. 56 |
| *SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchange of Insurance Contracts* | Rejected in SSAP No. 71 |
| *SOP 00-3, Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts* | Pending SAP |
| *AICPA Practice Bulletin 8, Application of FAS 97 to Insurance Enterprises* | Rejected in SSAP No. 51R and SSAP No. 52R |
| *ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* | Rejected in Preamble, SSAP No. 50, SSAP No. 51R, SSAP No. 52, SSAP No. 54R, SSAP No. 55, SSAP No. 56, SSAP No. 71, and SSAP No. 86 |

**Other U.S. GAAP revised as a result of the ASU include:**

- *FAS 133, Accounting for Derivative Instruments and Hedging Activities* (and related DIGs) – The framework of FAS 133 was adopted with modification in *SSAP No. 86—Derivatives*. The revisions from ASU 2018-12 indicate that contracts with market risk benefits do not need to be bifurcated as embedded derivatives, as the guidance in ASU 2018-12 requires market risk benefits to be measured at fair value. The ASU revisions also delete or revise related implementation guidance for assessing whether embedded derivatives shall be bifurcated under U.S. GAAP. **This guidance will not impact the FAS 133 guidance adopted with modification, as SSAP No. 86 specifies that embedded derivatives shall not be separated from the derivative instrument.**

- *FAS 130, Other Comprehensive Income* – FAS 130 was rejected as not applicable under statutory accounting. The revisions from ASU 2018-12 modify FAS 130 to specify the additional components (e.g., changes in

discount rate assumptions) that are recognized through OCI. These modifications will not impact the prior statutory accounting decision to reject FAS 130 for statutory accounting.

**The following relevant SAP guidance is noted:**

- ***SSAP No. 51—Life Contracts*:** This SSAP establishes statutory accounting principles for income recognition and policy reserves for life contracts. This SSAP identifies that policy reserves shall be established as required in *Appendix A-820, Minimum Life and Annuity Reserves* and *Appendix A-822, Asset Adequacy Analysis Requirements* or the *Valuation Manual.*

- ***SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses:*** This SSAP establishes statutory accounting principles for recording liabilities for unpaid claims and claim adjustment expenses for life insurance contracts and accident and health contracts. (It also addresses unpaid losses and LAE for property and casualty contracts.) Pursuant to the guidance in paragraph 12, for each line of business, and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses and loss/claim adjustment expenses. This guidance identifies that management shall follow the concept of conservatism when determining estimates, but there is not a specific requirement to include a provision for adverse deviation in claims. With the revisions reflected in ASU 2018-12, the U.S. GAAP guidance has been revised to specify that the assumptions used in determining a liability for future policy benefits shall not include a provision for the risk of adverse deviation. Prior to these revisions, the guidance in ASC 944-40-30-7 specifically stated that the assumptions shall include a provision for the risk of adverse deviation. *(Note, as detailed in the proposed statutory accounting modifications, reference to the old U.S. GAAP guidance for adverse deviation is included in the Preamble and is proposed to be deleted.)*

- ***SSAP No. 71—Policy Acquisition Costs and Commissions*:** This SSAP establishes statutory accounting principles for policy acquisition costs and commissions. Pursuant to SSAP No. 71, all policy acquisition costs and commissions shall be expensed when incurred. Although the ASU is streamlining the amortization of capitalized deferred acquisition costs, this revision will not impact statutory accounting. *(Note, as detailed in the proposed statutory accounting modifications, reference to the old U.S. GAAP guidance is included in the Preamble and is proposed to be modified to reflect the new guidance.)*

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

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

**Convergence with International Financial Reporting Standards (IFRS):** In 2008, the FASB undertook an insurance contracts project jointly with the International Accounting Standards Board (IASB). In 2013, after considering comments from the exposure of a 2010 Discussion Draft and a 2013 Proposed Update, the FASB decided to separate from the IASB project, and instead focus on targeted improvements to existing U.S. GAAP concepts. The decision to focus on targeted-improvements to existing U.S. GAAP guidance, with the continued limitation of the guidance to insurance companies, was strongly supported by commenters in lieu of introducing a completely new accounting model that would apply to all entities that issued "insurance contracts."

**Staff 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. The proposed revisions are illustrated below:**

*SSAP No. 50–Classifications of Insurance or Managed Care Contracts*

46. This statement rejects the U.S. GAAP classifications (i.e., short-duration and long-duration) found in *ASU 2022-05 Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and *FASB Statement No. 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long Duration Participating Contracts*.

*SSAP No. 51R—Life Contracts*

56. This statement rejects *ASU 2022-05 Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, FASB Statement 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts,* AICPA *Practice Bulletin No. 8, Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, to Insurance Enterprises,* the AICPA *Audit and Accounting Guide—Audits of Stock Life Insurance Companies,* AICPA *Statement of Position 95-1, Accounting for Certain Activities of Mutual Life Insurance Enterprises* relating to accounting and reporting for policy reserves for short and long duration contracts, and *FASB Interpretation No. 40, Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises, an interpretation of FASB Statements No. 12, 60, 97, and 113.*

*SSAP No. 52—Deposit-Type Contracts*

25. This statement rejects *ASU 2022-05 Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, *FASB Statement 120, Accounting and Reporting by Mutual Life Insurance* Enterprises *and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, AICPA *Practice Bulletin No. 8, Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, to Insurance Enterprises,* the AICPA *Audit and Accounting Guide—Audits of Stock Life Insurance Companies*, AICPA *Statement of Position 95-1, Accounting for Certain Activities of Mutual Life Insurance Enterprises* relating to accounting and reporting for policy reserves for short and long duration contracts, and *FASB Interpretation No. 40, Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises, an interpretation of FASB Statements No. 12, 60, 97, and 113*.

*SSAP No. 56—Separate Accounts*

41. This statement rejects *ASU 2022-05 Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, AICPA *Statement of Position 03-1, Accounting and Reporting by* Insurance Enterprises *for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* (SOP 03-1). The disclosure elements included within this SSAP are derived from the criteria for separate account reporting under SOP 03-1; however, this SSAP does not restrict separate account reporting pursuant to the criteria established in SOP 03-1.

*SSAP No. 71—Policy Acquisition Costs and Commissions*

6. This statement rejects *ASU 2022-05 Transition for Sold Contracts, ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *ASU 2010-26, Accounting for Costs*

*Associated with Acquiring or Renewing Insurance Contracts, FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and *Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts.*

*SSAP No. 86—Derivatives*

73. This statement rejects *ASU 2022-05 Transition for Sold Contracts, 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial* Liabilities, and *ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging*.

**Staff Review Completed by:**
William Oden, NAIC Staff – December 2022

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/K 23-10 - ASU 2022-05 - Sold Contracts.docx

**NAIC Accounting Practices and Procedures Manual**
**Editorial and Maintenance Update**
**February 23, 2023**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

| SSAP/Appendix | Description/Revision |
|---|---|
| SSAP No. 86 | Paragraph 43.g.ii.: Revise "Intrinsic Value" to reflect "Volatility Value" |
| P&P Manual References | All citations to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* are proposed to be reviewed and streamlined so they do not reflect a specific location in the Manual or a webpage. These references will be eliminated to prevent inappropriate citations. |
| Percent References | Instances in which 'percent' is spelled out in combination with a number will be eliminated with retention of the % sign. This is a consistency change as the usage is currently inconsistent within the Manual. |

**Recommendation:**
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within.

***SSAP No. 86R—Derivatives***
Revise the reference to "Intrinsic Value" to reflect "Volatility Value." This change was proposed by industry to clarify the disclosure category for the excluded component to the Blanks (E) Working Group and a corresponding revision is needed in SSAP No. 86R.

43.a. For hedging instruments with excluded components for determining hedge effectiveness:

i. In the investment schedule, identify hedging instruments with excluded components and report the current fair value of the excluded component, the fair value of the excluded component that is reflected in the reported BACV for the hedging instrument (this item would not be applicable for foreign-currency forwards and currency swaps where the forward points or cross-currency basis, respectively, are the excluded component), and the change in fair value reported as an unrealized gain/loss.

ii. In the notes to the financial statements, provide information on the aggregate excluded components by category: Time Value, ~~Intrinsic~~ Volatility Value, Forward Points and Cross Currency Basis Spread. The aggregate amounts reported should include the following (as applicable): current fair value, recognized unrealized gain/loss, the fair value reflected in BACV, and for the excluded forward points (e.g., forward spot rates), the aggregate amount owed at maturity, along with current year and remaining amortization.

**Purposes and Procedure Manual References**
The following SSAPs will be revised to update references to the P&P Manual.

*SSAP No. 25—Affiliates and Other Related Parties*

 

21.h. The amount deducted from the value of an upstream intermediate entity or ultimate parent owned, either directly or indirectly, via a downstream subsidiary, controlled, or affiliated entity, in accordance with *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.* ~~the *Purposes and Procedure Manual of the NAIC Investment Analysis Office*, "Procedures for Valuing Common Stocks and Stock Warrants."~~

*SSAP No. 26R—Bonds*

4.a. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in ~~Part Three of~~ the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO web page ~~at *https://content.naic.org/industry/securitiesvaluation- office*~~. (SVO-identified ETFs are reported on Schedule D – Part 1.)

*SSAP No. 30R—Unaffiliated Common Stock*

4.c. Shares of SEC registered Investment Companies3 captured under the Investment Company Act of 1940 (open-end investment companies (mutual funds), closed-end funds and unit investment trusts), regardless of the types or mix of securities owned by the fund (e.g., bonds or stocks), including shares of funds referenced in the "NAIC Fixed Income-Like SEC Registered Funds List" as identified in ~~Part Three of~~ the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO web page.~~;~~

4.d. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in ~~Part Three of~~ the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO web page ~~at *https://content.naic.org/industry/securities-valuation-office*~~;

*SSAP No. 32R—Preferred Stock*

4.a. Exchange Traded Funds, which qualify for preferred stock treatment, as identified in ~~Part Three of~~ the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO web page ~~at *https://content.naic.org/industry/securities-valuationoffice*~~. SVO-identified preferred stock ETFs shall follow the accounting provisions for perpetual preferred stock.

*SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*

64. By August 31 or one month after the audit report date of each year, the NAIC shall initiate a review of all SCA investments for which new Sub 2 form filings have been received as well as an annual update review of Sub 2 SCA investments already logged in the VISION database. The NAIC review shall encompass a review of the most recent annual statutory reporting by the parent insurance company's Schedule Y (to ascertain the identity of the members of the holding company system and to ensure that information for all SCA companies has been submitted), a review of the parent's financial statement blank to review the last reported value for the SCA investments and a review of the VISION database to determine whether SCA debt and SCA preferred securities have been assigned NAIC designations. As part of its analysis, the NAIC shall review the portion of the bond investments carried by the parent or a subsidiary insurer with a **Z** notation. If the NAIC determines that the portion of the **Z** bonds shown on the documentation is significant, the NAIC shall not process the Sub 2 filing until the insurance company reports the bonds to permit removal of the **Z** notation. Beginning with year-end 2019, two new suffixes will apply: **YE** and **IF**. YE means that the security is a properly filed annual update that the SVO has determined will not be assigned an NAIC designation by the close of the year-end reporting cycle. The symbol YE is assigned by the SVO pursuant to the carryover administrative procedure described in ~~Part One, Section 3 f) (iii) of~~ the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. When the SVO assigns the symbol YE it also assigns the NAIC designation in effect for the previous reporting year. IF means that the security is an initial filing that has been properly filed with the SVO but which the SVO has determined will not be assigned an NAIC designation by the close of the year-end reporting cycle. The symbol IF is assigned by the SVO and communicates that the insurer should self-designate the security for year-end and identify it with the symbol IF. IF, therefore, also communicates to the regulator that the NAIC designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company.

**Percent References**

The following SSAPs will be revised to update the percent reference.

*SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets:*

13. As directed by *SSAP No. 101—Income Taxes*, tax loss contingencies (including related interest and penalties) for current and all prior years, shall be computed in accordance with this SSAP, with the following modifications:

    a. The term "probable" as used in this standard shall be replaced by the term "more likely than not (a likelihood of more than 50% ~~percent~~)" for federal and foreign income tax loss contingencies only.

    b. For purposes of the determination of a federal and foreign income tax loss contingency, it shall be presumed that the reporting entity will be examined by the relevant taxing authority that has full knowledge of all relevant information.

    c. If the estimated tax loss contingency is greater than 50% ~~percent~~ of the tax benefit originally recognized, the tax loss contingency recorded shall be equal to 100% ~~percent~~ of the original tax benefit recognized.

    As noted in SSAP No. 101, state taxes (including premium, income and franchise taxes) shall also be computed in accordance with this SSAP. These items (as detailed in SSAP No. 101) are not impacted by the modifications detailed in paragraphs 13.a.-13.c.

*SSAP No. 16R—Electronic Data Processing Equipment and Software*

4. The aggregate amount of admitted EDP equipment and operating system software (net of accumulated depreciation) shall be limited to 3% ~~three percent~~ of the reporting entity's capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating system software, net deferred tax assets and net positive goodwill.(INT 01-18)

*SSAP No. 43R—Loan-Backed and Structured Securities*

FN 10: Changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater) generally should not result in the recognition of an other-than-temporary impairment. For plain-vanilla, variable-rate beneficial interests, the yield is changed to reflect the revised interest rate based on the contractual interest rate reset formula. For example, if a beneficial interest pays interest quarterly at a rate equal to LIBOR plus 2% ~~percent~~, the yield of that beneficial interest is changed prospectively to reflect changes in LIBOR. However, changes in the fair value of a plain-vanilla, variable-rate beneficial interest due to credit events should be considered when evaluating whether there has been an other-than-temporary impairment.

*SSAP No. 57—Title Insurance*

19.g. An investment in a title plant or plants in an amount equal to the actual cost shall be allowed as an admitted asset for title insurers. The aggregate carrying value of an investment in a title plant or plants shall not exceed the lesser of 20% of admitted assets or ~~forty percent (~~40%~~)~~ of surplus to policyholders, both as required to be shown on the statutory balance sheet of the insurer for its most recently filed statement with the domiciliary state commissioner; if the amount of the investment exceeds the above limits, the excess amount shall be recorded as a nonadmitted asset.

*SSAP No. 60—Financial Guarantee Insurance*

10. The contingency reserve shall be the greater of 50%~~fifty percent~~ of premiums written for each category or the amount provided by applying the following percentages to the principal guaranteed in each calendar year. The premiums written shall be net of reinsurance if the reinsurer has established a contingency reserve.

| | | |
|---|---|---|
| a. | Municipal obligation bonds | 0.55%~~ percent~~ |
| b. | Special revenue bonds | 0.85%~~ percent~~ |
| c. | Investment grade Industrial Development Bonds (IDBs) secured by collateral or having a term of seven years or less, and utility first mortgage obligations | 1.00%~~ percent~~ |
| d. | Other investment grade IDBs | 1.50%~~ percent~~ |
| e. | Other IDBs | 2.50%~~ percent~~ |
| f. | Investment grade obligations, secured by collateral or having a term of seven years or less | 1.00%~~ percent~~ |
| g. | Other investment grade obligations not secured | 1.50%~~ percent~~ |
| h. | Non-investment grade consumer debt obligations | 2.00%~~ percent~~ |
| i. | Non-investment grade asset backed securities | 2.00%~~ percent~~ |
| j. | All other non-investment grade obligations | 2.50%~~ percent~~ |

*SSAP No. 62R—Property and Casualty Reinsurance*

116.a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents ~~fifty percent (~~50%~~)~~ or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

116.b. ~~Twenty-five percent (~~25%~~)~~ or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in separate reinsurance contract.

Exhibit C – Assumptions

Premium = $1,000 (assumes no commissions or allowances)
Coverage Period = 1 year
Initial expected recoveries = $225 per year (at end of year) for five years
Initial Implicit rate = 4%~~ percent~~*

*present value of $225 per year for five years at 4%~~ percent~~ = $1,000

At the end of Year 2, the timing of anticipated recoveries under the reinsurance contract changes. A reevaluation of the implicit interest rate produces a rate of 3.63%~~ percent~~ and an asset of $640 at the end of the year.

*SSAP No. 65—Property and Casualty Contracts*

37. If the reporting entity does not hold specific collateral for the policy, amounts accrued for reimbursement of the deductible shall be billed in accordance with the provisions of the policy or the contractual agreement and shall be aged according to the contractual due date. In the absence of a contractual due date, billing date shall be utilized for the aging requirement. Deductible recoverables that are greater than ninety days old shall be nonadmitted. However, if the reporting entity holds specific collateral for the high deductible policy, 10%~~ten percent~~ of deductible recoverable in excess of collateral specifically held and identifiable on a per policy basis, shall be reported as a nonadmitted

asset in lieu of applying the aging requirement; however, to the extent that amounts in excess of the 10% are not anticipated to be collected they shall also be nonadmitted. The collateral requirements of this paragraph may be satisfied when an insured provides one collateral instrument to secure amounts owed under multiple policies, provided that the reporting entity has the contractual right to apply the collateral to the high deductible policy. Collateral obtained at a group level that is not supported by an existing pooling agreement requires a written allocation agreement among all collateral beneficiaries. The terms of such agreement must be fair and equitable. Documentation supporting any allocation of collateral among reporting entities must be maintained to allow proper calculation of the nonadmitted amounts and prohibit double counting of collateral.

*SSAP No. 78—Multiple Peril Crop Insurance*

3. Catastrophic insurance is designed to provide farmers with protection against extreme crop losses for a small processing fee. Buy-up insurance provides protection against more typical and smaller crop losses in exchange for a policyholder-paid premium. The government subsidizes the total premium for catastrophic insurance and a portion of the premium for buy-up insurance. Farmers who purchase buy-up crop insurance must choose both the coverage level (the proportion of the crop to be insured) and the unit price (such as, per bushel) at which any loss is calculated. With respect to the coverage level of production, farmers can choose to insure as much as 85% ~~percent~~ of normal production or as little as 50% ~~percent~~ of normal production at different price levels. With respect to the unit price, farmers choose whether to value their insured production at FCICs full estimated market price or at a percentage of the full price.

5. Companies participate in the MPCI program with FCIC through the Standard Reinsurance Agreement (SRA) per the terms of which the insurance companies share in the underwriting results of each policy. The SRA reinsurance terms provide a company the flexibility to limit its exposure on a state by state basis. MPCI premium is not expense loaded, therefore FCIC pays the insurance companies, on behalf of the policyholder, a percent of premium for administrative expenses associated with selling and servicing crop insurance policies, including the expenses associated with adjusting claims.

15. FCIC pays the insurance companies a percent of premium for administrative expenses associated with selling and servicing crop insurance policies, including the expenses associated with adjusting claims. The expense payment associated with the catastrophic coverage shall be recorded as a reduction of loss expenses whereas the expense payment for the buy-up coverage shall be recorded as a reduction of other underwriting expenses. The company shall disclose the total amounts received for each type of coverage.

*SSAP No. 86—Derivatives*

26.c. The term highly effective describes a cash flow hedging relationship where the change in fair value of the derivative hedging instrument is within 80 to 125% ~~percent~~ of the opposite change in the fair value of the hedged item attributable to the hedged risk. It shall also apply when an R-squared of .80 or higher is achieved when using a regression analysis technique. Further guidance on determining effectiveness can be found within Exhibit A;

27.c. The term highly effective describes a cash flow hedging relationship where the change in cash flows or present value of cash flows of the derivative hedging instrument is within 80 to 125% ~~percent~~ of the opposite change in the cash flows or present value of the cash flows of the hedged item attributable to the hedged risk. It shall also apply when an R-squared of .80 or higher is achieved when using a regression analysis technique. Further guidance on determining effectiveness can be found within Exhibit A.

Exhibit A, 19.c.ii. The variable-rate asset or liability has a floor or cap and the interest rate swap has a floor or cap on the variable interest rate that is comparable to the floor or cap on the variable-rate asset or liability. For purposes of this paragraph, comparable does not necessarily mean equal. For example, if an interest rate swap's variable rate is based on LIBOR and an asset's variable rate is LIBOR plus 2% ~~percent~~, a 10% ~~percent~~ cap on the interest rate swap would be comparable to a 12% ~~percent~~ cap on the asset.

Exhibit A, 22 The fixed interest rate on a hedged item need not exactly match the fixed interest rate on an interest rate swap designated as a fair value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on an interest rate swap designated as a cash flow hedge. An interest rate swap's fair value comes from its net settlements. The fixed and variable interest rates on an interest rate swap can be changed without affecting the net settlement if both are changed by the same amount. That is, an interest rate swap with a payment based on LIBOR and a receipt based on a fixed rate of 5%~~ percent~~ has the same net settlements and fair value as an interest rate swap with a payment based on LIBOR plus 1%~~ percent~~ and a receipt based on a fixed rate of 6%~~ percent~~.

*SSAP No. 92—Postretirement Benefits Other Than Pensions*

49. As a minimum, amortization of a net gain or loss included in unassigned funds (surplus) shall be included as a component of net periodic postretirement benefit cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10%~~ percent~~ of the greater of the accumulated postretirement benefit obligation or the fair value of plan assets. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active plan participants. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of the average remaining service period.

75. An employer shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture. This disclosure shall identify whether the contributions represent more than 5%~~ percent~~ of total contributions to the plan as indicated in the plan's most recently available annual report.

108.b.i ~~Ten~~10%~~ percent~~ of the calculated surplus impact as of the transition date; and

*SSAP No. 93—Low-Income Housing Tax Credit Property Investments*

Exhibit A Assumptions

1. All cash flows (except initial investment) occur at the end of each year.

2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).

3. The investor made a $100,000 investment for a 5%~~ percent~~ limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.

4. The partnership finances the project cost of $4,000,000 with 50%~~ percent~~ equity and 50%~~ percent~~ debt.

5. The annual tax credit allocation (equal to 4%~~ percent~~ of the project's original cost) will be received for a period of 10 years.

6. The investor's tax rate is 40%~~ percent~~.

Chart Footnotes:

(1) End-of-year investment for a 5%~~ percent~~ limited liability interest in the project net of amortization in Column (2).

(3) 4%~~Four percent~~ tax credit on $200,000 tax basis of the underlying assets.

*SSAP No. 100R—Fair Value*

52.g. If a group of investments would otherwise meet the criteria in paragraph 45 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20% ~~percent~~ of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 39, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

*SSAP No. 101—Income Taxes*

2. For purposes of accounting for federal and foreign income taxes, reporting entities shall adopt *FASB Statement No. 109, Accounting for Income Taxes* (FAS 109) with modifications for state income taxes[INT 18-03], the realization criteria for deferred tax assets, and the recording of the impact of changes in deferred tax balances. One objective of accounting for income taxes is to recognize the estimated amount of taxes payable or refundable for the current year as a tax liability or asset. A second objective is to recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in a reporting entity's statutory financial statements or tax returns. However, the second objective is realistically constrained because (a) the tax payment or refund that results from a particular tax return is a joint result of all the items included in that return, (b) taxes that will be paid or refunded in future years are the joint result of events of the current or prior years and events of future years, and (c) information available about the future is limited. As a result, financial statements will recognize current and deferred income tax assets and liabilities in accordance with the provisions of this statement based upon estimates and approximations. For purposes of this statement, only adjusted gross deferred tax assets that are more likely than not (a likelihood of more than 50% ~~percent~~) to be realized shall be considered in determining admitted adjusted gross deferred tax assets.

3.a.i The term "probable" as used in SSAP No. 5R shall be replaced by the term "more likely than not (a likelihood of more than 50% ~~percent~~)" for federal and foreign income tax loss contingencies only.

7.e. Gross DTAs are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50% ~~percent~~) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment, determined in a manner consistent with paragraphs 20-25 of FAS 109, shall reduce the gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets).

1.3 SSAP No. 101 – Gross DTAs are reduced by a statutory valuation allowance adjustment that is determined on a separate company, reporting entity basis. Pursuant to paragraphs 2 and 7.e. of SSAP No. 101, gross DTAs are adjusted to an amount that is more likely than not to be realized (a likelihood of more than 50% ~~percent~~). Only adjusted gross DTAs shall be considered in determining admitted adjusted gross DTAs. See Question 2 for further discussion of the statutory valuation allowance adjustment. See Question 4 for a further discussion of the admissibility test. See Question 12 for further discussion of presentation and disclosure of the statutory valuation allowance adjustment.

1.11 SSAP No. 101 – FIN 48 is rejected for statutory accounting pursuant to paragraph 31 of SSAP No. 101. SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets provides guidance in determining the amount of federal and foreign income tax loss contingencies with the following modifications. The term "probable" as used in SSAP No. 5R is replaced by the term "more likely than not (a likelihood of more than 50% ~~percent~~)". In determining the amount of a federal or foreign income tax loss contingency, it shall be assumed that the reporting entity will be examined by the tax authority that has full knowledge of all relevant information. If the estimated tax loss contingency is greater than 50% of the tax benefit originally recognized, the tax loss contingency recorded shall be equal to 100% of the original tax benefit recognized. See Question 9 for further discussion of income tax loss contingencies.

2.1 A – An enterprise shall record a gross deferred tax liability or asset for all temporary differences and operating loss, capital loss and tax credit carryforwards. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include AVR, IMR, Schedule F penalties and, in

the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased. In general, temporary differences produce taxable income or result in tax deductions when the related asset is recovered or the related liability is settled. A deferred tax asset or liability represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year. Additionally, gross DTAs are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50% ~~percent~~) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment, determined in a manner consistent with paragraphs 20-25 of FAS 109, shall reduce gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets). This answer only addresses the recognition of adjusted gross DTAs and gross DTLs and does not address the admissibility of such amounts. See Question 4 for a discussion of the admissibility criteria of SSAP No. 101.

5.12 The temporary difference related to property and casualty unearned premiums is typically ~~twenty percent (~~20%~~)~~ of the outstanding statutory unearned premium reserve. If a company issues only one-year policies, it is reasonable to assume that the entire temporary difference will reverse in one year. If a company writes multi-year contracts, management will be required to estimate the percentage of the unearned premium that will be earned within each year of the applicable reversal period and apply these percentages to the outstanding temporary difference.

5.14 For those temporary differences that do not have a defined reversal period, such as unrealized losses on common stock or deferred compensation liabilities, management will need to determine when the temporary difference is “expected” to reverse. For instance, assume a company has an unrealized loss of $200 in its equity portfolio and that, on average, the portfolio turns over ~~twenty percent~~ (20%~~)~~ per year. It would be appropriate for the company to conclude that $40 of the temporary difference will reverse in each year in the applicable reversal period. When determining when the temporary difference would be “expected” to reverse, management should normally consider events that are likely to occur using information, facts and circumstances in existence as of the reporting date. The estimates used in this circumstance should not be extended to other tests of impairment. For instance, when the entity assumed a 20% turnover in its equity portfolio, it is not involuntarily required to record an impairment in accordance with paragraph 10 of SSAP No. 30R—Unaffiliated Common Stock.

10.3 As an example, assume Company X files its 20X1 federal income tax return and reports $1,000,000 of taxable income comprised of $800,000 of ordinary income and $200,000 of capital gain income. Since the company is subject to taxation at a 21% ~~percent~~ tax rate on all its income, it incurred federal income tax expense of $210,000. In preparing its 20X1 statutory income tax provision, the company estimated that its liability for 20X1 federal income tax would be $147,000 based on $600,000 of ordinary income and $100,000 realized capital gains.

10.8 For example, assume the reporting entity has DTAs of $1,000 relating to temporary differences other than unrealized losses, and a $100 DTL relating to unrealized gains as of the beginning of the year. Since the entity is subject to tax at 21% ~~percent~~ and all of its DTAs are expected to reverse within one year, the entity recorded a $900 net admitted DTA as of the beginning of the year.

12.20 The Company has not recognized a deferred tax liability of approximately $30,000 of foreign withholding taxes for the undistributed earnings of its 100% ~~percent~~ owned foreign subsidiaries that arose in 20X2 and prior years because the Company does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of December 31, 20X2, the undistributed earnings of these subsidiaries were approximately $200,000.

*SSAP No. 102—Pensions*

22. As a minimum, amortization of a net gain or loss included in unassigned funds (surplus) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10% ~~percent~~ of the greater of the projected benefit obligation or the fair value of plan assets. If amortization is required, the minimum amortization shall be that excess divided by the

average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

79. A reporting entity shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. A reporting entity may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture. This disclosure shall identify whether the contributions represent more than 5%~~ percent~~ of total contributions to the plan as indicated in the plan's most recently available annual report.

93.b.i. ~~Ten~~10%~~ percent~~ of the calculated surplus impact as of the transition date;

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

22. An exchange of debt instruments with substantially different terms is also considered a debt extinguishment and shall be accounted for in accordance with paragraph 21. A debtor's exchange of debt instruments (in a nontroubled debt situation) is accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10%~~ percent~~ different from the present value of the remaining cash flows under the terms of the original instrument. If the difference between the present value of the cash flows under the terms of the new debt instrument and the present value of the remaining cash flows under the terms of the original debt instrument is less than 10%~~ percent~~, a creditor should evaluate whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification.

91. The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 102%~~ percent~~ of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 100%~~ percent~~ of the fair value of the loaned securities, the counterparty shall be obligated to deliver additional collateral by the end of the next business day, the fair value of which, together with the fair value of all collateral then held in connection with the transaction at least equals 102%~~ percent~~ of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100%~~ percent~~ at the reporting date, the difference between the actual collateral and 100%~~ percent~~ will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.

92. In the event that foreign securities are loaned and the denomination of the currency of the collateral is other than the denomination of the currency of the loaned foreign securities, the amount of collateral shall be at least equal to 105%~~ percent~~ of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 102%~~ percent~~ of the fair value of the loaned securities, the reporting entity must obtain additional collateral by the end of the next business day, the fair value of which together with the fair value of all collateral then held in connection with the transaction at least equals 105%~~ percent~~ of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100%~~ percent~~ at the reporting date, the difference between the actual collateral and 100%~~ percent~~ will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.

113. The collateral requirements for repurchase and reverse repurchase agreements are as follows:

Repurchase Transaction

a. The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 95% ~~percent~~ of the fair value of the securities transferred by the reporting entity in the transaction as of that date. If at any time the fair value of the collateral received from the counterparty is less than 95% ~~percent~~ of the fair value of the securities so transferred, the counterparty shall be obligated to deliver additional collateral by the end of the next business day the fair value of which, together with the fair value of all collateral then held in connection with the transaction, at least equals 95% ~~percent~~ of the fair value of the transferred securities. If the collateral is less than 95% ~~percent~~ at the reporting date, the difference between the actual collateral and 95% ~~percent~~ will be nonadmitted.

Reverse Repurchase Transaction

b. The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102% ~~percent~~ of the purchase price paid by the reporting entity for the securities. If at any time the fair value of the collateral is less than 100% ~~percent~~ of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102% ~~percent~~ of the purchase price.

130. Exchanges of debt instruments or debt instrument modifications are considered extinguishments if the exchange or modification results with substantially different terms or is considered more than minor. If the cash flows under the terms of the new debt instrument are at least 10% ~~percent~~ different from the present value of the remaining cash flows under the terms of the original instrument, then the exchange of, or modification to, debt instruments is consider substantially different and/or more than minor.

Illustration 3 Company C originates $1,000 of loans that yield 10% ~~percent~~ interest income for their estimated lives of 9 years. Company C transfers the entire loans to an entity and the transfer is accounted for as a sale. Company C receives as proceeds $1,000 cash, a beneficial interest to receive 1% ~~percent~~ on the contractual interest on the loans (an interest-only strip receivable), and an additional 1% ~~percent~~ of the contractual interest as compensation for servicing the loans. The fair values of the servicing asset and the interest-only strip receivable are $40 and $60, respectively.

Illustration 4 – Facts

| | |
|---|---|
| Transferor's carrying amount and fair value of security loaned | $1,000 |
| Cash "collateral" | 1,020 |
| Transferor's return from investing cash collateral at a 5% ~~percent~~ annual rate | 5 |
| Transferor's rebate to the securities borrower at a 4% ~~percent~~ annual rate | 4 |

*SSAP No. 104R—Share-Based Payments*

117.a.ii. Any purchase discount from the market price does not exceed the per-share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering. A purchase discount of 5% ~~percent~~ or less from the market price shall be considered to comply with this condition without further justification. A purchase discount greater than 5% ~~percent~~ that cannot be justified under this condition results in compensation cost for the entire amount of the discount. Note that an entity that justifies a purchase discount in excess of 5% ~~percent~~ shall reassess at least annually, and no later than the first share purchase offer during the fiscal year, whether it can continue to justify that discount pursuant to this paragraph.

122. Changes in total employee withholdings during a purchase period that occur solely as a result of salary increases, commissions, or bonus payments are not plan modifications if they do not represent changes to the terms of the award that was offered by the employer and initially agreed to by the employee at

the grant (or measurement) date. Under those circumstances, the only incremental compensation cost is that which results from the additional shares that may be purchased with the additional amounts withheld (using the fair value calculated at the grant date). For example, an employee may elect to participate in the plan on the grant date by requesting that 5% ~~percent~~ of the employee's annual salary be withheld for future purchases of stock. If the employee receives an increase in salary during the term of the award, the base salary on which the 5% ~~percent~~ withholding amount is applied will increase, thus increasing the total amount withheld for future share purchases. That increase in withholdings as a result of the salary increase is not considered a plan modification and thus only increases the total compensation cost associated with the award by the grant date fair value associated with the incremental number of shares that may be purchased with the additional withholdings during the period. The incremental number of shares that may be purchased is calculated by dividing the incremental amount withheld by the exercise price as of the grant date (for example, 85% ~~percent~~ of the grant date stock price).

*SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*

11. The term “highly effective” describes a fair value hedging relationship where the change in fair value of the derivative instrument is within 80 to 125% ~~percent~~ of the opposite change in fair value of the hedged item attributed to the hedged risk. It shall also apply when an R-squared of .80 or higher is achieved when using a regression analysis technique.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Meeting/L 23-11EP - Spring 2023.docx

TO: Elizabeth Kelleher Dwyer, Chair, Financial Conditions (E) Committee
Marlene Caride, Chair, Financial Stability (E) Task Force
Bob Kasinow, Chair, Macroprudential (E) Working Group
Thomas Botsko, Chair, Capital Adequacy (E) Task Force
Phillip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Cassie Brown, Chair, Life Actuarial (A) Task Force
Judy Weaver, Chair, Financial Analysis (E) Working Group
Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Fred Andersen, Chair, Valuation Analysis (E) Working Group

FROM: Carrie Mears, Chair, Valuation of Securities (E) Task Force

CC: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
Dan Daveline, Director, NAIC Financial Regulatory Services
Todd Sells, Director, NAIC Financial Regulatory Policy & Data
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)
Julie Gann, Assistant Director, NAIC Solvency Policy
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Jane Koenigsman, Sr. Manager II, NAIC L/H Financial Analysis
Andy Daleo, Sr. Manager I, NAIC P/C Domestic and International Analysis
Dave Fleming, Sr. Life RBC Analyst, NAIC Financial Regulatory Affairs
Jennifer Frasier, Life Examination Actuary, NAIC Financial Regulatory Affairs
Scott O'Neal, Life Actuary, NAIC Financial Regulatory Affair
Eva Yeung, Sr. P/C RBC Analyst/Technical Lead, NAIC Financial Regulatory Affairs

RE: Referral on Additional Market and Analytical Information for Bond Investments

DATE: February 13, 2023

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**Summary** – The Investment Analysis Office (IAO) staff recommended in its Feb. 25, 2022, memorandum to the Valuation of Securities (E) Task Force (VOSTF) (attached hereto, Blanks Market Data Disclosure v2.pdf) that it would like additional market-data fields added to the annual statement instructions for bond investments. This was, in part, based upon the NAIC's adoption in 2010 of the recommendations of

the Rating Agency (E) Working Group (RAWG), which was formed following the Great Financial Crisis of 2007-2008 to study the NAIC's reliance on rating agencies, and the IAO staff's recent findings in its Nov. 2021 memo regarding disparities between rating agencies. RAWG recommended that: 1) regulators explore how reliance on rating agencies can be reduced when evaluating new, structured, or alternative asset classes, particularly by introducing additional or alternative ways to measure risk; and 2) consider alternatives for regulators' assessment of insurers' investment risk, including expanding the role of the NAIC Securities Valuation Office ("SVO"); and 3) VOSTF should continue to develop independent analytical processes to assess investment risks. These mechanisms can be tailored to address unique regulatory concerns and should be developed for use either as supplements or alternatives to ratings, depending on the specific regulatory process under consideration.

The NAIC's need for alternative measures of investment risk has only increased since RAWG made its recommendations, as privately issued and rated complex structured finance transactions have become commonplace without adequate ways of identifying them. The SVO recommended the following market data fields to be added to the annual statement instructions: Market Yield, Market Price, Purchase Yield, Weighted Average Life, Spread to Average Life UST, Option Adjusted Spread, Effective Duration, Convexity and VISION Issue ID. Please refer to the attached memo for more detail on each data field.

In comments received from industry there were question as to how the SVO, VOSTF and/or other regulators who would receive the analytic data included in the proposal would utilize that information and why it is of value to them. The SVO was also asked to consider industry's recommendation that the NAIC be responsible for calculating this analytical information by utilizing commercially available data sources and investment models instead of having each individual insurance company incur the costs to implement system changes. The SVO shared their thoughts on the alternatives in the Jul. 14, 2022, memorandum to the VOSTF (attached, Blanks_Market_Data_Options_v3.pdf).

Capabilities like this within the SVO would permit it to calculate for regulators all the analytic values previously mentioned for any Schedule D investment along with additional measures such as key rate duration (a measure of interest rate sensitivity to maturity points along the yield curve), sensitivity to interest rate volatility, principal and interest cash flow projections for any security or portfolio for any given interest rate projection, loss estimates for any security for any given scenario and many others measures.

**Referral** – VOSTF refers this matter to the above referenced Committees, Task Forces and Working Groups for consideration and requests a response from you by May 15th outlining:

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.

Please contact Charles Therriault or Marc Perlman with any questions.

VOSTF_Referral_Bond_Risk_Measures_2023-02-13.docx

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Additional Market Data Fields for Bond Investments

DATE: February 25, 2022

The SVO proposes adding additional market-data fields for bond investments to the annual statement instructions based on 2010 adopted recommendations of the Rating Agency (E) Working Group (RAWG) and the IAO staff's findings regarding the discrepancies between ratings, presented in its Nov. 2021 memo.

The RAWG was formed after the Financial Crisis of 2008 and was charged with gathering and assessing information on:

1. *The problems inherent in reliance on ratings, including impact on the filing exempt ("FE") process and Risk-Based Capital ("RBC");*
2. *The reasons for recent rating shortcomings, including but not limited to structured security and municipal ratings;*
3. *The current and potential future impact of ratings on state insurance financial solvency regulation; and*
4. *The effect of the use of NRSRO ratings on public confidence and public perception of regulatory oversight of the quality of insurance.*

The RAWG made the following summary recommendations in their Apr. 28, 2010, report that was adopted by the Financial Condition (E) Committee (emphasis added):

1. *Regulators **explore how reliance** on ARO (Approved Ratings Organization) ratings **can be reduced** when evaluating new, structured, or alternative asset classes, particularly by **introducing additional or alternative ways to measure risk**;*
2. ***Consider alternatives for regulators' assessment of insurers' investment risk**, including **expanding the role of the NAIC Securities Valuation Office** ("SVO"); and*

3. *When considering continuing the use of ratings in insurance regulation, the* ***steps taken by the NRSROs in correcting the causes that led to recent rating shortfalls****, including the NRSROs' efforts in implementing the recommended structural reforms, should be taken into account.*

As the IAO staff demonstrated with the analysis in its Nov. 29, 2021, memo regarding ratings discrepancies, not all credit rating provider (CRP) ratings reflect a reasonable assessment of a security's risk, indicating that rating shortfalls persist today. The NAIC has not made additional progress in reducing reliance on CRPs and the IAO proposed several steps in its memo to accomplish that objective. As noted by the RAWG and reflected in the IAO's memo, there persists a situation where "*… ratings are neither consistent nor uniform for individual securities, nor across different types and classes of securities…*" However, the role of the SVO has not been expanded to include "*… evaluating credit and other risks of securities*."[1]

One step towards introducing alternative ways to measure a security's risk would be to require insurers to report various analytical measures about each security including metrics such as its current market yield, interest rate sensitivity, spread relative to risk-free securities such as United States Treasuries and average remaining life. The more a security's market yield and spread differ from similarly rated securities, the more likely it is that the implied market-perceived risk of that security differs from the risk indicated by the credit rating assigned to it. The yield difference or spread in basis points can potentially help identify securities whose risk assessment warrants further review by the SVO, examiners or other regulatory groups, for example, a AAA rated security with a yield of 5%. Other fields that measure a security's price sensitivity to interest rate movements may also help to identify market-perceived risk inconsistent with the assigned credit rating. These additional market data fields would align with the RAWG's referral to the Task Force and SVO Initiatives (EX) Working Group, as noted in their following detailed recommendations (emphasis added):

1. *Referral to the NAIC Valuation of Securities (E) Task Force: VOS should continue to* ***develop independent analytical processes to assess investment risks****. These mechanisms can be tailored to address unique regulatory concerns and should be developed for* ***use either as supplements or alternatives to ratings****, depending on the specific regulatory process under consideration.*
2. *Referral to the NAIC Valuation of Securities (E) Task Force: ARO ratings have a role in regulation; however, since* ***ratings cannot be used to measure all the risks that a single investment or a mix of investments may represent in an insurer's portfolio, NAIC policy on the use of ARO ratings should be highly selective and incorporate both supplemental and alternative risk assessment benchmarks****.*
3. *Referral to the NAIC's SVO Initiatives (EX) Working Group: NAIC should evaluate whether to* ***expand the use of SVO and increase regulator reliance on the SVO for evaluating credit and other risks of securities****.*

**Recommendation:** The SVO recommends the following market data fields and related descriptions be added to all the annual statement instructions, through a referral to the Blanks (E) Working Group, for all bonds reported on Schedule D, Part 1 (those within scope of SSAP No. 26R – Bonds and SSAP No. 43R – Loan-Backed and Structured Securities). To allow sufficient time for insurers to update their systems, the SVO further recommends that the changes be implemented as electronic only fields effective beginning with the reporting year ending December 31, 2023.

- Market Yield – The Market Yield is the internal rate of return discount rate that makes the net present value (NPV) of all expected cash flows equal to zero in a discounted cash flow analysis. Therefore, Fair

[1] Evaluating the Risks Associated with NAIC Reliance on NRSRO Credit Ratings – Final Report of the RAWG to the Financial Conditions (E) Committee, April 28, 2010

Value, which is already reported, is the present value (PV) of all expected cash flows discounted at the Market Yield.

- Market Price – The Market Price per unit of Par Value, which is already reported, is reflected in the Fair Value as of the financial statement date. The Market Price, which excludes accrued interest, when multiplied by Par Value and divided by 100 will be equal to the Fair Value.
- Purchase Yield – The Purchase Yield is the internal rate of return discount rate that makes the net present value (NPV) of all expected cash flows equal to zero in a discounted cash flow analysis as of the Acquired Date. Therefore, Actual Cost is the present value (PV) of all expected cash flows discounted at the Purchase Yield as of the Acquired Date.
- Weighted Average Life – The Weighted Average Life is the average length of time that each dollar of unpaid principal remains outstanding. The time weightings used in weighted average life calculations are based on payments to the principal. The calculation is "weighted" because it considers when the payments to the principal are made—if, for example, nearly all of the principal payments are made in five years, WAL will be close to five years. Weighted average life does not consider payments to interest on the loan. This value is recalculated at each statement date for the remaining principal payments.
- Spread to Average Life UST - The spread is the difference between the interpolated U.S. Treasury bond yield that matches the reported debt security's Weighted Average Life. Spreads between interpolated U.S. Treasuries and other bond issuances are measured in basis points, with a 1% difference in yield equal to a spread of 100 basis points.
- Option Adjusted Spread - The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return (typically U.S. Treasury yield), which is then adjusted to take into account an embedded option and expressed in basis points. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. The option-adjusted spread considers historical data such as the variability of interest rates and prepayment rates. These calculations are complex since they attempt to model future changes in interest rates, prepayment behavior of mortgage borrowers, and the probability of early redemption.
- Effective Duration - This is a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk given the security's Fair Value. As a formula, Effective Duration = (P(1) - P(2)) / (2 x P(0) x Y), where P(0) = the bond's Market Price per $100 worth of par value, P(1) = the price of the bond if the yield were to decrease by Y percent, P(2) = the price of the bond if the yield were to increase by Y percent, and Y = the estimated change in yield used to calculate P(1) and P(2).
- Convexity - This is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. Convexity demonstrates how the duration of a bond changes as the interest rate changes.
- VISION ISSUE ID: The NAIC VISION system security ID reported in AVS+.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2022/2022-04 - Spring National Meeting/04 - Blanks Referral Analytical Risk Measures/2021-053.01 Blanks Market Data Disclosure v2.docx

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Possible Options for Additional Market Data Fields for Bond Investments

DATE: July 14, 2022

**Summary -** The SVO proposed adding additional market-data fields for bond investments to the annual statement instructions in its memo dated Feb. 25, 2022, titled "Additional Market Data Fields for Bond Investments" that was discussed at the 2022 Spring National Meeting. The recommendation was based, in part, on 2010 adopted recommendations of the Rating Agency (E) Working Group (RAWG) and the NAIC Investment Analysis Office's (IAO) staff's findings regarding the discrepancies between ratings, presented in its Nov. 29, 2021 memo, "Rating Issues and Proposed Changes to the Filing Exemption Process." In this memo the SVO further outlines the regulatory benefits and proposes two possible approaches.

The benefits of collecting additional market-data for each insurer bond investment are several:

- Assist in SVO identification of securities with credit rating provider (CRP) ratings which may be inconsistent with a security's actual overall risk.
- Greater transparency for regulators into the risks and characteristics of insurer investments.
- Incorporation of insurer investment portfolio analysis into the examination process.
- Availability of more Level 1 and 2 Inputs which will be included in the AVS+ pricing data for all securities compared to the mostly Level 3 Inputs for only some securities today.
- Allow state insurance regulators to assess the capabilities of an insurer's investment management or risk management processes by reviewing the quality and accuracy the market data fields.
- Provide NAIC staff with the capability to run cash flow simulations on insurer investments.

Regarding the first bullet, the SVO would use this market-data information to help identify securities with credit rating provider (CRP) ratings that may be inconsistent with the security's actual overall risk. The SVO and SSG have raised concerns over the years about a number of asset classes (e.g. residential

mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS), public and private fund investments, principal protected securities (PPS) including CLO Combo Notes, regulatory transactions, residual interests, and now collateralized loan obligations (CLO), and structure equity and funds) and specific securities in other asset classes where a rating agency rating often does not adequately reflect the investment risk for NAIC purposes. The SVO needs this analytical information so that it can identify and take potential action on investment risk assessment inaccuracies. Without this data and potentially other information in the future, coupled with some level of discretion over NAIC Designations derived from ratings, the SVO and regulators will remain in the dark about these risks. Additionally, the incentive for significant risk-based capital arbitrage utilizing CRP ratings will likely continue to increase and rating agencies will effectively remain a de-facto "super regulator" in that any investment they assign a rating to is automatically accepted by the NAIC without any regulatory discussion, analysis, oversight or consideration as to how the rating agency's decisions align to the NAIC's statutory framework.

Inconsistent and potentially inaccurate assessments of investment risk is a critical issue not only for the Valuation of Securities (E) Task Force but for other state insurance regulatory groups that are interested in identifying and analyzing investment risks, whether it be at the individual security, asset class, legal entity or industry level. The following are just a few groups that have active work streams involving investment risk: Life Actuarial (A) Task Force, Capital Adequacy (E) Task Force and its Working Groups, Statutory Accounting Principles (E) Working Group, Financial Stability (E) Task Force, Macroprudential (E) Working Group and Financial Analysis (E) Working Group. The proposed market data fields will benefit each of these groups in their work assessing insurer investments and portfolio risks.

The requested market data fields other than purchase yield, which should be available from any investment accounting system, are all at the security issue level (i.e. CUSIP). Any insurer system that can receive security issue level data such as a market prices, credit ratings, bond factors, cashflows, or NAIC Designations should be able to accommodate these proposed security issue-level data fields. The SVO acknowledges this change will require time for insurer system providers to accommodate these new data fields into their data structures and Schedule D reporting applications. However, these data fields are very common in the management of a bond portfolio, and it would be a significant enterprise risk deficiency if an insurer's investment managers did not have them.

Some alternate measures of risk (e.g. Sharpe Ratio and Sortino Ratio) were mentioned during the Task Force discussion. These metrics, however, would require insurers to calculate the total return and the standard deviation of those returns for each security they own in order to produce and report these metrics which would be significantly more costly and more appropriate for assessing relative value and less applicable for assessing investment risk.

**Alternatives –** The SVO was asked to consider industry's recommendation that the NAIC produce these fields. Below are our thoughts on each alternative.

- **NAIC Produced Analytics** – The SVO can take on the responsibility for producing the analytical data elements requested in this proposal. To do so it would require enhancements to the SVO's existing systems (VISION, AVS+ and STS), and vendor pricing data, investments in new systems to provide the modeling, more staff for the incremental and on-going support of these systems and processes, new data feeds to support the modeling software, and new data bases and reporting capabilities to provide the information to regulators. Enhancements would also

need to include the ability for insurers to provide electronically to the SVO the full security structure of any security that the modeling software does not know about. We strongly believe that the benefits to be gained by state regulators, the SVO and other NAIC groups with interests in investment risk of bringing this modelling capability in-house greatly outweigh, in the long run, the initial costs and effort to make these capabilities operational.

- **Pros:**
  - Market analytical information would be independently and consistently produced.
  - The SVO's pricing data would need to include more Level 1 and 2 Inputs for all securities versus primarily Level 3 Inputs for only some securities today.
  - Regulators would eventually be able to ask NAIC staff to model the risks or cash flows of any bond security or insurer bond portfolio, including, stress testing those securities and portfolios.
  - Regulators would have significantly greater transparency into the risks and characteristics of insurer investments.
  - Analytical analysis of insurer investment portfolios could be incorporated into the examination process.
  - The overall cost to insurers through any increased fee would likely be much less than each insurer building out its own capability to provide the data.
- **Cons:**
  - The NAIC would need to make significant enhancements to VISION, AVS+, and STS, and develop new reporting data bases.
  - The NAIC will need to license a security analytic modelling system and provide it with the data it requires, some of which may require new data licenses. This includes full access to vendor applications like Bloomberg or Aladdin.
  - The NAIC will incur additional fees for higher level of security pricing data. The NAIC will also need additional staff to develop and support the technology enhancements and to support the on-going modeling of securities and portfolios.
  - It may take longer for the NAIC to build this capability.
  - Insurers would still need to report some of this information on their Schedule D filings from data published through AVS+.
  - Insurers would need to provide the SVO with full security structure modeling and supporting data (e.g. collateral, payments, actions) for any security the analytic modelling system does not have within its data base.

- **Insurer Produced Analytics** – Insurer investment managers should already have the market data fields requested in this proposal. Insurers would need to get this information into their systems that produce their Schedule D filings. This option would require more up-front work on the part of the insurers and less by the NAIC. The uses of the data, however, whether by regulators, the SVO or other interested

NAIC groups, could be significantly more limited than in the first option, because of the inconsistency in data between insurers.

- **Pros:**
  - Insurers already have this information as part of their investment management or risk management processes.
  - State insurance regulators could assess the capabilities of an insurer's investment management or risk management processes by reviewing the quality and accuracy the market data fields.
  - The timeframe to implement would likely be shorter than the SVO having to build out this capability.
- **Cons:**
  - Insurer security pricing is very inconsistent today which will lead to a high degree of variability in these analytical values.
  - The modeling software and assumptions used by insurers to produce these analytical value can vary significantly which will also lead to a high degree of variability in the values.
  - Insurers and their system providers will need to develop new interfaces to ingest this data and produce it in their Schedule D filing. That time frame could vary significantly by vendor and insurer.
  - State insurance regulators would not be able to request the modeling of any investment security or portfolio.
  - Insurers would directly bear the expense of these changes which will likely be greater than it would be it the NAIC produced this information.

**Next Steps –** The SVO continues to strongly believe that these market data fields are an important first step in finding alternative ways to measure insurers investment risk and reducing the NAIC reliance rating agency ratings. As noted by the RAWG and reflected in the IAO's memo, there persists a situation where "*… ratings are neither consistent nor uniform for individual securities, nor across different types and classes of securities…*" yet the role of the SVO has not been expanded to include using these alternatives in "*… evaluating credit and other risks of securities*." The objective of this request is to begin addressing these investment risk issues but this may not be the only information needed.

Both alternatives will involve a commitment of resources either by the NAIC or industry. The major question before the Task Force is whether it has a preferred source for these market data fields: the NAIC's SVO or insurer reporting? The SVO believes that the first option would provide the most standardization in data and utility to regulators, the SVO and other interested NAIC groups and would be worth the slightly longer time and cost needed to develop the capabilities.

If, as the SVO recommends, the Task Force prefers the NAIC's SVO as the source of this analysis, then the next step would be a referral to the Financial Condition (E) Committee to request their sponsorship for this initiative and, if provided, begin a fiscal request. If Financial Condition (E) Committee declines to sponsor the initiative or if insurer reporting is the preferred source, we would recommend reverting to insurer reporting and directing the SVO staff to prepare the Blanks referral.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2022/2022-08-11 - Summer National Meeting/07 - Blanks Referral Analytical Risk Measures/2021-053.XX Blanks Market Data Options.docx

**Attachment P**

**D. Keith Bell, CPA**
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
Phone : 860-277-0537
Email: d.keith.bell@travelers.com

**Rose Albrizio, CPA**
Vice President
Accounting Practices
Equitable
Phone: 201-743-7221
Email: rosemarie.albrizio@equitable.com

January 9, 2023

Michael F. Consedine, Chief Executive Officer
Andrew Beal, Chief Operating Officer and Chief Legal Officer
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Request for Accounting Practices and Procedures Manual PDF

Dear Messrs. Consedine and Beal:

We would like to like to raise an issue that has become an impediment for industry and others that need access to the guidance in the *NAIC Accounting Practices and Procedures Manual* (the "AP&P Manual"). The current product offered by the NAIC, i.e., the BookShelf® Online Subscription AP&P Manual, does not provide an effective search capability or print function, the two most important functionalities needed by users of the product.
%
For the reasons discussed below, we respectfully request that the NAIC make available for purchase by industry a licensed PDF version of the AP&P Manual that is both searchable and printable. There is great frustration with our current online product as evidenced by a survey of companies that we conducted during 2022. The dissatisfaction with the online system was exacerbated when in 2022 the hard copy manual was no longer available and the online Bookshelf became the sole source for authoritative guidance. This has resulted in the overwhelming support from insurance companies for a PDF version of the AP&P Manual.

What would be the usage of the PDF by companies?

1. The desire for a searchable PDF (outside of bookshelf) rather than hardcopy printing as the feedback reflected difficulty printing from bookshelf as well as limited search capability.
2. If a license for a PDF was provided, we expect the majority will print by SSAP, some will print out the full AP&P Manual and require multiple copies.
3. Insurers are looking at this on a group basis (providing access to insurers within an insurance group in one license) as insurers have centralized accounting functions.

4. If acquiring a PDF with searchable and printing capability, some insurers may still want bookshelf licenses. It will depend on the functionality of PDF (searchable and printable PDF) and the ability to access updates. The lack of functionality in the online bookshelf product is driving the need for a searchable and printable PDF

As mentioned above, we sent out a request to industry as to provide feedback to the NAIC on industry's interest in an alternative to the online version of the AP&P Manual asking, *if* the NAIC would be willing to sell a licensed PDF version of the AP&P Manual that is printable, would you be interested? We received a very strong response from 52 companies who supported a printable and searchable PDF version of the accounting manual. We have included the comments provided by member companies below, unedited. Note that several comments, notably a request to publish newly adopted revisions in PDF format, have been addressed already by NAIC Staff. However, the responses highlight the difficulties that companies have experienced using the Bookshelf software overall and suggest that a PDF version of the AP&P Manual would provide substantial benefit to industry.

| Response |
| --- |
| Bookshelf is a product for individuals who read materials by flipping pages as if they are holding a hardcopy; however, the functionality is slow and unreliable. Sometimes pages of text take a long time to load or fail to load. As a result "flipping" back and forth between the electronic pages in cumbersome. Finance professionals are looking for an accounting and reporting research tool that requires functionality to search for terms and viewing pertinent sections in streaming form, allowing readers to quickly scroll through multiple pages of text. A softcopy solution, like a PDF file, that enables searching all standards with ability to scroll through each standard would greatly improve our efficiency and effectiveness in researching accounting and reporting matters." |
| I'd be willing to buy anything more convenient than the current Bookshelf version. And that goes for all NAIC manuals, including the Annual Statement Instructions. |
| Using the APPM has been a pain point for us ever since the introduction of the Bookshelf product.<br><br>We would also suggest that SAPWG make PDF copies of newly adopted changes available on the website (similar to how Blanks operates), as this practice appears to have been discontinued along with hard copy manuals. Implementation of new guidance routinely involves distribution of new guidance to different areas of our company that do not have reason to access the APPM in the normal course. Carving out these changes and printing from the Bookshelf product is unnecessarily difficult and time-consuming. |
| Yes, I feel very strongly that they need an alternative online version and prefer they provide an option for a manual copy. The current Bookshelf program is not user friendly, too slow, and stalls out frequently. For example, if you know you need something in SSAP No. 54, but |

| |
|---|
| don't know what specific page it is on, the program is very inefficient if you are trying to flip the pages quickly to find the section needed. We would buy a licensed, printable version of the Manual. We had actually budgeted for two copies this year because of the remote environment and the hindrances of the program. |
| When we say printable – are we talking about that bookshelf version (which only lets you download 10 pages at a time) or something else. We like the printed version too so that we can share in our office but if it was a PDF version that wasn't on that bookshelf system that would interest us. We will say that the bookshelf system is horrible and incredible hard to read with the watermark on it and to download the entire more than10 pages is VERY time consuming. |
| I would love to be able to access a PDF version of the NAIC Accounting P&P manual. The online tool that we were accessing the manual through is an impediment, my team has generally reverted to using old paper copies of the manual. Having it in PDF would be ideal, given so many folks in Accounting are now working remotely. This would make citations of the manual as easy as snipping and pasting. |
| To the best of my knowledge, XXX has one subscription to the on-line manual for which I am the (lucky?) user. I question how lucky I am, because I find it a huge pain in the rear to use, print, share somehow (no matter how infrequent even with others at XXX who are paying for the service). And the subscription process itself is a disaster. So, yes, I would be interested in a sane alternative |
| The Vital Source web-based tool is not good and our IT department wouldn't approve the desktop version. |
| Would be very much interested in more manageable, printable and searchable document. |
| Would be very supportive of getting a licensed PDF version back. We have a ton of technical difficulties in accessing the online manual. Further, it seems like their licenses expire before they are supposed to so it feels like we've had to buy extra licenses to make sure we can access the content. In short, it's not a user-friendly tool |
| Yes, I would be interested. It needs to be "searchable". At a minimum, encourage them to move away from Bookshelf |
| We would be 100% interested. A PDF version would be very useful for us. Perhaps there could be an all-company license paid per year.<br>We have a handful of active users, but we have countless requests where a single person may request to read a single SSAP on an ad-hoc basis. So making the guidance widely available, even at a cost, would be beneficial for us, and I would think it would good for the NAIC as well |
| I would be very interested in a *.pdf version of the APP Manual. The current online version al is terrible with seemingly intentionally poor functionality. |
| Yes, we would be interested as it may be a more usable version than what we have today. |
| I would definitely be interested. I have a number of years of experience with the online version and it is very slow and clunky. The hardcopy version is no longer relevant in today's day and age. Not to mention, the individuals who utilize the manual for reference across a Company is continuing to grow and is not confined to only a couple individuals like it used to be a number of years ago |
| This has been extremely challenging to manage the cost/availability of the AP&P since it |

| |
|---|
| moved to online. |
| Any way to make the APPM more accessible would be appreciated! Bookshelf is so cumbersome and limiting. |
| The NAIC **should** have a system where it could easily be maintained via loose-leaf (as a compromise between bound/on-line) . We'd keep it in a couple 3-ring binders, the NAIC could issue updates via new pages properly sequenced, and we'd just hole punch/ replace and move on. |
| We would definitely be interested in a licensed .pdf version or another way to print/source the Manual. As of right now, it is cumbersome to only be able to print 20 pages at a time and at times, the watermark used (to not distribute) makes parts difficult to read depending upon the printer. |
| We would be interested in a printable pdf version of the manual if the cost makes sense. I like the online version, but I have been disappointed that access is only provided on a per person basis. We have a large number of people that may have a need to look at the AP&P manual, but many of those people may only need it for a short period of time, making it cost prohibitive for everyone that may have a need for it. In addition, as people rotate through our different Finance areas for development purposes, the people that need access to the AP&P manual can change frequently throughout the year. For these reasons, a site license for a set number of concurrent users or a printable pdf version that can be shared would work better than the current arrangement.<br><br>It would also be good if the NAIC would not put the watermark across every page when printing from the online version to a pdf. It just makes it hard to read and seems overkill. |

We appreciate your consideration of this matter. This is very important to our companies in complying with the statutory accounting requirements and in supporting the NAIC in their initiatives to keep the guidance current.

* * *

Thank you for considering our request. If you have any questions, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Mr. Dale Bruggeman, Chairman, Statutory Accounting Principles Working Group
NAIC staff
Interested parties

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: February 6, 2023

To: D. Keith Bell (The Travelers Companies, Inc.), Rose Albrizio (Equitable), and interested parties of the Statutory Accounting Principles (E) Working Group

From: Michael Consedine, NAIC Chief Executive Officer
Andy Beal, NAIC Chief Operating Officer and Chief Legal Officer

Re: Accounting Practices and Procedures Manual PDF

On Jan. 9, the NAIC received a comment letter from D. Keith Bell and Rose Albrizio, representing interested parties of the Statutory Accounting Principles (E) Working Group (SAPWG), requesting a product enhancement, specifically a PDF, to the *NAIC Accounting Practices and Procedures Manual* (AP&P Manual). As further detailed herein, due to system limitations of our third-party distributor, many purchasers are not able to effectively research or quickly reference certain key aspects of the manual – specifically users could not efficiently search for references or key phrases. This difficulty, along with the inability to quickly reference differing sections of the manual, sections in which reference complementary statutory guidance, made use of the manual overly burdensome. This memorandum summarizes the NAIC's action plan to promptly resolve the issue presented.

**Brief Background**

Organized under the Financial Condition (E) Committee, SAPWG is responsible for developing and adopting revisions and interpretations to the AP&P Manual, the manual which details and provides the accounting basis for insures to prepare financial statements for financial regulation purposes. Updates to the manual take place quite often, generally occurring several times a year and are made to address new statutory issues or generally accepted accounting principles (GAAP) pronouncements. Accordingly, the SAPWG and its support staff take pride in the manual being complete and relevant to today's overall accounting issues and to address specific, unique circumstances that are of concern to regulators.

In addition to completeness, transparency and usability are essential characteristics supported by the Financial Condition (E) Committee and SAPWG. Every proposed accounting revision undergoes a rigorous and methodical exposure process, providing an opportunity for regulators and interested parties to comment on any proposed revision. In many cases, regulators and interested parties (along with NAIC support staff) work in conjunction to ensure drafted language is understandable and operationally functional all while addressing the needs of regulators. In the same vein, transparency must go beyond the amendment process and must remain in place so that users have an efficient and effective method in which to access the manual. Compliance with the guidance is not only mandatory, but vitally important to ensure regulators have access to accurate, representative financial information so ease of use is critical.

**Access to the AP&P Manual**

Subscribers to the AP&P Manual have two avenues to access the publication. (One brief note, the printing and distribution of a hardcopy manual ended in 2021 as demand for such a product greatly declined.)

1. **Avenue 1:** The first is to download a desktop application. When this avenue is utilized, the manual is nearly as searchable and usable as an unrestricted PDF. However, we have found that many organizations, through their information technology security controls, do not allow for the installation of this type of software, so this preferred avenue is likely not often utilized.

2. **Avenue 2:** The second option is to access the manual through our vendor's web portal. While the initial impression is that the desktop versus the web portal should act in identical manners, unfortunately the two methods operate differently. As a simple example, a search of a particular phrase will produce different results between the two methods. The NAIC has reached out to the vendor on numerous occasions to correct this issue, but it is unlikely this issue will be addressed quickly due to system limitations.

The NAIC understands that as most industry users are likely utilizing the second avenue to access the manual, that the ability to search for specific phraseology, quickly reference or cross reference various guidance is less than optimal. The AP&P Manual, by its very design, is a highly technical document and the ability to search for guidance quickly and efficiently – guidance that is sometimes reflected in multiple locations, is recognized by the NAIC as an important use characteristic.

**Recent Steps Taken and Action Plan**

Recognizing the need for users to have ready and immediate access to newly adopted accounting guidance, starting in 2022, the NAIC began posting adoptions on the SAPWG website as a free PDF publication. These documents will be available for one year and include a summary of the revisions as well as the maintenance agenda submission form (Form A), which includes a description of the accounting issue, interim exposure drafts as well as the final adopted guidance. Posting of these documents was a welcome change as it provided further transparency for interested parties as well as quick and easy access to recent accounting developments. The comment letter also noted that this process change did address several of industry's prior concerns.

However, moving beyond recent adoptions, the AP&P Manual is a complex and frequently referenced publication thus the ability to efficiently search and reference its contents is critical. Accordingly 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 as searchable and printable as any other PDF document. We trust that this offering will be well received.

Moving forward to the 2024 manual, the NAIC is dedicated to finding an amicable, long-term solution that will result in ease of access for industry users.

If you have any questions in the interim, please feel free to reach out to Jim Pinegar, Assistant Director of Strategic Business Initiatives at jpinegar@naic.org.

cc: Superintendent Dwyer, Chair of the Financial Condition (E) Committee
Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Jeff Johnston, Managing Director, Financial Regulatory Affairs
Jim Woody, Chief Financial Officer

February 23, 2023

Paul Lombardo, Co-Chair
Fred Andersen, Co-Chair
Long-Term Care Actuarial (B) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Accounting Interpretation Request: Interaction Between *Actuarial Guideline LI* (AG 51) and Appendix A-010

Dear Mr. Lombardo and Mr. Andersen,

On behalf of the Financial Reporting and Solvency Committee ("the committee") of the Health Practice Council of the American Academy of Actuaries,[1] we are reaching out to you to ascertain whether the Long-Term Care Actuarial (B) Working Group might issue an accounting interpretation for the interaction between *Actuarial Guideline LI* (AG 51) and Appendix A-010.

In 2017, the National Association of Insurance Commissioners (NAIC) adopted AG 51, "The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves." Subsequent to the adoption of AG 51, the committee has observed some diversity in practice across issuers of long-term care insurance with regard to how the new guidance in AG 51, and specifically Section 4.C thereof, 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."

To our knowledge, the Long-Term Care Actuarial (B) Working Group has not previously been made aware that a diversity of practice has developed, subsequent to the adoption of AG 51, regarding how AG 51 interacts with Appendix A-010.

It would be helpful for Long-Term Care Actuarial (B) Working Group to review the attached Form A, and issue an interpretation to clarify the intended interaction between AG 51 and Appendix A-010, along the lines of one of the suggested interpretation statement wording options contained in the form. Note that we are not advocating for one of these options over the other; instead, our interest is in having the NAIC provide greater clarity to actuaries to understand its underlying intent.

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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We appreciate the opportunity to reach out to you on an accounting interpretation request for the interaction between *Actuarial Guideline LI* and Appendix A-010. We would welcome the opportunity to speak with you to provide more detail regarding these comments or on other issues. If you have any questions or would like to discuss further, please contact Matthew Williams, the American Academy of Actuaries senior health policy analyst, at williams@actuary.org.

Sincerely,

David Hutchins, MAAA, FSA
Chairperson, Financial Reporting and Solvency Committee
American Academy of Actuaries

CC: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group (SAPWG), Accounting Practices and Procedures (E) Task Force; Fred Andersen, Chair, Valuation Analysis (E) Working Group, Financial Condition (E) Committee. NAIC Support Staff: Eric King/Julie Gann/Patricia Allison

Attachment: Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form—Form A

**Spring National Meeting - Review of GAAP Exposures for Statutory Accounting:**

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff has prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item's potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group's election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the *Accounting Practices and Procedures Manual* must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: Exposure Documents and Public Comment Documents (fasb.org)

| Exposed FASB Guidance | Comment Deadline & Initial Staff Comments |
|---|---|
| Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 2:* The Reporting Entity | January 16, 2023 |
| Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 5:* Recognition and Derecognition | February 21, 2023 |

**Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 2:* The Reporting Entity**

The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information. In late 2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work on their frameworks on a joint basis.

In January 2014, the FASB reactivated its Conceptual Framework project. This proposed Concepts Statement, which would become Chapter 2 of Concepts Statement 8, describes a reporting entity.

This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. In particular, this chapter would provide the Board with a framework for matters relating to the identification of a reporting entity. This chapter would provide the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

 

**Staff Review and Commentary:**

Comment deadline was January 16, 2023

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.*

**Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 5:* Recognition and Derecognition**

The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information. In late 2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work jointly on their frameworks.

In January 2014, the FASB reactivated its conceptual framework project. This Exposure Draft, which would become Chapter 5 of Concepts Statement 8, addresses matters relating to the recognition and derecognition of an item in financial statements.

Paragraph 105-10-05-3 of the FASB Accounting Standards Codification® states that FASB Concepts Statements are not authoritative. Some standards are inconsistent with the Concepts Statements. This Concepts Statement or other Concepts Statements do not override authoritative standards. If accounting for a transaction or event is not specified in authoritative generally accepted accounting principles (GAAP), an entity first must consider accounting principles for similar transactions or events within authoritative GAAP and then consider nonauthoritative guidance from other sources (including Concepts Statements).

This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. In particular, this chapter would provide the Board with a framework for conceptual matters relating to the recognition and derecognition of an item in financial statements. This chapter would provide the Board with a framework for developing standards in meeting the 2 objective of financial reporting that enhances the understandability of information to existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

**Staff Review and Commentary:**

Comment deadline was February 21, 2023

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.*



 