Meeting Agenda

Statutory Accounting Principles (E) Working Group
Meeting Agenda
August 13, 2023

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

1. Ref #2023-14: Asset Valuation Reserve and Interest Maintenance Reserve
2. Ref #2023-15: IMR / AVR Specific Allocations
3. Ref #2023-16: Schedule BA Reporting Categories
4. Ref #2023-17: Short-Term Investments
5. Ref #2023-18: ASU 2016-19, Technical Corrections and Improvements
6. Ref #2023-19: ASU 2018-09, Codification Improvements
7. Ref #2023-20: ASU 2020-10, Codification Improvements
8. Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102
9. *INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax*
10. Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction

Ref #	Title	Attachment #
2023-14 (Julie)	**Asset Valuation Reserve and Interest Maintenance Reserve**	**A – Form A**

Summary:
This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Historically, this statement has included brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

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Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although it is anticipated that this project may take time, particularly with the assessment of admittance / nonadmittance for negative IMR as a long-term concept, it is noted that interim revisions (within specific agenda items) will be proposed to ensure progress towards consistent application and address potential areas where credit losses may be reported as IMR.

Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the A/S instructions when incorporating SSAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

Ref #	Title	Attachment #
2023-15 (Julie)	**IMR / AVR Specific Allocations**	**B – Form A**

Summary:
This agenda item has been developed to update guidance for IMR / AVR in the Annual Statement (A/S) Instructions that currently establish specific allocation guidance. The principal concept of the IMR and AVR is that interest-related losses go to IMR, and non-interest-related losses go to AVR. This agenda is to correct instructions that appear to direct an entity to allocate non-interest-related losses to IMR rather than correctly to the AVR.

Although the presence of examples for illustration or guiding purposes are beneficial, the current annual statement instructions has permitted unintended allocations that do not reflect the intent of the principles. These have been specifically noted through inquiries to NAIC staff, particularly within the last year. NAIC staff believes these inquiries have been spurred by the discussions regarding the industry request to admit net negative IMR, therefore creating an incentive to allocate losses to IMR instead of AVR.

This agenda item will focus on the following specific allocations within the A/S instructions:

1) NAIC Designation Changes for Debt Securities (excluding LBSS)
2) Mortgage Loans

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that permits the specific allocation of non-interest related losses to IMR. (Although NAIC staff believes this guidance is clarifying the original intent of IMR/AVR allocation, the revisions reflect a distinct change in practice to reduce the allocation of non-interest-related losses to the IMR.)

This agenda item is focusing solely on the specific allocation "absolutes" that currently exists in the A/S instructions to ensure that the guidance does not inadvertently permit the allocation of non-interest-related changes to the IMR. This agenda item is addressing one of the specific discussion topics noted in agenda item 2023-XX. Further revisions and assessment on other aspects of the IMR/AVR allocation, including whether gains and losses from bonds (and other investments) should be bifurcated between IMR/AVR, will be addressed in subsequent agenda items. (Revisions will subsequently captured in the SSAPs as part of the long-term project, but these revisions are proposed for immediate clarification edits in the A/S instructions as that is where guidance currently resides.)

The IMR revisions are shown below. (The agenda item also has corresponding revisions to the AVR guidance.)

IMR – Debt Securities:

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are~~is~~ ~~NOT~~ different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR ~~Exclude any such gains (losses) exempt from the IMR.~~

IMR – Mortgage Loans:

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is ~~NOT~~ more than 90 days past due, or
- The loan is ~~NOT~~ in process of foreclosure, or
- The loan is ~~NOT~~ in course of voluntary conveyance, or
- The terms of the loan have ~~NOT~~ been restructured during the prior two years.

Ref #	Title	Attachment #
2023-16 (Julie)	**Schedule BA Reporting Categories**	**C – Form A**

Summary:
This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity's classification as to the underlying asset characteristics as:

- Bonds / Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bonds / fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

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This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification / potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- **Fixed-Income Instruments**
- **Common Stocks**
- **Real Estate**
- **Mortgage Loans**
- **Other**

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within the agenda item "Activity to Date" section revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Ref #	Title	Attachment #
2023-17 (Julie)	**Short-Term Investments**	**D – Form A**

Summary:
This agenda item has been developed to review the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term investments* and establish principal concepts for the types of investments that should be permitted for reporting as either cash equivalents or short-term investments. This agenda item is in response to noted situations in which certain types of investments, particularly collateral loans or other Schedule BA items, are being designed specifically to meet the parameters for short-term reporting. Although revisions were previously incorporated to prevent the "rolling" of short-term items, information has been shared that some reporting entities are now effectively ending short-term collateral loan investments, only to reissue those collateral loans from other lenders in the same group (same ultimately owners) so that they can continue to qualify as short-term for reporting on Schedule DA. The effect is a continuously reporting short-term collateral loan investments in a way so that the investment in appearance is not considered 'substantially similar' to the investment previously held, although in effect the borrower is the same holding company group. This approach permits the company to report these investments as "Other Short-Term Investments" on Schedule DA, rather than in the designated reporting line for collateral loans. This allows companies to reduce the appearance of the collateral loans, not provide the detail that would be required for the loan is reported on Schedule BA, and potentially result in non-compliance with the SSAP No. 21 admittance requirements due to the Schedule DA reporting. Under SSAP No. 2R, paragraph 16, short-term investments are to be accounted for in the same manner as similar long-term investments. However, paragraph 17

indicates that short-term investments are admitted to the extent that they conform to the requirements of SSAP No. 2R. Although the intent of paragraph 16 is to require the same valuation and admittance requirements for short-term that exist for long-term, some reporting entities may be valuing collateral loans similar to the requirements of SSAP No. 21 but may interpret the guidance to indicate that the collateral requirements for admittance in SSAP No. 21 are not required if the investment has a short-term maturity.

In evaluating the current situation, the prior situations in which short-term investments were being continuously rolled, as well as the SSAP No. 2R guidance, it has been questioned why collateral loans and mortgage loans are included in the SSAP No. 2R guidance as named examples and whether Schedule BA investments should be permitted to be reported as wither cash equivalents (on Schedule E2) or short-term investments (on Schedule DA). For these investments, the main benefit of reporting as short-term (or cash equivalent) is the reduced RBC charge and/or potential exclusions from state investment limitations. Although NAIC designations are not required to be reported for cash equivalent or short-term investments, such designations are not required for collateral loans, mortgage loans or any Schedule BA investment. As such, excluding those items from Schedule DA will not impose a requirement for any reporting entity to obtain an NAIC designation. Considering this assessment, this agenda item proposes the exclusion of additional investment types from being reported as cash equivalents or short-term investments regardless of the maturity date of the investment at the date of acquisition.

Effectively, this agenda item and the prior revisions to exclude certain investments from SSAP No. 2R discussed as part of the bond project, will eliminate investments (except money market mutual funds and cash pooling dynamics) from being reported as cash equivalents or short-term investments unless they would qualify under *SSAP No. 26R—Bonds* as an issuer credit obligation. Such investments will then only qualify as a cash equivalent or short-term investment if they have a maturity date within 3-months (cash equivalents) or 12-months (short-term) from the date of acquisition or meet the specifics requirements for money market mutual funds or cash pooling arrangements. NAIC staff believes this scope is appropriate as investments that qualify as issuer credit obligations tend to reflect the more "traditional" investments, for which a short duration holding timeframe will most often have limited valuation swings caused from interest rate risk as well as other unknowns. Furthermore, as investments captured as issuer credit obligations in SSAP No. 26R are permitted as admitted assets without other qualifications (such as collateral or audit requirements), the ability to report as cash equivalent or short-term will not cause confusion on the applicability of such requirements in determining whether the investment should qualify as an admitted asset because it qualifies to be in scope of SSAP No. 2R.

This agenda item proposes to retain the guidance in SSAP No. 2R that prevents cash equivalent or short-term reporting for related party investments if the reporting entity does not reasonably expect to terminate the investment, the original maturity time as passed, and if the reporting entity reacquired a substantially similar investment. Investments with those characteristics will be required to be reported as long-term assets. With the limitation of eligible assets to issuer credit obligations in scope of SSAP No. 26R, NAIC staff anticipates the need for the guidance to be reduced but it could still be applicable.

The agenda item also proposes to retain the clarification that certificates of deposit do not qualify as cash equivalents or short-term deposits. This is because certificates of deposit that are less than 12 months in duration are classified as cash. Certificates of deposits that go beyond 12 months are reported as long-term bonds on Schedule D.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. These revisions are proposed to ensure that certain investment types are captured on designated Schedule BA reporting lines and to eliminate the potential to design investments to specifically qualify for short-term reporting and perhaps mask the extent of investments held or to obtain favorable reporting such as with reduced RBC, exceptions for state investment limits, admittance requirements etc., (NAIC staff notes that NAIC designations are not required for cash equivalents or short-term investments, however, the investments proposed to be excluded from cash equivalents and short-term reporting in this agenda item are not required to obtain NAIC designations.)

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With the adoption consideration of the bond definition, including the edits to exclude ABS and debt securities that do not qualify as bonds from SSAP No. 2R at the 2023 Summer National Meeting, this agenda item proposes edits after reflection of the bond project changes. To be consistent with the effective date of the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly.

Ref #	Title	Attachment #
2023-18 (Wil)	**ASU 2016-19, Technical Corrections and Improvements**	**E – Form A**

Summary:
In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and, as detailed in the agenda item, to expose revisions to adopt with modification *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting. The agenda item includes the detail of the revisions to be exposed, and also includes a table, beginning on page six, that details the rationale for which guidance is recommended for inclusion and which was recommended for rejection. Unless noted otherwise, we recommend that all other amendments made within ASU 2016-10, as detailed in the agenda item, be rejected for statutory accounting in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Ref #	Title	Attachment #
2023-19 (Wil)	**ASU 2018-09, Codification Improvements**	**F – Form A**

Summary:
In July 2018, FASB issued *ASU 2018-09, Codification Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject *ASU 2018-09 Codification Improvements* for statutory accounting on Appendix D as not applicable to statutory accounting. This guidance is not applicable as the changes made by ASU 2018-09, as detailed in the agenda item, are to guidance which has been rejected for statutory accounting.

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Ref #	Title	Attachment #
2023-20 (Wil)	**ASU 2020-10, Codification Improvements**	**G – Form A**

Summary:
In October 2020, FASB issued *ASU 2020-10 Codification Improvements,* that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

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 2020-10, Codification Improvements* as not applicable to statutory accounting. This guidance is not applicable as it pertains to editorial changes and codification paragraphs which were not previously adopted for statutory accounting.

Ref #	Title	Attachment #
2023-21 (Jake)	**Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102**	**H – Form A**

Summary:
On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

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. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the ten-year effective period for that transition. The recommended changes are detailed in the agenda item.

Ref #	Title	Attachment #
INT 23-02 (Robin)	***INT 23-02T: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax***	**I – INT**

Summary:
This proposed new interpretation, *INT 23-02-Third Quarter 2023 Corporate Alternative Minimum Tax*, is to provide temporary guidance for the third quarter 2023 reporting for the corporate alternative minimum tax (CAMT). The Working Group has previously adopted *INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* which requires disclosure of if the reporting

entity is an applicable entity but does not require accrual of CAMT payable amounts, noting that a reasonable estimate is not possible.

The Inflation Reduction Act was passed in August 2022, and it provides that the CAMT is effective beginning with the 2023 tax year.

The proposed interpretation recommends that for the third quarter 2023, that reporting entities should disclose whatever information is available regarding their applicable reporting entity status. If the reporting entity is able to make a reasonable estimate regarding the CAMT 2023 liabilities, such an estimate should be disclosed for third quarter 2023. If a reasonable estimate is not possible because of pending material information, the fact that a reasonable estimate is not feasible should be disclosed.

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this INT 23-02 for comment. An accelerated comment deadline of Sept. 12, 2023, is proposed to allow for adoption prior to the end of September.

Voting note: The proposed INT 23-XX for third quarter 2023 provides overrides to existing SSAP 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 #
2023-22 (Robin)	**Actuarial Guideline 51 and Appendix A-010 Interaction**	**J – Form A**

Summary:
This agenda item addresses the February 23 request from the Financial Reporting and Solvency Committee of the Health Practice Council of the American Academy of Actuaries, to the Long-Term Care Actuarial (B) Working Group and to the Statutory Accounting Principles (E) Working Group which requested clarifications regarding some observed diversity in practice across issuers of long-term care insurance with regard to how the guidance in *Actuarial Guideline LI: The application of Asset Adequacy Testing to Long Term Care Insurance Reserves* (AG 51), specifically Section 4.C, on determining when additional reserves may be necessary, interacts with existing guidance on accident and health insurance reserve adequacy, in *SSAP No. 54R—Individual and Group Accident and Health Contracts*, paragraphs 12 and 24 and Appendix A-010*, Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts,* paragraph 26.

The Academy referenced a Milliman survey which provided examples of the diversity in practice that has been observed. The fundamental question is regarding whether gross premium valuation only, cash flow testing only or both cash flow testing and gross premium valuation are required.

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose clarifying revisions and an illustration to SSAP No. 54R to clarify that gross premium valuation (under A-010) and cash flow testing (under AG 51) are both required if indicated. In addition, the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group should receive formal notice of the exposure.

The recommendation is based on the following key points:

1. SSAP No. 54R, paragraph 12 references both Appendix A-010 and the Actuarial Guidelines in Appendix

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C. SSAP No. 54R, paragraph 24 explicitly notes the A-010 requirements for a prospective gross premium valuation as the ultimate test for reserve adequacy.

2. Appendix A-010 is based on a widely adopted NAIC model law 10 *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*. Appendix A-010 and Model 10 require that that an entity's A&H reserves, in total, need to be adequate. The front of Appendix C notes that the Actuarial Guidelines "The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance."

3. The adoption of the AG -51 did not change the provisions of the Model Law 10 or Appendix A-010. The provisions of the model law and Appendix A-010 both require health insurance reserves to be sufficient from a gross premium valuation standpoint on their own.

   a. Paragraph 26 of Appendix A-010 reads, in part, "…a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy."

   b. Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity's A&H reserves, in total, need to be adequate. (Note that amending the Model #10 would require going through the NAIC model law procedures, therefore, until such a process is undertaken.)

   c. AG 51is not explicitly referenced within the *Valuation Manual* Section VM- 25, "Health Insurance Reserves Minimum Reserve Requirements," as a source of guidance on minimum reserve requirements.

4. AG 51 Section 4.C. provides an additional long term care reserves adequacy cash flow test which allows aggregation. The AG 51 cash flow testing is in addition to the requirements of A-010, it does not replace the gross premium valuation requirements of A-010.

ANY OTHER MATTERS

a. Review of U.S. GAAP Exposures (Attachment K)

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.*

b. Comment Deadline for Exposures is **September 29, 2023,** for all exposures except INT 23-02T (CAMT 3rd quarter) and agenda item 2023-12: Residuals in SSAP No. 48 Investments (Hearing Agenda) which have a comment deadline of **September 12, 2023**.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/0-08-2023 SAPWG Meeting Agenda.docx

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

Issue: ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve***

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 as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Historically, this statement has included brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

Existing Authoritative Literature:

- ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*** **(included in entirety)**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts.*

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

3. The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not

specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition

4. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

- ***SSAP No. 56—Separate Accounts*** **(Excerpt for AVR and IMR included)**

Separate Account AVR and IMR Reporting

18. An AVR is generally required for separate accounts when the insurer, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. An AVR is required unless:

    a. The asset default or fair value risk is borne directly by the policyholders; or

    b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.

19. Assets supporting traditional variable annuities and variable life insurance generally do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, an AVR is required for that portion of the assets representing the insurer's equity interest in the investments of the separate account (e.g., seed money).

20. Assets supporting typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do require an AVR because the insurer is responsible for credit related asset or fair value loss.

21. Certain separate accounts are also required to maintain an Interest Maintenance Reserve (IMR). The IMR requirements for investments held in separate accounts are applied on an account by account basis. If an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

22. An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at fair value. For example, separate accounts for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at fair value.

23. If an IMR is required for investments held by separate accounts, it is kept separate from the general account IMR and accounted for in the separate accounts statement.

24. The AVR and IMR shall be calculated and reported in accordance with the NAIC *Annual* Statement Instructions *for Life, Accident and Health Insurance Companies*.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

  (Due to the size of the instructions, these have not been duplicated within this agenda item.)

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- **A/S Instructions – Separate Account**
  Instructions within the Separate Account section of the Life instructions also exist and are provided below:

  Interest Maintenance Reserve (IMR) requirements for investments reported in the Separate Accounts Statement are applied on an account-by-account basis. If an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

  An IMR is required for separate accounts valued at book but is not required for separate accounts valued at market. For example, separate accounts for traditional variable annuities, or variable life insurance do not require an IMR because assets and liabilities are valued at market.

  If an IMR is required for investments in the Separate Accounts Statement, it is kept separate from the General Account IMR and accounted for in the Separate Accounts Statement.

  The instructions for completion of the IMR for the Separate Accounts Statement are incorporated in the instructions for completion of the IMR of the General Account Statement. Refer to those instructions for 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):

- Agenda item 2022-19: Negative IMR, 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 new SAP concept and expose this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although it is anticipated that this project may take time, particularly with the assessment of admittance / nonadmittance for negative IMR as a long-term concept, it is noted that interim revisions (within specific agenda items) will be proposed to ensure progress towards consistent application and address potential areas where credit losses may be reported as IMR.

Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the A/S instructions when incorporating SSAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions.

Discussion topics expected to include as part of the broad project, include but are not limited to:

- **Absolutes in Allocating between IMR and AVR**
  With the recent focus of IMR admittance, NAIC staff has been contacted with questions to verify the allocation to IMR because a company was successful in selling a bond prior to the official NAIC designation downgrade (regional bank failures) and when a mortgage loan with an established valuation allowance (as the reporting entity does not expect to collect all amounts due according to the terms of the agreement) is sold before it is formally 90-days past due. These instances clearly reflect credit declines, but with the existing IMR instructions, there is guidance that direct these allocations to IMR instead of AVR.

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- **<u>Bond IMR / AVR Allocation</u>**
  The current guidance in *SSAP No. 26R—Bonds* allocates all gains or losses to the IMR or the AVR based on whether there has been more than one NAIC designation change. This is different from *SSAP No. 43R—Loan-Backed and Structured Securities* in which all actions that result in realized gains / losses (sales / OTTI) are reviewed and bifurcated and/or divided between IMR and AVR. Furthermore, with the guidance to expand to 20 NAIC designations, the current A/S instructions are not clear as to what constitutes a designation change. Under current interpretation, a security could move through many levels from changes in the designation modifiers, which reflect credit changes, but not be considered to have moved beyond more than 1 designation. The non-bifurcation approach that currently exists for bonds, as well as the potential for many credit-quality changes within a designation level, may result with credit-related losses being captured in IMR. (The IMR/AVR instructions also continue to reference bond mutual funds, but that classification has been eliminated from statutory accounting.)

- **<u>Allocation of Perpetual Preferred Stock</u>**
  The IMR/AVR guidance for perpetual preferred stock has not been reviewed since the adoption of guidance that prescribes fair value for perpetual preferred stock. The guidance is still allocated entirely based on the NAIC designation. For preferred stock, a designation of 4-6, at any time during the holding period for both redeemable and perpetual, results in an allocation to AVR.

- **<u>Delineation of Non-Interest (Credit) / Interest and Realized / Unrealized</u>**
  The IMR/AVR guidance is predicated on a division between interest and non-interest changes, as well as the reporting of unrealized and realized changes. For the long-term project, it is proposed that principle-based concepts be established to assist with the allocation between IMR/AVR based on these fundamental concepts to ensure consistency and verification of allocation across reporting entities.

- **<u>Derivative Guidance</u>**
  There is ambiguity on intended guidance detailed in the A/S instructions and the guidance in *SSAP No. 86—Derivatives* for the allocation of derivatives held at fair value that are deemed to be hedging interest rate risk. (These derivatives do not qualify as effective derivatives under SSAP No. 86.)

- **<u>Reinsurance Ceded / Assumed</u>**
  Although the A/S instructions include guidance for removal of IMR for reinsurance ceded, and the acquisition of IMR for reinsurance assumed, the impact of reinsurance – particularly with the dissolution of reinsurance agreements when IMR had initially been transferred – is a common question on determining IMR and AVR for reporting entities.

- **<u>AVR / IMR Cross Checks</u>**
  The AVR is often used as the direct pull to the RBC instructions for life companies. It has been identified that there are no crosschecks to ensure that items are being mapped to the AVR correctly from other schedules. For example, residuals reported on Schedule BA should map to the residual reporting lines in the AVR. However, it was identified that there were variations between Schedule BA and the AVR for the residual lines. As the AVR reporting is pulled for RBC, it is important for the reporting in the AVR to correctly reflect what is in the schedules to ensure that the appropriate charges are applied. Cross checks are expected to ensure the reporting flows through the schedules as intended.

- **<u>Overall IMR and AVR Reporting in the General and Separate Accounts</u>**
  The reporting of IMR and AVR, including how positive balances in one account impacts negative balances in another account, as well as the treatment of net negative IMR, are expected as a long-term focus. It is anticipated that the complete guidance for both general accounts and separate accounts, once established, will be captured in SSAP No. 7, with a reference from *SSAP No. 56—Separate Accounts* to SSAP No. 7.

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/A - 23-14 - IMR AVR.docx

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

Issue: IMR / AVR Specific Allocations

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 update guidance for IMR / AVR in the Annual Statement (A/S) Instructions that currently establish specific allocation guidance. The principal concept of the IMR and AVR is that interest-related losses go to IMR, and non-interest-related losses go to AVR. This agenda is to correct instructions that appear to direct an entity to allocate non-interest-related losses to IMR rather than correctly to the AVR.

Although the presence of examples for illustration or guiding purposes are beneficial, the current annual statement instructions have permitted unintended allocations that do not reflect the intent of the principles. These have been specifically noted through inquiries to NAIC staff, particularly within the last year. NAIC staff believes these inquiries have been spurred by the discussions regarding the industry request to admit net negative IMR, therefore creating an incentive to allocate losses to IMR instead of AVR.

This agenda item will focus on the following specific allocations within the A/S instructions:

1) NAIC Designation Changes for Debt Securities (excluding LBSS)
2) Mortgage Loans

1) <u>NAIC Designation Change:</u>

IMR: Include realized capital gains (losses) on Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

AVR: Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990

NAIC Discussion: NAIC staff have historically been contacted on the application of this guidance, particularly when the reporting entity rushes to sell a security prior to an official credit rating or SVO designation downgrade has occurred. For 2023, this was evident from questions received with the downgrade of several regional banks. With a literal read of the guidance, if a Credit Rating Provider (CRP) downgraded banks on April 21, 2023, a reporting entity that expected such downgrades and sold the security at a loss prior to the downgrade would be permitted to report the loss through IMR as the downgrade did not occur during the reporting entity's "holding period." Similar questions have occurred in prior years in situations where it was evident that a downgrade was forthcoming (e.g., PG&E in response to the California wildfires). Although the guidance could be retained as an absolute for reporting to AVR, as a "credit loss" is presumed to occur when there has been a more-than-one

designation change, it is NAIC staff's interpretation that this guidance should not permit inappropriate allocation of non-interest related declines to IMR simply because a sale is able to occur prior to the official downgrade.

2) **Mortgage Loans:**

IMR: Include realized capital gains (losses) on: Mortgage loans where:1) Interest is NOT more than 90 days past due, or 2) The loan is NOT in process of foreclosure, or 3) The loan is NOT in course of voluntary conveyance, or 4) The terms of the loan have NOT been restructured during the prior two years.

AVR: In addition, all gains (losses), net of capital gains tax, on mortgage loans where 1) Interest is more than 90 days past due, or 2) The loan is in the process of foreclosure, or 3)The loan is in course of voluntary conveyance, or 4)The terms of the loan have been restructured during the prior two years would be classified as non-interest-related gains (losses).

NAIC Discussion: NAIC staff has recently been contacted as the current IMR / AVR guidance is specific that a mortgage loan must be 90 days past due or in process of foreclosure to report the loss to AVR. As such, if a reporting entity has established a valuation allowance under *SSAP No. 37—Mortgage Loans*, because the loan is impaired and they do not believe it is probable that they will collect all amounts due according to the contractual terms of the mortgage loan, and the reporting entity sells the mortgage loan before it is 90-days past due, a literal read of the guidance permits the loss to be fully allocated to IMR. Similar to the discussion on the NAIC designation change, such situations exist when the reporting entity has an expectation of expected credit loss (as a valuation allowance is only established when a mortgage loan is impaired), but the provisions of the A/S instructions direct to IMR.

Existing Authoritative Literature:

- **SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (included in entirety)**

SCOPE OF STATEMENT
This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts.*

SUMMARY CONCLUSION
Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition
This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of $______ Transferred into the Reserve Net of Taxes of $______

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

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Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent

available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.

- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.

- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as non-interest-related gains (losses).

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of "6" at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

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 2022-19: Negative IMR, 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. This agenda item resulted with the issuance of INT 23-01T to provide a limited-time, optional, exception to the nonadmittance of net negative (disallowed) IMR.

- Agenda Item 2023-XX: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7.

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

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that permits the allocation of non-interest related losses to IMR. (Although NAIC staff believes this guidance is clarifying the original intent of IMR/AVR allocation, the revisions reflect a distinct change in practice to reduce the allocation of non-interest-related losses to the IMR.)

This agenda item is focusing solely on the specific allocation "absolutes" that currently exists in the A/S instructions to ensure that the guidance does not inadvertently permit the allocation of non-interest-related changes to the IMR. This agenda item is addressing one of the specific discussion topics noted in agenda item 2023-XX. Further revisions and assessment on other aspects of the IMR/AVR allocation, including whether gains and losses from bonds (and other investments) should be bifurcated between IMR/AVR, will be addressed in subsequent agenda items. (Revisions will subsequently captured in the SSAPs as part of the long-term project, but these revisions are proposed for immediate clarification edits in the A/S instructions as that is where guidance currently resides.)

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of $______ Transferred into the Reserve Net of Taxes of $______

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are~~is~~ ~~**NOT**~~ different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from

those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR ~~Exclude any such gains (losses) exempt from the IMR.~~

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is ~~**NOT**~~ more than 90 days past due, or
- The loan is ~~**NOT**~~ in process of foreclosure, or
- The loan is ~~**NOT**~~ in course of voluntary conveyance, or
- The terms of the loan have ~~**NOT**~~ been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale.

For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR ~~by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.~~.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between

AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.

- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.

- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

~~Would be classified as non-interest-related gains (losses).~~

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of "6" at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

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Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/B - 23-15 - IMR Specific Allocations.docx

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

Issue: Schedule BA Reporting Categories

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 incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity's classification as to the underlying asset characteristics:

- Bonds / Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bonds / fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Existing Authoritative Literature:

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated 0799999
Affiliated 0899999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated 0999999
Affiliated 1099999

Mortgage Loans

Unaffiliated...1199999
Affiliated..1299999

Other Fixed Income Instruments

Unaffiliated...1399999
Affiliated..1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated...1599999
Affiliated..1699999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated...1799999
Affiliated..1899999

Common Stocks

Unaffiliated...1999999
Affiliated..2099999

Real Estate

Unaffiliated...2199999
Affiliated..2299999

Mortgage Loans

Unaffiliated...2399999
Affiliated..2499999

Other

Unaffiliated...2599999
Affiliated..2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated...4699999
Affiliated..4799999

Common Stock

Unaffiliated...4899999
Affiliated..4999999

Preferred Stock

Unaffiliated...5099999
Affiliated..5199999

Real Estate

Unaffiliated...5299999
Affiliated..5399999

Mortgage Loans

Unaffiliated...5499999
Affiliated..5599999

Other

Unaffiliated...5699999
Affiliated..5799999

Schedule BA Classification Instructions / Guidance:

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Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Leveraged Buy-out Fund.

A fund investing in the "Z" strip of Collateralized Mortgage Obligations.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital

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factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

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):

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited liability companies as those items would also be in scope of SSAP No. 48. With that change the category of "fixed income instruments" would be retained.

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 / potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- Fixed-Income Instruments
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within 'Activity to Date,' revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/C - 23-16 - Schedule BA Categories.docx

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

Issue: Short-Term Investments

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 review the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term investments* and establish principal concepts for the types of investments that should be permitted for reporting as either cash equivalents or short-term investments. This agenda item is in response to noted situations in which certain types of investments, particularly collateral loans or other Schedule BA items, are being designed specifically to meet the parameters for short-term reporting. Although revisions were previously incorporated to prevent the "rolling" of short-term items, information has been shared that some reporting entities are now effectively ending short-term collateral loan investments, only to reissue those collateral loans from other lenders in the same group (same ultimately owners) so that they can continue to qualify as short-term for reporting on Schedule DA. The effect is a continuously reporting short-term collateral loan investments in a way so that the investment in appearance is not considered 'substantially similar' to the investment previously held, although in effect the borrower is the same holding company group. This approach permits the company to report these investments as "Other Short-Term Investments" on Schedule DA, rather than in the designated reporting line for collateral loans. This allows companies to reduce the appearance of the collateral loans, not provide the detail that would be required for the loan is reported on Schedule BA, and potentially result in non-compliance with the SSAP No. 21 admittance requirements due to the Schedule DA reporting. Under SSAP No. 2R, paragraph 16, short-term investments are to be accounted for in the same manner as similar long-term investments. However, paragraph 17 indicates that short-term investments are admitted to the extent that they conform to the requirements of SSAP No. 2R. Although the intent of paragraph 16 is to require the same valuation and admittance requirements for short-term that exist for long-term, some reporting entities may be valuing collateral loans similar to the requirements of SSAP No. 21 but may interpret the guidance to indicate that the collateral requirements for admittance in SSAP No. 21 are not required if the investment has a short-term maturity.

In evaluating the current situation, the prior situations in which short-term investments were being continuously rolled, as well as the SSAP No. 2R guidance, it has been questioned why collateral loans and mortgage loans are included in the SSAP No. 2R guidance as named examples and whether Schedule BA investments should be permitted to be reported as wither cash equivalents (on Schedule E2) or short-term investments (on Schedule DA). For these investments, the main benefit of reporting as short-term (or cash equivalent) is the reduced RBC charge and/or potential exclusions from state investment limitations. Although NAIC designations are not required to be reported for cash equivalent or short-term investments, such designations are not required for collateral loans, mortgage loans or any Schedule BA investment. As such, excluding those items from Schedule DA will not impose a requirement for any reporting entity to obtain an NAIC designation. Considering this assessment, this agenda item proposes the exclusion of additional investment types from being reported as cash equivalents or short-term investments regardless of the maturity date of the investment at the date of acquisition.

Effectively, this agenda item and the prior revisions to exclude certain investments from SSAP No. 2R discussed as part of the bond project, will eliminate investments (except money market mutual funds and cash pooling dynamics) from being reported as cash equivalents or short-term investments unless they would qualify under *SSAP No. 26R—Bonds* as an issuer credit obligation. Such investments will then only qualify as a cash equivalent or short-term investment if they have a maturity date within 3-months (cash equivalents) or 12-months (short-term) from the date of acquisition or meet the specifics requirements for money market mutual funds or cash pooling

arrangements. NAIC staff believes this scope is appropriate as investments that qualify as issuer credit obligations tend to reflect the more "traditional" investments, for which a short duration holding timeframe will most often have limited valuation swings caused from interest rate risk as well as other unknowns. Furthermore, as investments captured as issuer credit obligations in SSAP No. 26R are permitted as admitted assets without other qualifications (such as collateral or audit requirements), the ability to report as cash equivalent or short-term will not cause confusion on the applicability of such requirements in determining whether the investment should qualify as an admitted asset because it qualifies to be in scope of SSAP No. 2R.

This agenda item proposes to retain the guidance in SSAP No. 2R that prevents cash equivalent or short-term reporting for related party investments if the reporting entity does not reasonably expect to terminate the investment, the original maturity time as passed, and if the reporting entity reacquired a substantially similar investment. Investments with those characteristics will be required to be reported as long-term assets. With the limitation of eligible assets to issuer credit obligations in scope of SSAP No. 26R, NAIC staff anticipates the need for the guidance to be reduced but it could still be applicable.

The agenda item also proposes to retain the clarification that certificates of deposit do not qualify as cash equivalents or short-term deposits. This is because certificates of deposit that are less than 12 months in duration are classified as cash. Certificates of deposits that go beyond 12 months are reported as long-term bonds on Schedule D.

Existing Authoritative Literature:

- **SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities[1] of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply,[2] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

[1] Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

[2] Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

9. Cash pooling is a technique utilized by some companies under common control by which several entities' cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures; however, only those that have obtained domiciliary regulator approval and meet the following requirements are in scope of this statement.

a. Members or participants in the pool are limited to affiliated entities as defined in *SSAP No. 25—Affiliates and Other Related Parties*.

b. Investments held by the pool are limited to non-affiliated entities investments (non-affiliated to the insurance reporting entity).

c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates' interests in the pool shall be of the same class, with equal rights, preferences, and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant's debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool's investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).

d. A reporting entity shall receive monthly reports from the pool manager, which identifies the participant's investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on Schedule E – Part 2, utilizing the line number as specified in the annual statement instructions. The reporting entity shall independently if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, the pool does not qualify within scope of this statement.

e. Valuation of assets in the pool shall remain consistent with the valuations required by reported asset type as stipulated in this statement.

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Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply,[3, 4] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial "less than one year" timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

16. All short-term investments shall be accounted for in the same manner as similar long-term investments.

17. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

- **Proposed Revisions under the Bond Project – Potential Adoption 2023 Summer National Meeting**

(These revisions are shaded to separate them from what is proposed as new edits under this agenda item.)

Cash Equivalents

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[3] Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

[4] Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities[5] of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Regardless of maturity date, dDerivative instruments in scope of SSAP No. 86 or SSAP No. 108shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB.

a. Working capital finance investments in scope of SSAP No. 105R.

a.b. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All debt securities that do not qualify as bonds, which are in scope of SSAP No. 21R.

c. dDerivative instruments in scope of SSAP No. 86 or SSAP No. 108shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

d. Working capital finance investments in scope of SSAP No. 105R.

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 2019-21: Principles-Based Bond Definition, proposes revisions to revise the definition of a bond, and establishes guidance separating between investments captured in *SSAP No. 26—Bonds* as issuer credit obligations for reporting on Schedule D-1-1 and investments captured in *SSAP No. 43R—Asset-Backed Securities* for reporting on Schedule D-1-2. With the requirements to assess ABS in determining whether they qualify for Schedule D-1-2 reporting as a "bond", revisions have been proposed to exclude ABS, as well as debt securities that do not qualify as bonds captured in SSAP No. 21R, from reporting on Schedule DA as cash equivalents or short-term investments. (These revisions are above with an anticipated adoption at the 2023 Summer National Meeting with a planned effective date of January 1, 2025.)

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

Convergence with International Financial Reporting Standards (IFRS): N/A

[5] Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. These revisions are proposed to ensure that certain investment types are captured on designated Schedule BA reporting lines and to eliminate the potential to design investments to specifically qualify for short-term reporting and perhaps mask the extent of investments held or to obtain favorable reporting such as with reduced RBC, exceptions for state investment limits, admittance requirements etc., (NAIC staff notes that NAIC designations are not required for cash equivalents or short-term investments, however, the investments proposed to be excluded from cash equivalents and short-term reporting in this agenda item are not required to obtain NAIC designations.)

With the adoption consideration of the bond definition, including the edits to exclude ABS and debt securities that do not qualify as bonds from SSAP No. 2R at the 2023 Summer National Meeting, this agenda item proposes edits after reflection of the bond project changes. To be consistent with the effective date of the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly.

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities[6] of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

i. All debt securities that do not qualify as bonds ~~which are~~ in scope of SSAP No. 21R.

ii. Collateral / Non-Collateral loans captured in scope of SSAP No. 21R.

iii. Working capital finance investments in scope of SSAP No. 105R.

~~i.~~iv. Surplus notes in scope of SSAP No. 41R

c. Mortgage loans captured in scope of SSAP No. 37.

~~b.~~d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

~~c.~~~~a.~~ ~~Working capital finance investments in scope of SSAP No. 105R.~~

~~d.~~e. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity

[6] Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents, but that are still considered highly liquid as they have with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents short-term investments and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.

ii. Collateral / Non-Collateral loans captured in scope of SSAP No. 20R or 21R.

iii. Working capital finance investments in scope of SSAP No. 105R.

iv. Surplus notes in scope of SSAP No. 41R

b. All debt securities that do not qualify as bonds which are in scope of SSAP No. 21R.

c. Mortgage loans captured in scope of SSAP No. 37.

c.d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

d. Working capital finance investments in scope of SSAP No. 105R.

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/D - 23-17 - Short-Term Investments.docx

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

Issue: ASU 2016-19, Technical Corrections and Improvements

Check (applicable entity):

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

Description of Issue: In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:
The table starting on page 3 summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting, and will impact *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

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, as detailed in the table starting on page two, to expose revisions to adopt with modification certain portions of *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting. Unless noted otherwise, we recommend that all other amendments made within ASU 2016-10, as detailed in the table starting on page two, be rejected for statutory accounting in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

Joint and Several Liabilities

5. Joint and several liability arrangements for which the total obligation amount under the arrangement is fixed[1] at the reporting dates shall be measured and reported as the sum of:

a. The amount the reporting entity agreed to pay on the basis of the agreements among its co-obligors, and

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. When an amount within management's estimate of the range of a loss appears to be a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the midpoint shall be used.

6. Although the total amount of the obligation of the entity and its co-obligors must be fixed at the reporting date to be within the scope of this statement, the amount that the reporting entity expects to pay on behalf of its co-obligors may be uncertain at the reporting date.

Proposed Revisions to SSAP No. 92—Postretirement Benefits Other Than Pensions

53. Plan assets are assets—usually stocks, bonds, and other investments (except certain insurance ~~contracts~~ annuities as noted in paragraph 57)—that have been segregated and restricted (usually in a trust) to be used for postretirement benefits. The amount of plan assets includes amounts contributed by the employer, and by plan participants for a contributory plan, and amounts earned from investing the contributions, less benefits, income taxes, and other expenses incurred. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

~~Insurance~~ Annuity Contracts

57. For purposes of this statement, an ~~insurance~~ annuity contract is defined as a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium; an ~~insurance~~ annuity contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. Benefits covered by ~~insurance~~ annuity contracts shall be excluded from the accumulated postretirement benefit obligation. ~~Insurance~~ Annuity contracts shall be excluded from plan assets.

58. Some ~~insurance~~ annuity contracts include participation rights (participating ~~insurance~~ annuity contracts) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. If the participating ~~insurance~~ annuity contract causes the employer to remain subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, that contract is not an ~~insurance~~ annuity contract for purposes of this statement, and the purchase of that contract does not constitute a settlement pursuant to paragraphs 83-88. Endorsement split-dollar life ~~insurance~~ annuity contracts do not settle a liability for a postretirement benefit obligation. For these contracts

[1] Examples of items within the scope of this guidance include debt arrangements, other contractual obligations, and settled judicial litigation and judicial rulings. Loss contingencies, guarantees, pension and other postretirement benefit obligations and taxes are excluded from this guidance and shall be accounted for under the statutory accounting provisions specific to those topics.

and other ~~insurance~~ annuity contracts that do not constitute settlement, reporting entities shall accrue a liability for the postretirement benefit arrangement in accordance with this statement.

59. The purchase price of a participating ~~insurance~~ annuity contract ordinarily is higher than the price of an equivalent contract without a participation right. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as a nonadmitted asset. In subsequent periods, the participation right shall be nonadmitted and measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

60. To the extent that ~~insurance~~ annuity contracts are purchased during the period to cover postretirement benefits attributed to service in the current period (such as life insurance benefits), the cost of those benefits shall be the cost of purchasing the coverage under the contracts, except as provided in paragraph 59 for the cost of a participation right. If all the postretirement benefits attributed to service in the current period are covered by nonparticipating ~~insurance~~ annuity contracts purchased during that period, the cost of the contracts determines the service cost component of net postretirement benefit cost for that period. Benefits attributed to current service in excess of benefits provided by nonparticipating ~~insurance~~ annuity contracts purchased during the current period shall be accounted for according to the provisions of this statement applicable to plans not involving ~~insurance~~ annuity contracts.

61. Other contracts with insurance companies may not meet the definition of an ~~insurance~~ annuity contract because the insurance company does not unconditionally undertake a legal obligation to provide specified benefits to specified individuals. Those contracts shall be accounted for as investments and measured at fair value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value. For some contracts, the best available estimate of fair value may be contract value.

62. The measurements of plan assets and benefit obligations required by this statement shall be as of the date of the employer's fiscal year-end statement of financial position. Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~ events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments).

Accounting for Settlement of a Postretirement Benefit Obligation

83. For purposes of this statement, a settlement is defined as a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a postretirement benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include making lump-sum cash payments to plan participants in exchange for their rights to receive specified postretirement benefits and purchasing long-term nonparticipating insurance ~~contracts~~ annuity for the accumulated postretirement benefit obligation for some or all of the plan participants.

87. If the purchase of a participating insurance ~~contract~~ annuity constitutes a settlement, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in income. As detailed in paragraph 58, the purchase of an endorsement split-dollar life insurance ~~contract~~ annuity does not settle a liability for a postretirement benefit obligation.

Accounting for a Plan Curtailment

93. A settlement and a curtailment may occur separately or together. If benefits expected to be paid in future periods are eliminated for some plan participants (for example, because a significant portion of the work force is

dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases nonparticipating insurance ~~contracts~~ annuity for the accumulated postretirement benefit obligation and continues to provide defined benefits for future service, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan termination occurs (that is, the obligation is settled and the plan ceases to exist) and the plan is not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the employees continue to work for the employer).

Proposed Revisions to SSAP No. 102—Pensions

Measurement of Plan Assets

45. The measurements of plan assets and benefit obligations shall be as of the date of the employer's fiscal year-end statement of financial position. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~ events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other unassigned funds (surplus) (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Annuity Contracts

50. An annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts ~~(participating annuity contracts)~~include participation rights (participating annuity contract) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating annuity contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this statement.

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

SCOPE OF STATEMENT

1. Transfers of financial assets take many forms. Accounting for transfers in which the transferor has no continuing involvement with the transferred financial assets or with the transferee are generally straightforward. However, transfers of financial assets often occur in which the transferor has some continuing involvement either with the assets transferred or with the transferee. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee arrangements, agreements to purchase or redeem transferred financial assets, options written or held, derivative financial instruments that are entered into contemporaneously with, or in contemplation of the transfer, arrangements to provide financial support, pledges of collateral, and the

transferor's beneficial interests in the transferred financial assets. Transfers of financial assets with continuing involvement raise issues about the circumstances under which the transfers should be considered as sales of all or part of the assets or as secured borrowings. An objective in accounting for transfers of financial assets is for each reporting entity that is a party to the transaction to recognize only assets it controls and liabilities it has incurred, to derecognize assets only when control has been surrendered, and to derecognize liabilities only when they have been extinguished. Sales and other transfers may frequently result in a disaggregation of financial assets and liabilities into components, which become separate assets and liabilities. The guidance in this statement also applies to transactions in which servicing assets are transferred with loans retained by the transferor.

Disclosures

24. Disclosures required by this statement may be reported in the aggregate for similar transfers if separate reporting of each transfer would not provide more useful information to financial statement users. A transferor shall disclose how similar transfers are aggregated. A transferor shall distinguish transfers that are accounted for as sales from transfers that are accounted for as secured borrowings. If specific disclosures are required for a particular form of a transferor's continuing involvement by other SSAPs, the transferor shall provide the information required in (a) through (c) with a cross-reference to the separate notes to financial statements so a financial statement user can understand the risks retained in the transfer. In determining whether to aggregate the disclosures for multiple transfers, the reporting entity shall consider quantitative and qualitative information about the characteristics of the transferred financial assets. For example, consideration should be given, but not limited, to the following:

a. The nature of the transferor's continuing involvement.

b. The types of financial assets transferred.

c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/E - 23-18 - ASU 2016-19 - Technical Corrections and Improvements.docx

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Balance Sheet—Offsetting	210-20	Amendment aligns the wording in the Example with paragraph 815-210-50-4D by replacing the term underlying risk with the term type of contract.	55-22	Statutory guidance does not include amended example problem. **This update is not applicable – no action required.**
Risks and Uncertainties—Overall	275-10	Amendment simplifies the Codification by removing the explanation of reasonably possible in paragraph 275-10-50-8 and replacing it with a link to the Master Glossary term reasonably possible. There are consequential amendments for paragraphs 275-10-50-6 and 275-10-55-9.	50-8	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual and the definition for 'reasonably possible' is properly included within the manual. **This update is not applicable – no action required.**
Troubled Debt Restructurings by Creditors & Debt—Troubled Debt Restructurings by Debtors	310-40 470-60	This amendment removes the definition from the Master Glossary and includes the definition in Scope and Scope Exceptions paragraphs 310-40-15-4A and 470-60-15-4A. Consequential amendments also remove links to the Master Glossary term from other Subtopics that are not related to troubled debt restructuring.	15-4A 15-4A	Master glossary is not utilized by the AP&P manual and the definition of debt is already included within the manual. **This update is not applicable – no action required.**
Intangibles—Goodwill and Other—Goodwill	350-20	Paragraph 350-20-45-3 provides guidance on the presentation of a goodwill impairment loss that is associated with discontinued operations. This amendment adds a	45-3	Statutory accounting does not provide separate guidance on goodwill impairments from discontinued operations, as such adding a guidance reference

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		reference to Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations, in that paragraph.		between *SSAP No. 24–Discontinued Operations and Extraordinary Items* and *SSAP No. 68–Business Combinations and Goodwill* is not considered necessary. **This update is not applicable – no action required.**
Intangibles—Goodwill and Other—Internal-Use Software	350-40	This amendment addresses stakeholder concern that the accounting for software licenses acquired for internal use following the adoption of the amendments in ASU 2015-05 is not clear because paragraph 350-40-25-16 was superseded, and no new guidance was added in its place. The new paragraphs provide transition guidance and clarify the Board's intent that an entity should apply the existing recognition and measurement requirements in GAAP for acquired intangible assets to a hosting arrangement that includes a license to software (as described in paragraphs 350-40-15-1 through 15-4C).	25-17 65-2	*SSAP No. 16R–Electronic Data Processing Equipment and Software* paragraph 12b already includes guidance for acquisitions which include both hosting and internal-use software components. **This update is not applicable – no action required.**
Plant, and Equipment—Real Estate Sales	360-20	When EITF Issue 87-9 was codified in Subtopic 360-20, the final paragraph in that EITF Issue that contained the reversal of the initial position of the Task Force was not codified. This amendment corrects the Accounting	55-3	*SSAP No. 40R–Real Estate Investments* directs readers to apply FASB guidance for real estate sales. As such, no changes are required to update the AP&P Manual for this change.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		Standards Codification to reflect the final conclusions of the EITF on that Issue.		**This update is not applicable – no action required.**
Liabilities—Obligations Resulting from Joint and Several Liability Arrangements	405-40	This amendment adds an explanatory paragraph after paragraph 405-40-15- 1 to clarify that for the total amount of an obligation under a joint and several liability arrangement to be considered fixed at the reporting date, the amount that must be fixed on the obligation resulting from the joint and several liability arrangement is not the amount that is the entity's portion of the obligation, but is the obligation in its entirety.	15-2	Clarifying amendment to joint and several liabilities is considered applicable for statutory accounting. **Staff recommends adoption of the amendment with modification to SSAP No. 5R, as detailed above.**
Guarantees—Overall	460-10	This amendment clarifies the wording in paragraph 460-10-50-1 so that its scope also applies to paragraph 460-10-50-4. The unclear wording along with the structure of the heading levels in paragraphs 460-10-50-1 through 50-4 could be interpreted as if the disclosure guidance in paragraph 460-10-50-1 only applies to paragraphs 460-10-50-2 through 50-3 and those guarantees outside the scope of paragraph 460-10-50-4.	50-1	Clarification to *SSAP No. 5R* is not applicable as the changes are specific to FASB paragraph structures. **This update is not applicable – no action required.**
Equity—Overall	505-10 505-30 505-50 505-60	This amendment simplifies the guidance by removing the terms public and nonpublic from these paragraphs and stating that the guidance applies to	15-1 15-1 15-1 15-1	Statutory accounting does not distinguish between public and nonpublic companies.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		all entities that meet the stated characteristics.		**This update is not applicable – no action required.**
Compensation—Retirement Benefits—Defined Benefit Plans—Pension & Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement & Financial Services—Insurance—Policyholder Dividends & Financial Services—Insurance—Business Combinations	715-30 715-60 944-50 944-805	These amendments simplify the codifications by using consistent terminology related to participating insurance. This amendment uses the term participating insurance throughout the related guidance and removes the duplicate terms participating insurance contract, participating insurance contracts, and participating contract from the Master Glossary.	25-7 35-53 35-59 35-79 35-88 55-153 35-115 35-156 25-2 05-10	Staff noted that *SSAP No. 102* uses the term 'annuity contract' instead of 'insurance contract' as annuity contracts are codified within model laws. Staff recommends that SSAP 92 be updated to also utilize the terminology "annuity contracts". **Staff recommend adoption of this amendment with modification to SSAP No. 92, as detailed above. Staff also recommend some minor editorial changes to SSAP No. 102, detailed above.**
Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement	715-60	This amendment removes the reference to securitization of trade receivables or loan receivables in the Master Glossary. When the creditor's (transferor's) transfer satisfies the requirements for sale accounting, the creditor would have a new asset and its beneficial interests in the receivables would meet the definition of a debt security in accordance with paragraph 860-20-35-2.	35-107 35-112	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Business Combinations—Overall	805-10	This amendment replaces the reference to the guidance in Section 958-810- 25 on not-for-profit entities—consolidation—recognition in paragraph 805-10-15-4(e) to the more specific reference of paragraph 958-810-25-4. Paragraph 958-810-25-4 describes control by other means and contains criteria for consolidation. In addition, the phrase as permitted or required by is replaced by the word described in paragraph 805-10-15-4(e) to be less confusing to the users of the Accounting Standards Codification.	15-4	Statutory accounting does not have separate guidance for nonprofit and for-profit companies. Additionally, business combination guidance related to Variable Interest Entities has not yet been considered for statutory accounting purposes. **This update is not applicable – no action required.**
Derivatives and Hedging—Embedded Derivatives	815-15	This amendment simplifies the wording in paragraph 815-15-55-216 and adds a reference to Subtopic 815-10, Derivatives and Hedging—Overall, which contains guidance on the normal purchases and normal sales exception. The added reference better enables users to find this guidance.	55-216	The amended implementation example is not included in statutory accounting guidance. **This update is not applicable – no action required.**
Derivatives and Hedging—Hedging—General	815-20	This amendment removes the words "all of" from. When this guidance was codified by FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities, the words "all of" were added, which appears to make it a list of requirements instead of circumstances to consider.	55-24 55-44 55-44A	The amended implementation guidance was not adopted for statutory accounting purposes. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Fair Value Measurement—Overall	820-10	This amendment changes the term 'valuation technique to 'valuation approach' for clarity. The Master Glossary also defines each of the approaches as a technique, which is misleading. Topic 820 prescribes that, at all times, the more detailed technique should be disclosed rather than the overall approach.	35-16BB 35-24A 50-2 55-35 55-36 55-37 55-38 65-11	Terminology correction is not necessary as the AP&P Manual already includes the delineation between approaches and techniques within *SSAP 100R–Fair Value*. **This update is not applicable – no action required.**
Fair Value Measurement—Overall & Financial Services—Insurance—Insurance Activities & Financial Services—Insurance—Claim Costs and Liabilities for Future Policy Benefits & Financial Services Insurance—Balance Sheet & Financial Services—Insurance—Receivables & Financial Services—Insurance—Revenue Recognition	825-10 944-20 944-40 944-210 944-310 944-605 944-805 944-825	This amendment replaces 'reinsurance receivable' with 'reinsurance recoverable'. This change resolves inconsistencies within the Accounting Standards Codification where in some instances the term reinsurance receivable is used, while in other instances the term reinsurance recoverable is used.	825-10-50-22 944-20-50-5 944-40-25-34 50-3 50-4C 50-9 55-6 944-210-55-1 944-310-05-1 05-2 25-2 35-4 45-5 45-6 50-2	Terminology correction is not necessary as the AP&P Manual already uses the terminology 'reinsurance recoverable'. All other miscellaneous changes made by the amendment were made to sections not adopted for statutory accounting purposes. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
& Financial Services—Insurance—Business Combinations & Financial Services—Insurance—Financial Instruments			944-605- 25-22 25-23 35-12 55-1 55-11 55-12 55-14 55-15 944-805- 30-1 944-825- 50-1 50-1B	
Financial Instruments—Registration Payment Arrangements	825-20	Registration payment arrangement is not a Master Glossary term, but it is defined in paragraph 825-20-15-3 and is referenced in multiple places within the Accounting Standards Codification. To avoid any confusion and maintain consistency with the definition of registration payment arrangement, this amendment defines the term in the Master Glossary and supersedes paragraph 825-20-15-3.	15-2 15-3	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. **This update is not applicable – no action required.**
Reorganizations—Income Taxes	825-740	This amendment makes the wording in paragraph 852-740-45-3 consistent with that in paragraph 852-740-55-2. The term 'ordinarily' used in FASB	45-3	The amended wording change affects guidance which was not adopted for statutory accounting purposes.

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		Statement No. 109, Accounting for Income Taxes, was related to one exception for enterprises that had previously adopted FASB Statement No. 96, Accounting for Income Taxes. That exception is no longer relevant, and, therefore, the term ordinarily should be removed.		**This update is not applicable – no action required.**
Transfers and Servicing—Sales of Financial Assets	860-20	This amendment adds language from paragraph 16D of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to clarify the disclosures that are required when other Topics require disclosures about the transferor's continuing involvement.	50-2A 55-41	**Staff recommends adoption with modification to SSAP No. 103R, as detailed above.**
Transfers and Servicing—Servicing Assets and Liabilities	860-50	This amendment includes guidance from paragraph .08(h) of *AICPA Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others*, on the allocation of the carrying amount of loans that have been retained, which was omitted from the Accounting Standards Codification. This amendment also includes transactions in which a transferor transfers servicing rights and retains the loans to the scope in paragraph 860-50-15-3.	15-3 40-6	**Staff recommends adoption with modification to SSAP No. 103R, as detailed above.**

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Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Activities—Oil and Gas—Inventory	932-330	This amendment clarifies that energy trading contracts are not derivatives in accordance with the guidance in Topic 815. The modifying portion of the original sentence did not have the correct placement.	35-1	**This update is not applicable – no action required.**
Financial Services—Broker and Dealers—Other Assets and Deferred Costs	940-340	This amendment removes the term 'ABC Agreement' from both the Master Glossary and within the Accounting Standards Codification as the New York Stock Exchange (NYSE) no longer sells seats on the exchange.	25-2	Terminology correction is not necessary as the AP&P Manual does not utilize the Master Glossary or provide reference to 'ABC Agreements' **This update is not applicable – no action required.**
Financial Services—Insurance—Separate Accounts	944-80	Separate accounts with guaranteed investment returns do not qualify for separate account accounting because they do not pass all investment performance on to the policyholder. Therefore, they must be included in the general account of the company and accounted for like other similar assets held by the company as prescribed in paragraph 944-80-25-4. This amendment corrects the reference in paragraph 944-80-35-1 to reflect that change.	35-1	**This update is not applicable – no action required.**
Financial Services—Investment Companies—Presentation of Financial Statements	946-205	This amendment adds a reference SEC Regulation S-X, Part 210, Rule 12-12 in the last sentence of to footnote (a) in paragraph 946-205-45-1.	45-11	SEC guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Financial Services—Investment Companies—Balance Sheet	946-210	The amendment provides technical corrections to reflect changes made when investment companies guidance was codified from the AICPA Audit and Accounting Guide, Investment Companies (2008).	50-7 50-9 55-1	Investment company guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Health Care Entities—Income Statement	954-225	This amendment simplifies the Accounting Standards Codification by removing incomplete measurement guidance from paragraph 954-225-45-2 in the Other Presentation Matters Section and providing a reference to the complete measurement guidance. Additionally, amendment also includes a cross-reference to paragraph 220-10-45-10A, which lists some examples of items that are required to be reported in or reclassified from other comprehensive income.	45-2 45-7	Amended GAAP guidance was later superseded by ASU 2017-19, which has already been addressed by the Working Group. **This update is not applicable – no action required.**
Health Care Entities—Consolidation	954-810	To aid the user in locating presentation and disclosure requirements for noncontrolling interests, this amendment adds FASB references to Sections 958-810-45 and 958-810-50 for other presentation matters and disclosure.	45-3B	**This update is not applicable – no action required.**
Not-for-Profit Entities—Presentation of Financial Statements	958-205	ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, added incorrectly the words “that contain no purpose restrictions” to	50-1B	**This update is not applicable – no action required.**

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		paragraph 958-205-50-1B(e)(3). This amendment removes this phrase.		
Not-for-Profit Entities—Revenue Recognition	958-605	This amendment adds language clarifying the scope of Subtopic 958-605 and provides a link to the Master Glossary term affiliate and corrects a minor wording error in a table.	15-13 55-8	**This update is not applicable – no action required.**
Not-for-Profit Entities—Consolidation	958-810	This amendment adds disclosure and presentation clarifications for Not-For-Profit Entities.	45-1	**This update is not applicable – no action required.**
Plan Accounting—Health and Welfare Benefit Plans—Plan Benefit Obligations	965-30	This amendment clarifies that the subsequent events to be addressed in the rollforward of the benefits obligation valuation are those occurring between the most recent valuation date and the plan’s year-end.	35-6	**Staff recommends adopting the clarification for *SSAP No. 92* and *SSAP No. 102* as detailed above.**

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

Issue: ASU 2018-09, Codification Improvements

Check (applicable entity):

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

Description of Issue: In July 2018, FASB issued *ASU 2018-09, Codification Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:
The table starting on page two summarizes the updates in this ASU, as well as defines the recommended actions 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):
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 reject *ASU 2018-09 Codification Improvements* for statutory accounting on Appendix D as not applicable to statutory accounting. This guidance is not applicable as the changes made by ASU 2018-09, as detailed in the table starting on page two, are to guidance which has been rejected for, or is not contained within, statutory accounting.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/F - 23-19 - ASU 2018-09 - Codification Improvements.docx

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Reporting Comprehensive Income—Overall	220-10	This amendment clarifies the guidance in paragraph 220-10-45-10B by removing the generic phrase taxes not payable in cash, adds guidance that is specific to certain quasi reorganizations, and adds references to applicable guidance for each example that does not qualify as an item of comprehensive income.	45-10B	**This update is not applicable – no action required.**
Earnings Per Share—Overall	260-10	Correct reference to Earnings per Share example to specifically note that Example 6 illustrates the two-class method. Additional wording clarifications are made within Example 6 as well.	45-60B 55-62	**This update is not applicable – no action required.**
Investments—Debt and Equity Securities—Overall	320-10	These amendments simplify the Codification by removing redundant disclosure requirements in paragraphs 320-10-50-1A and 320-10-50-13. These amendments supersede paragraph 320-10-50-13 and add clarification to the disclosure requirements in paragraph 320-10-50-1A for summarized financial information.	50-1A 50-13	Summarized financial information in relation to debt and equity securities are not addressed within statutory accounting. **This update is not applicable – no action required.**
Debt—Modifications and Extinguishments	470-50	The amendment adds guidance to clarify that when the fair value option has been elected on debt that is extinguished, the net carrying amount	40-2A	*FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No.*

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		of the extinguished debt equals its fair value at the reacquisition date. Additionally, the cumulative amounts of gains or losses in other comprehensive income that resulted from changes in instrument-specific credit risk must be included in the measurement of gain or loss presented in net income for the extinguished debt.		*115* was rejected for statutory accounting purposes. As such no changes are recommended. **This update is not applicable – no action required.**
Distinguishing Liabilities from Equity—Overall	480-10	Eliminates guidance conflict between codification paragraph 25-15 and paragraphs 55-55 and 55-59.	55-55 55-59	*SSAP No. 104R–Share-Based Payments* does not contain the amended language. As such no changes are recommended. **This update is not applicable – no action required.**
Compensation—Stock Compensation—Income Taxes	718-740	The amendment clarifies that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the amount of the tax deduction is determined, which typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards.	35-2	The relevant language was also included in ASU 2018-07 and was previously adopted with Agenda Item 2018-35. As such, no changes to the relevant SSAPs are required, **This update is not applicable – no action required.**
Other Expenses—Advertising Costs & Financial Services—Insurance—Acquisition Costs	720-35 944-30	The objective of this amendment is to align the scope of the guidance in 720-35 with the source guidance in SOP 93-7 by removing the references in the guidance and heading to 'direct response advertising'.	15-2 15-3 25-1A 25-1A 25-1DD	Direct-response advertising and related advertising specific guidance are not addressed within statutory accounting. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		The amendment also relocates and minorly amends the guidance in paragraph 720-35-15-5 about direct-response advertising costs to paragraph 944-30-25-1DD. Direct response advertising costs can only be capitalized for insurance contracts within the scope of Topic 944 in certain circumstances.		
Income Taxes	740-10	This amendment makes corrections to Income Tax guidance on intra-entity transfers of inventory as the guidance in paragraph 25-55 contradicts paragraph 25-3(e). Additionally, a reference to intra-entity transfers was removed from example 26 as it describes a null set of transactions.	25-53 25-54 25-55 55-168 55-203 65-7	The ramification of intra-entity transfers of inventory on income tax is not addressed in statutory accounting. **This update is not applicable – no action required.**
Business Combinations—Income Taxes	805-740	The amendment updates paragraph 25-13 that provides three methods for allocating the consolidated tax provision to an acquired entity after acquisition as it is no longer consistent with the rest of Topic 740 after the issuance of EITF Issue No. 86-9.	25-13	The update is not applicable as GAAP guidance for business combinations has not yet been addressed for statutory accounting at this time, as such no changes are recommended. **This update is not applicable – no action required.**
Derivatives and Hedging—Overall	815-10	The amendment supersedes paragraph 45-4 and amends paragraph 45-5, with a link to transition paragraph 105-10-65-5. This change was made as the guidance in paragraph 45-4 is potentially misleading because it can	45-4 45-5	*SSAP No. 86–Derivatives* does not include the superseded guidance. As such, no changes are recommended.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		be interpreted as conflicting with the guidance in paragraph 45-5 and because it can be interpreted to mean that derivatives may only be offset when all four of the conditions in paragraph 210-20-45-1 are met.		**This update is not applicable – no action required.**
Derivatives and Hedging—Embedded Derivatives	815-15	The amendment clarifies a generic subtopic reference by replacing it with the actual FASB codification.	25-1	**This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	The amendment clarifies items (a) and (b) with FASB codification 820-10-35-16D were not intended to substantively change how GAAP is applied. However, it is possible that they may result in a change to existing practice for some entities; therefore, transition guidance has been provided.	35-16D	As the original guidance being clarified originates from *ASU 2011-04–Fair Value Measurement*, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	When initially drafted ASU 2011-04 was intended to exclude nonfinancial derivatives from the portfolio exception. The amendments revise paragraphs 820-10-35-18D through 35-18F and 820-10-35- 18H through 35-18L to include not only financial assets and financial liabilities, but also portfolios of financial instruments and nonfinancial instruments accounted for as derivatives in accordance with Topic 815.	35-18D thru 18L	As the original guidance being clarified originates from ASU 2011-04, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment replaces an indefinite deferral in transition paragraph 820-	50-2 65-9	As the original guidance being clarified originates from ASU

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		10-65-9 from *ASU 2013-09, Fair Value Measurement,* with a disclosure exemption in paragraph 820-10-50-2(bbb). Amendment also eliminates transition guidance in paragraph 65-9.		2013-09, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment changes the term 'build-up methodology' to build-up approach' for clarity. As indicated in the guidance, a build-up methodology is a subset of a valuation technique, whereas the build-up approach is a method of applying the discount rate adjustment technique.	55-11 55-33	Neither the build-up approach nor build-up method are contained addressed by statutory accounting. No changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	Due to an oversight, when *ASU 2016-01–Financial Instruments* amended Topic 825, a corresponding amendment was not made to Topic 820 superseding the requirement to disclose information on the methods and assumptions used to measure fair value for those financial Instruments. This amendment conforms the requirements in Topic 820 with the amendments made to Topic 825 so that the disclosure information is not required, which is consistent with the Board's intent in the amendments in Update 2016-01.	50-2E 65-4	The amendment corrects changes made by *ASU 2016-01–Financial Instruments*, which was rejected for statutory accounting. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment corrects the dates used in Examples 9 to properly	55-100	The amended example is not included in statutory accounting

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		conform to the guidance provided in 820-10-50-2.		guidance. No changes are recommended. **This update is not applicable – no action required.**
Financial Services—Depository and Lending—Balance Sheet	942-210	This amendment simplifies the Codification by removing the paraphrased guidance from paragraph 942-210-45-3 so that the industry Topic guidance refers to the full guidance in Section 210-20-45.	45-3	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Depository and Lending—Equity	942-505	This amendment clarifies the requirements for disclosing information on regulatory capital for depository institutions. The amendment is necessary because of recent changes in the measures of regulatory capital in Basel III, with which depository institutions must comply (for example, the newly defined measure of Common Equity Tier 1).	50-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Insurance—Acquisition Costs	944-30	This amendment restores guidance about an accounting policy election to paragraph 944-30-25-1A that was originally included in the transition guidance in ASU 2010-26. This election was automatically removed with the transition guidance after all effectives dates had been based, however it was noted that this election should be maintained in the guidance	25-1A	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		for historical purposes to ensure the appropriateness of the election was not called into question at a future date.		
Financial Services—Insurance—Receivables & Property, Plant, and Equipment	944-310 944-360	This amendment includes a correct to these paragraphs as the original references should have been superseded with the adoption of ASU 2016-01and replaced with references to transition guidance.	45-1 45-2 50-1 45-3 45-4 50-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Insurance—Property, Plant, and Equipment	944-360	This amendment adds references to the applicable guidance for determining the subsequent measurement of real estate acquired by insurance companies in settling certain claims.	35-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Not-for-Profit Entities—Other Expenses	958-720	This amendment improves the description of the items in paragraph 958-720-45-15 that would be considered gains and losses for a not-for-profit entity. This amendment also changes the term for-profit entity to the term business entity in Subtopic 958-720.	45-15	Not-for-profit guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements & Property, Plant, and Equipment	962-205 962-360	To make the Topic structure consistent with related Topics and the guidance easier to find, this amendment moves the property, plant, and equipment guidance in 962-205 to Subtopic 962-360.	45-5 35-1	**This update is not applicable – no action required.**

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
Plan Accounting—Defined Contribution Pension Plans—Investments—Other	962-325	This amendment removes the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment would not have a readily determinable fair value and should always use the net asset value per share practical expedient.	55-17	The amended example is not included in *SSAP No. 102–Pensions*. **This update is not applicable – no action required.**

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

Issue: ASU 2020-10, Codification Improvements

Check (applicable entity):

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

Description of Issue: In October 2020, FASB issued *ASU 2020-10 Codification Improvements,* that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

Existing Authoritative Literature:
All changes detailed in ASU 2020-10 were either editorial changes that have no bearing on the presentation of the *Accounting Practices and Procedures Manual* or minor wording changes to guidance that has not been adopted 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):
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 2020-10, Codification Improvements* as not applicable to statutory accounting. This guidance is not applicable as it pertains to editorial changes and codification paragraphs which were not previously adopted for statutory accounting.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/G - 23-20 - ASU 2020-10 - Codification Improvements.docx

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

Issue: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

Check (applicable entity):

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

Description of Issue:
On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

Existing Authoritative Literature:
The current guidance is in *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, and the transition guidance recommended for deletion is included in the Staff Recommendation section.

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):

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. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the 10 effective period for that transition. The recommended changes are detailed below.

SSAP No. 92—Postretirement Benefits Other Than Pensions

~~107. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 37), and remaining transition assets or obligations (collectively referred to as "unrecognized items") from prior application of SSAP No. 14 that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the ending balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 108.b.). The offset to unassigned funds is reported separately as an "Aggregate Write-In for Other Than Invested Assets" or as an "Aggregate Write-In for Other Liabilities." After recognition, the full unfunded or overfunded status or the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

~~108. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 107, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

a. ~~Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 107, on an individual plan basis, as of January 1, 2013.~~

b. ~~Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 07, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~

i. ~~Ten percent of the calculated surplus impact as of the transition date; and~~

ii. ~~Amortization of the "unrecognized items" (defined in paragraph 107) into net periodic benefit cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of both components in paragraph 108.b.) is subsequently determined to be less than what is amortized for the year (paragraph 108.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.)~~

~~109. If the surplus deferral (paragraph 108.b.) is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the "transition liability") on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 108.b. Reporting entities that elect the transition option in paragraph 108.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

~~110. Reporting entities that elect the transition option in paragraph 108.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 108.b. is not intended (on a net basis for each plan) to result in more favorable subsequent surplus OPEB positions when there are remaining unrecognized liabilities as a result of the reporting entity's initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting this statement, but in no instance should changes (on a net basis for each plan) attributed to OPEB plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity's initial election for surplus deferral. (The guidance in this paragraph was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.)~~

~~111. The transition guidance in paragraphs 107-110 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the accumulated benefit obligation, or the impact of subsequent plan amendments.~~

~~112. Reporting entities electing to apply the transition guidance in paragraph 108.b. must disclose the full transition surplus impact calculated from applying paragraph 107 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under paragraph 107 and the annual amortization amount of the "unrecognized items" into net periodic benefit cost. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.~~

~~113. The requirement to measure plan assets and benefit obligations as of the date of the reporting entity's financial statement year-end is effective for financial statement years beginning January 1, 2014. (The measurement date change will be initially reflected in the December 31, 2014, financial statements.)~~

~~114. In order to transition to a fiscal year-end measurement date, the reporting entity shall remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. The reporting entity shall use those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied.~~

~~115. The reporting entity shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. This would result with the following:~~

~~a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus). That is, the pretax amount recognized as an adjustment to unassigned funds (surplus) is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.~~

~~b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to unassigned funds (surplus). This provision prohibits a reporting entity from early application of the measurement date provisions when the reporting entity has issued financial statements for the prior year without recognition of such a settlement or curtailment.~~

~~c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus) for the fiscal year that the measurement date provisions are applied.~~

~~116. Earlier application of the recognition or measurement date provisions is encouraged, however, early applications must be for all of the reporting entity's benefit plans. If early application is elected, the transition date shall reflect the January 1st of the year in which this standard is initially applied. Retrospective application is not permitted.~~

SSAP No. 102—Pensions

~~92. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and remaining transition assets or obligations from prior application of SSAP No. 89 (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 93.b.). The offset to unassigned~~

~~funds is reported separately as an "Aggregate Write-In for Other-Than-Invested Assets" or as an "Aggregate Write-In for Other Liabilities." After recognition, the full unfunded or overfunded status of the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

~~93. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 92, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

~~a. Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 92, on an individual plan basis, as of January 1, 2013.~~

~~b. Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 92, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~

~~i. Ten percent of the calculated surplus impact as of the transition date;~~

~~ii. Amortization of the "unrecognized items" (defined in paragraph 92) into net periodic pension cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds (surplus);~~

~~iii. Amount necessary to establish a total liability that is equal to any unfunded accumulated benefit obligation (the accumulated benefit obligation less the fair value of plan assets).~~

~~94. If the surplus deferral (paragraph 93.b.) is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the "transition liability") on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 93.b. Reporting entities that elect the transition option in paragraph 93.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

~~95. Reporting entities that elect the transition option in paragraph 93.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 93.b. is not intended (on a net basis for each plan) to result in more favorable, subsequent surplus pension positions when there are remaining unrecognized liabilities as a result of the reporting entity's initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting SSAP No. 102, but in no instance should changes (on a net basis for each plan) attributed to~~

pension plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity's initial election for surplus deferral. The guidance in this paragraph was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.

96. The transition guidance in paragraphs 92-95 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation, or the impact of subsequent plan amendments.

97. Reporting entities electing to apply the transition guidance in paragraph 93.b. must disclose the full transition surplus impact calculated from applying paragraph 92 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under paragraph 92, the annual amortization amount of the "unrecognized items" into net periodic pension cost, the amount of the unfunded accumulated benefit obligation, and the remaining unrecognized transition impact. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.

EXHIBIT A – IMPLEMENTATION GUIDE

Note: After transition, new "unrecognized" amounts will be reflected in the year-end funded status, but not yet reflected in unassigned funds. Therefore, additional entries will be needed at the end of each year to recognize these new "unrecognized" amounts in unassigned funds. (An example includes gains and losses that will be included in unassigned funds (surplus), but not recognized in net periodic pension cost if they do not exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets.) The entries in the implementation guide focus on the transition impact, and subsequent entries for "unrecognized" items have not been included within the illustrations.

Transition Implementation

1. Overfunded Plan with Prepaid Benefit Cost

Consideration of contributions or tax effects are not reflected in this example.

Example 1	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(6,240)	$(6,240)
Plus: Non-Vested Liability	(100)*	(100)
Total Accumulated Benefit Obligation	$(6,340)	$(6,340)
Projected Benefit Obligation	$(6,437)	$(6,437)
Plus: Non-Vested Liability	(100)	(100)
Total PBO	$(6,537)	$(6,537)
Plan Assets at Fair Value	$9,268	$9,268
Funded Status	$2,731	$2,731
Transition Obligation / (Asset)	$36	
Prior Service Cost	214	
Prior Service Cost (Non-Vested)	100	
Unrecognized Losses / (Gains)	2,465	
Total Unrecognized Items	$2,815	–

Net Overfunded Plan Asset / (Liability for Benefits)	$5,546	$2,731

~~*The amount shown for December 31, 2012 reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.~~

~~Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.~~

~~1a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"~~

~~1. Unassigned Funds – Transition Obligation 36~~
~~Unassigned Funds – Prior Service Cost 214~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 100~~
~~Unassigned Funds – Unrecognized Losses 2,465~~
~~Overfunded Plan Asset 2,815~~
~~*(Aggregate Write-Ins for Other-Than-Invested Assets)*~~

~~*For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing prepaid with an offset to unassigned funds.*~~

~~2. Change in Nonadmitted – Overfunded Plan Asset 2,815~~
~~*(Aggregate Write-Ins for Other-Than-Invested Assets)*~~
~~Unassigned Funds 2,815~~

~~*This entry illustrates the impact to the "change in nonadmitted" as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition.*~~

~~1b. December 31, 2013 – Recognition of Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~*(Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. As, this illustration is in an overfunded status, there is no surplus deferral. Recognition of net periodic cost, including amortization of the "unrecognized items" will occur each year regardless if surplus deferral is elected.)*~~

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	550
Interest Cost	150
Expected Return on Plan Assets	(250)
Total	*450*
Amortization of:	
o Transition Obligation	7.2
o Prior Service Cost	42.8

o Prior Service Cost (nonvested)	20
o Unrecognized Losses	493
Total	*563*
Total Net Periodic Pension Cost	**1,013**

1. Net Periodic Pension Cost 1,013
   Prepaid Benefit Cost 1,013
   (Aggregate Write-Ins for Other-Than-Invested Assets)

This entry recognizes the periodic pension cost with an offset to the prepaid pension asset. (A prepaid benefit cost is created when cumulative contributions to a pension plan exceed cumulative net periodic pension costs. Thus, a prepaid benefit cost can only be reduced through the recognition of pension cost.)

2. Overfunded Plan Asset 563
   (Aggregate Write-Ins for Other-Than-Invested Assets)
   Unassigned Funds – Transition Obligation 7.2
   Unassigned Funds – Prior Service Cost 42.8
   Unassigned Funds – Prior Service Cost (Nonvested) 20
   Unassigned Funds – Unrecognized Losses 493

This entry recognizes the transition amounts amortized through net periodic pension cost. The offset is to unassigned funds (as unassigned funds was used for the initial recognition of the unrecognized items). As this plan continues to be overfunded, these amounts are offset to overfunded plan assets.

3. Change in Nonadmitted - Prepaid Benefit Cost 1,013
   (Aggregate Write-Ins for Other-Than-Invested Assets)
   Unassigned Funds 1,013

This entry illustrates the impact of the change in nonadmitted prepaid benefit cost to unassigned funds.

4. Unassigned Funds 563
   Change in Nonadmitted – Overfunded Plan Asset 563
   (Aggregate Write-Ins for Other-Than-Invested Assets)

This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.

1c. December 31, 2014 – Recognition of Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
Total	*3000*
Amortization of:	
o Transition Obligation	7.2
o Prior Service Cost	42.8
o Prior Service Cost (nonvested)	20
o Unrecognized Losses	493
Total	*563*
Total Net Periodic Pension Cost	**3,563**

Note – This example was purposely completed to show a significant amount of periodic pension cost to create an underfunded plan status. This was done strictly for illustration purposes and is not intended to indicate that such significant changes would be expected, although they could occur.

	Debit	Credit
1. Net Periodic Pension Cost	3,563	
Prepaid Benefit Cost *(Aggregate Write-In for Other-Than-Invested Assets)*		3,563
2. Overfunded Plan Asset	1,282	
Unassigned Funds – Transition Obligation		7.2
Unassigned Funds – Prior Service Cost		42.8
Unassigned Funds – Prior Service Cost (Nonvested)		20
Unassigned Funds – Unrecognized Losses		493
Liability for Pension Benefits *(Aggregate Write-In for Other Liabilities)*		719

This entry recognizes the transition amounts that have been recognized through net periodic pension cost, with an offset to unassigned funds. The overfunded plan asset is initially offset, until the plan reaches an unfunded status, which is then reflected through a liability for pension benefits (aggregate write-in for other liabilities).

	Debit	Credit
3. Change in Nonadmitted - Prepaid Benefit Cost	3,563	
Unassigned Funds		3,563
4. Unassigned Funds	1,282	
Change in Nonadmitted - Overfunded Plan Asset		1,282

These entries illustrate the impact of the change in nonadmitted to unassigned funds.

Illustration 1 – Example Paragraph 97 Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. The adoption of SSAP No. 102 did not have a surplus impact on ABC entity as the pension plan was overfunded by more than the transition liabilities. At transition, ABC entity recognized $2,815 in unrecognized transition obligations, prior service costs, and unrecognized losses as components of the ending balance of unassigned funds as of January 1, 2013. This recognition resulted in a financial presentation which reflects the actual $2,731 overfunded status of the plan (fair value of plan assets exceeds the projected benefit obligation) as of January 1, 2013. As required under SSAP No. 102, overfunded plan assets are nonadmitted.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

~~The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):~~

~~**Example 1**~~	~~**Dec. 31, 2012**~~	~~**Jan. 1, 2013**~~
~~Accumulated Benefit Obligation~~	~~$(6,240)~~	~~$(6,240)~~
~~Plus: Non-Vested Liability~~	~~(100)~~	~~(100)~~
~~Total Accumulated Benefit Obligation~~	~~$(6,340)~~	~~$(6,340)~~
~~Projected Benefit Obligation~~	~~$(6,437)~~	~~$(6,437)~~
~~Plus: Non-Vested liability~~	~~(100)~~	~~(100)~~
~~Total PBO~~	~~$(6,537)~~	~~$(6,537)~~
~~Plan Assets at Fair Value~~	~~$9,268~~	~~$9,268~~
~~Funded Status~~	~~$2,731~~	~~$2,731~~
~~Transition Obligation / (Asset)~~	~~$36~~	
~~Prior Service Cost~~	~~214~~	
~~Prior Service Cost (Non-Vested)~~	~~100~~	
~~Unrecognized Losses / (Gains)~~	~~2,465~~	
~~Total Unrecognized Items~~	~~$2,815~~	–
~~Net Overfunded Plan Asset / (Liability for Benefits)~~	~~$5,546~~	~~$2,731~~

~~In the March 31, 2013, financial statements, the $2,731 overfunded plan assets was reflected as follows:~~

- ~~Prepaid Benefit Cost $5,546 (nonadmitted)~~
- ~~Overfunded Plan Asset $(2,815) (nonadmitted)~~

~~These amounts are reported net in Aggregate Write-Ins for Other-Than-Invested Assets: $2,731~~

Illustration of Example 1 – Overfunded Plan with Prepaid Benefit Cost

	Aggregate Write-In for Other-Than-Invested Assets		Nonadmitted Assets	Unassigned Funds	Periodic Pension Cost	Aggregate Write-In for Other Liabilities
	Prepaid Benefit Cost	Overfunded Plan Asset				
Existing Balances 12/31/2012	5,546DR		5,546CR			
Transition Entries – 1/1/2013						
A		2,815CR		2,815DR		
B			2,815DR	2,815CR		
After Transition	**5,546DR**	**2,815CR**	**2,731CR**	–		
After Transition - Net	**2,731DR**		**2,731CR**	–		
A – Recognize "unrecognized items" existing at 1/1/13 transition date (gains or losses, prior service costs or credits, and transition assets or obligations). For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing overfunded plan asset with an offset to unassigned funds. B – Illustrates the impact to the "change in nonadmitted" as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition. At transition, the net balance in aggregate write-ins reflects the overfunded state of the plan.						
Recognition of Net Periodic Pension Cost – 12/31/2013						
C	1,013CR				1,013DR	———
D		563DR		563CR		
E			1,013DR	1,013CR		
F			563CR	563DR		
Net Impact	450CR		450DR	1,013CR	1,013DR	
Ending Balances	**4,533 DR**	**2,252CR**	**2,281CR**	**1,013CR**	**1,013DR**	
Ending Balances-Net	**2,281DR**		**2,281CR**	**–**		
C – Reflects the periodic pension cost with an offset to the prepaid pension asset. D – Recognizes the transition amounts amortized through net periodic pension cost. The offset it to unassigned funds (as that was how the "unrecognized items" were recognized at transition). E/F – Reflects the change in nonadmitted assets to unassigned funds.						
Recognition of Net Periodic Pension Cost – 12/31/2014						
G	3,563CR				3,563DR	
H		1,282DR		563CR		719CR
I			3,563DR	3,563CR		
J			1,282CR	1,282DR		
Net Impact		2,281CR	2,281DR	2,844CR	3,563DR	719CR
Ending Balances	**970 DR**	**970 CR**	–	**2,844CR**	**3,563DR**	
Ending Balances - Net	–		–	**719DR**		**719CR**
G/H – Reflects the periodic pension cost with an offset to the prepaid pension asset. As no contributions have been made, the 2014 pension cost moves the plan from an overfunded to underfunded state. The overfunded plan asset credit is reduced to equally offset the remaining prepaid benefit cost of $970. The underfunded status is then reflected through a liability for pension benefits (aggregate write-in for other liabilities). I/J – Reflects the change in nonadmitted assets to unassigned funds.						

2. Underfunded Plan with Accrued Benefit Cost

Consideration of contributions or tax effects are not reflected in this example.

Example 2	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	$(2,015)	$(2,015)
Plus: Non-Vested Liability	(60)*	(60)
Total Accumulated Benefit Obligation	$(2,075)	$(2,075)
Projected Benefit Obligation	$(2,268)	$(2,268)
Plus: Non-Vested Liability	(60)	(60)
Total PBO	$(2,328)	$(2,328)
Plan Assets at Fair Value	$1,992	$1,992
Funded Status	$(336)	$(336)
Transition Obligation / (Asset)	$(544)	
Prior Service Cost / (Credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	$(52)	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(388)	$(336)

*The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reported within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reported within Aggregate Write-Ins for Liabilities.

2a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"

	Debit	Credit
1. Liability for Pension Benefits *(Aggregate Write-In for Liabilities)*	52	
Unassigned Funds – Prior Service Cost (Nonvested)	60	
Unassigned Funds – Unrecognized Losses	926	
Unassigned Funds – Transition Asset		544
Unassigned Funds – Prior Service Credit		494

For this plan, which is underfunded but has a net unrecognized asset, at transition the entity will improve their surplus presentation by $52 through a contra-liability. Use of the contra-liability is necessary, as if the item were recorded as an asset, it would be nonadmitted and result in a surplus reduction. Although there is a net unrecognized asset, this plan is in an underfunded state.

2b. December 31, 2013 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2012**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	*300*
Amortization of:	
o Transition Obligation (Asset)	(272)
o Prior Service Cost / (Credit)	(247)
o Prior Service Cost (nonvested)	30
o Unrecognized Losses	463
Total	*(26)*
Total Net Periodic Pension Cost	**274**

1. Unassigned Funds – Transition Asset 272
   Unassigned Funds – Prior Service Credit 247
   Unassigned Funds – Prior Service Cost (Nonvested) 30
   Unassigned Funds – Unrecognized Losses 463
   Liability for Pension Benefits 26
   (Aggregate Write-In for Liabilities)

This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost 274
   Accrued Benefit Cost 274

This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.

Note: All references to "accrued benefit cost" represent an unpaid expense liability, these amounts wills be reflected within general expenses due and accrued (life) or LAE/Other Underwriting expenses (p/c).

Note: This example uses a 2-year amortization period of the "unrecognized items." In actuality, amortization periods of each item will vary. Disclosures shall continue to separately present these items.

2c. December 31, 2014 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
Total	*3,000*
Amortization of:	
o Transition Obligation / (Asset)	(272)
o Prior Service Cost / (Credit)	(247)
o Prior Service Cost (nonvested)	30
o Unrecognized Losses	463
Total	*(26)*
Total Net Periodic Pension Cost	**2,974**

1. Unassigned Funds – Transition Asset 272
   Unassigned Funds – Prior Service Credit 247
   Unassigned Funds – Prior Service Cost (Nonvested) 30
   Unassigned Funds – Unrecognized Losses 463
   Liability for Pension Benefits 26
   (Aggregate Write-In for Liabilities)

This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost 2,974
   Accrued Benefit Cost 2,974

This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.

Illustration 2 – Paragraph 97 Example Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. At transition, ABC entity recognized a net $52 asset from unrecognized transition obligations/assets, prior service costs/credits, and unrecognized gains/losses as a component of the ending balance of unassigned funds as of January 1, 2013. This net impact was reflected as a contra-liability as the plan is in an underfunded state.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 2	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(2,015)	$(2,015)
Plus: Non-Vested Liability	(60)	(60)
Total Accumulated Benefit Obligation	$(2,075)	$(2,075)
Projected Benefit Obligation	$(2,268)	$(2,268)
Plus: Non-Vested Liability	(60)	(60)
Total PBO	$(2,328)	$(2,328)
Plan Assets at Fair Value	$1,992	$1,992
Funded Status	$(336)	$(336)
Transition Obligation / (Asset)	$(544)	
Prior Service Cost / (Credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	$(52)	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(388)	$(336)

In the March 31, 2013, financial statements, underfunded pension obligations were reflected as follows:

- Accrued Benefit Cost - $388
- Liability for Pension Benefits (Aggregate Write-In for Liabilities) - ($52)

Illustration of Example 2 – Underfunded Plan with Accrued Benefit Cost

	Net Periodic Cost (Expense Recognition)	Unassigned Funds	Aggregate Write-In for Liabilities	Accrued Benefit Cost
Existing Balance – 12/31/2012		388DR		388CR
Transition Entries – 1/1/2013				
A		52CR	52DR	
After Transition		**336DR**	**52DR**	**388CR**
A. Recognize "unrecognized" items at transition. The above entry reflects the "net" impact, resulting with an unrecognized net asset (contra-liability) and an increase to the surplus presentation. (This unrecognized net asset is reflected as a contra-liability as it does not reflect a prepaid for the overfunding of plan assets. If this was reflected as an asset, it would be nonadmitted.)				
Recognition of Net Periodic Pension Cost – 12/31/2013				
B		26 DR	26 CR	
C	274 DR			274 CR
B. Entry amortizes the transition items (entry is shown net.) Due to the nature of the unrecognized items, (net asset, recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period. C. Entry recognizes the net periodic pension cost, interest cost, expected return on plan assets, and the amortization of the unrecognized items.				
Recognition of Net Periodic Pension Cost – 12/31/2014				
D		26 DR	26 CR	
E	2,974 DR			2,974 CR
D. Entry occurs to amortize the transition items (entry is shown net). Due to the nature of the unrecognized items, (net asset, recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period. E. Entry recognizes net periodic pension cost the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.				

3. Underfunded Plan with Accrued Benefit Cost with Surplus Deferral Elected

Consideration of contributions or tax effects are not reflected in this example.

Example 3	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(1,819)	$(1,819)
Plus: Non-Vested Liability	(103)*	(103)
Total Accumulated Benefit Obligation	$(1,922)	$(1,922)
Projected Benefit Obligation	$(2,099)	$(2,099)
Plus: Non-Vested Liability	(103)	(103)
Total PBO as of January 1, 2012	$(2,202)	$(2,202)
Plan Assets at Fair Value	$0	$0
Funded Status	$(2,202)	$(2,202)
Transition Obligation / (Asset)	$0	
Prior Service Cost	0	
Prior Service Cost (Non-Vested)	103	
Unrecognized Losses / (Gains)	440	
Total Unrecognized Items	543	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(1,659)	$(1,922)

* The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

As illustrated above, the liability for pension benefits as of January 1, 2013, does not equal the underfunded plan status as the entity elected the transition deferral. Rather, the liability for pension benefits equals, at a minimum, the accumulated benefit obligation (ABO) less the plan asset at fair value. (Minimum transition liability that equals the ABO is required in accordance with paragraph 93.) After the transition period, the net overfunded plan asset / (liability for benefits) should equal the funded status of the plan.

3a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"

In accordance with paragraph 93, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the greater of:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Anticipated Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Transition Liability	**263**

Note: Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.)

January 1, 2013 – Transition Date:

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Balances as of 12/31/2012 under SSAP No. 89:
Accumulated Benefit Obligation: $1,819
Accrued Liability: $1,659
SSAP No. 89 Additional Minimum Liability: $160
SSAP No. 89 Admitted Intangible Asset: $160

Unassigned Funds 160
Intangible Asset 160

Additional Minimum Liability 160
Unassigned Funds 160

Application of SSAP No. 102 – Recognition of Unfunded Status with Surplus Deferral:

1. Unassigned Funds – Transition Liability 263
Liability for Pension Benefits 263
(Aggregate Write-In for Liabilities)

This entry represents the minimum transition liability required to be recognized at the transition date. As noted within the transition guidance, an entity may elect to transition the surplus impact over a period not to exceed 10 years. Paragraph 93 provides the specifications on the minimum liability recognized at transition. As this transition liability amount has yet to be recognized through expense (periodic cost), the liability is reflected through "aggregate write-ins for liabilities."

~~3b. December 31, 2013 – Recognition of Net Periodic Pension Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~*Total*~~	~~*300*~~
~~Amortization of:~~	
~~o Prior Service Cost (nonvested)~~	~~20.6~~
~~o Unrecognized Losses~~	~~88~~
~~*Total*~~	~~*108.6*~~
~~**Total Net Periodic Pension Cost**~~	~~**408.6**~~

~~1. Liability for Pension Benefits 108.6~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 20.6~~
~~Unassigned Funds – Unrecognized Losses 88~~

~~*This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.*~~

~~2. Net Periodic Pension Cost 408.6~~
~~Accrued Benefit Cost 408.6~~

~~*This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items.*~~

~~Note: Although the entity elected the transition option for surplus deferral, and the guidance allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize an amount that is at the greater of either 10% of the initial surplus impact or the amortization of the unrecognized items in effect at transition.~~

~~**In this example, the entity will only receive a 3-year deferral** – This illustration assumes 5-year uniform amortization of the transition amounts into expense for illustration purposes only. In practice, the minimum transition liability amounts may not be determinable until the expense is calculated in each future year:~~

~~**Surplus Impact at Transition**~~		~~**Prior Service Cost**~~	~~**Unrealized Losses**~~	
~~Transition Liability:~~	~~543~~	~~103~~	~~440~~	
~~Amount Recognized Jan. 1, 2013~~	~~(263)~~			
~~**Remaining Transition Liability**~~	~~**280**~~			
~~Minimum Transition Liability:~~		~~Anticipated Amortization:~~		~~**Remaining Transition Liability**~~
~~2014~~	~~**108.6**~~	~~20.6~~	~~88~~	~~171.4~~
~~2015~~	~~**108.6**~~	~~20.6~~	~~88~~	~~62.8~~
~~2016~~	~~**62.8**~~	~~12~~	~~50.8~~	~~–~~

~~3c. December 31, 2014 – Recognition of Transition Liability:~~

~~1. Unassigned Funds – Transition Liability 108.6~~
~~Liability for Pension Benefits 108.6~~

~~*(Aggregate Write-In for Liabilities)*~~

~~*This entry represents the minimum transition liability required to be recognized at the subsequent date.*~~

~~3d. December 31, 2014 – Recognition of Net Periodic Benefit Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2014**~~
~~Service Cost~~	~~50~~
~~Interest Cost~~	~~30~~
~~Expected Return on Plan Assets~~	~~(35)~~
~~*Total*~~	~~*45*~~
~~Amortization of:~~	
~~o Prior Service Cost (nonvested)~~	~~20.6~~
~~o Unrecognized Losses~~	~~88~~
~~*Total*~~	~~*108.6*~~
~~**Total Net Periodic Pension Cost**~~	~~**153.6**~~

~~1. Liability for Pension Benefits 108.6~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 20.6~~
~~Unassigned Funds – Unrecognized Losses 88~~

~~2. Net Periodic Pension Cost 153.6~~
~~Accrued Benefit Cost 153.6~~

~~*This entry illustrates the December 2014 entries. The first removes the liability recognized for transition so that it could be recycled through expense, with the second recognizing net periodic cost (including the amortization of the unrecognized items.)*~~

~~3e. December 31, 2015 – Activity within the pension plan has resulted with an overfunded plan.~~

~~As required under paragraph 93, if the fair value of plan assets had changed so that the plan was in an overfunded status, the transition liability would also be impacted with accelerated recognition to the extent the plan is in an overfunded status:~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2015**~~
~~Service Cost~~	~~100~~
~~Interest Cost~~	~~75~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~*Total*~~	~~*125*~~
~~Amortization of:~~	
~~o Prior Service Cost (nonvested)~~	~~20.6~~
~~o Unrecognized Losses~~	~~88~~
~~*Total*~~	~~*108.6*~~
~~**Total Net Periodic Pension Cost**~~	~~**233.6**~~

~~Recognition of Remaining Transition Liability and Net Periodic Pension Cost:~~

~~1. Unassigned Funds – Transition Liability 171.40~~
~~Liability for Pension Benefits 171.40~~
~~*(Aggregate Write-In for Liabilities)*~~

This entry illustrates the immediate recognition of the remaining transition liability

2. Liability for Pension Benefits 108.6
   (Aggregate Write In for Liabilities)
   Unassigned Funds – Prior Service Cost (Nonvested) 20.6
   Unassigned Funds – Unrecognized Losses 88

   This entry reflects the amortization into net periodic pension cost of the "unrecognized items" within unassigned funds. Amortization has not changed with the recognition of the remaining transition liability.

3. Net Periodic Pension Cost 233.60
   Accrued Benefit Cost 233.60

Recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets, and the amortization of unrecognized items.

4. Accrued Benefit Cost 2,456
   Prepaid Benefit Cost 844
   (Aggregate Write In – Assets)
   Cash – Contribution 3,300

This entry recognizes the cash contribution, the elimination of the accrued benefit cost and the establishment of the prepaid benefit cost from the contribution.

5. Liability for Pension Benefits 217
   Overfunded Plan Asset 217
   Since the plan is now in a net overfunded status, the liability for pension benefits is reduced to zero, and offset to the overfunded pension asset (contra-asset).

6. Unassigned Funds (Change in Nonadmitted) 844
   Prepaid Benefit Cost (Nonadmitted) 844

This entry recognizes the prepaid benefit cost that is nonadmitted and the underlying impact on unassigned funds.

7. Overfunded Plan Asset (Nonadmitted) 217
   Unassigned Funds (Change in Nonadmitted) 217

This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.

Example 3 - Comprehensive Illustration

Consideration of contributions or tax effects are not reflected in the example.

Underfunded Plan With Accrued Benefit Cost - Surplus Deferral Elected

		12/31/2012	1/1/2013	12/31/2013	12/31/2014	12/31/2015
ABO		(1,819)	(1,819)	(2,019)	(2,049)	(2,079)
Non-Vested Liability		(103)	(103)	(103)	(103)	(103)
Total ABO	A	(1,922)	(1,922)	(2,122)	(2,152)	(2,182)
-						
PBO	B	(2,099)	(2,099)	(2,399)	(2,444)	(2,569)
Non-Vested Liability	C	(103)	(103)	(103)	(103)	(103)
Total PBO	D	(2,202)	(2,202)	(2,502)	(2,547)	(2,672)
-						
Plan Assets at Fair Value	E	–	–	–	–	3,300
Funded Status	F	(2,202)	(2,202)	(2,502)	(2,547)	628
-						
Items Not Recognized in Unassigned Funds						
Transition Obligation (Asset)		–	–	–	–	–
Prior Service Cost		–	–	–	–	–
Prior Service Cost Non-Vested	G	103	–	–	–	–
Unrecognized Losses (Gains)	H	440	–	–	–	–
Total Unrecognized Items	I	543	–	–	–	–
Transition Items – Aggregate WI	J		(263)		(109)	(171)
Unassigned Funds – Transition	K			109	109	109
Periodic Pension Cost	L			(300)	(45)	(125)
Periodic Pension Cost – Amort.	M			(109)	(109)	(109)
Contribution	N		–	–	–	3,300
Overfunded Plan Asset (Liability for Benefits)	O	(1,659)	(1,922)	(2,222)	(2,376)	628
Unrecognized Transition Items	P		(280)	(280)	(171)	–
Funded Status	Q		(2,202)	(2,502)	(2,547)	628
Liability Reported Beg of Year	R		(1,659)	(1,922)	(2,222)	(2,375)
Recognized Transition Items	S		(263)		(109)	(171)
Unassigned Funds	T			109	109	109
Net Periodic Pension Cost	U		–	(409)	(154)	(235)
Contribution	V		–	–		3,300
Accrued/Prepaid End of Year	W	(1,659)	(1,922)	(2,222)	(2,375)	628
Unrecognized Items	X		(280)	(280)	(171)	0
Funded Status	Y		(2,202)	(2,502)	(2,547)	628
Reporting Lines:	-					
Accrued Benefit Cost	Z	1,659	1,659	2,068	2,221	0
Aggregate WI – Net Asset	AA					628
Aggregate WI – Liability	BB		263	154	154	0
Total Liability/(Asset) Reported	CC	1,659	1,922	2,222	2,376	(628)
Unfunded/(Overfunded) Status	DD		2,202	2,502	2,547	(628)
Liability Not Reported	EE		280	280	171	0

~~**Underfunded Plan with Accrued Benefit Cost - Surplus Deferral Elected**~~

~~**Jan. 1, 2013 - Transition**~~

~~***Entry A** - Recognize Minimum Transition Liability*~~

~~Unassigned Funds~~	~~263~~	
~~Liability for Pension Benefits~~		~~263~~
~~*(Aggregate Write-In for Liabilities)*~~		

~~**Dec. 31, 2013 - Recognize Periodic Pension Cost**~~

~~***Entry A** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry B** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~409~~	
~~Accrued Benefit Cost~~		~~409~~

~~**Dec. 31, 2014 - Recognize Transition and Periodic Pension Cost**~~

~~***Entry A** - Recognize transition liability*~~

~~Unassigned Funds~~	~~109~~	
~~Liability for Pension Benefits~~		~~109~~
~~*(Aggregate Write-In for Liabilities)*~~		

~~***Entry B** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry C** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~154~~	
~~Accrued Benefit Cost~~		~~154~~

~~**Dec. 31, 2015 - Recognize Transition and Periodic Pension Cost**~~

~~***Entry A** - Recognize transition liability*~~

~~Unassigned Funds~~	~~171~~	
~~Liability for Pension Benefits~~		~~171~~
~~*(Aggregate Write-In for Liabilities)*~~		

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~~***Entry B** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry C** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~234~~	
~~Accrued Benefit Cost~~		~~234~~

~~***Entry D** - Recognize Cash Contribution*~~

~~Accrued Benefit Cost~~	~~2,456~~	
~~Prepaid Benefit Cost~~	~~844~~	
~~*(Aggregate Write-In Assets)*~~		
~~Cash Contribution~~		~~3,300~~

~~***Entry E** – Reduce Liability to Zero and Record Overfunded Plan Asset*~~

~~Liability for Pension Benefits~~	~~217~~	
~~Overfunded Plan Asset~~		~~217~~

~~***Entry F** – Recognize Nonadmitted Asset – Prepaid Benefit Cost*~~

~~Unassigned Funds~~	~~844~~	
~~*(Change in Nonadmitted)*~~		
~~Prepaid Benefit Cost (Nonadmitted)~~		~~844~~

~~***Entry G** – Recognize Nonadmitted Asset – Overfunded Plan Asset*~~

~~Overfunded Plan Asset (Nonadmitted)~~	~~217~~	
~~Unassigned Funds (Change in Nonadmitted)~~		~~217~~

~~**Illustration 3 – Paragraph 97 Example Note Disclosure – March 31, 2013:**~~

~~SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. ABC entity elected to utilize the minimum transition option reflected in paragraph 93 of SSAP No. 102. The SSAP requires initial transition liability to be the greater of paragraphs 93.b.i, 93.b.ii., and 93.b.iii.:~~

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Minimum Transition Liability	**263**

Note – Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize each year an amount that is at least equal to the amortization of the unrecognized items in effect at transition. Although the amortization of the transition items into future expenses (paragraph 93.b.ii.) may not be fully determinable at the time of transition (as they are dependent on the future expense calculations), the reporting entity anticipates that the remaining $280 surplus impact from the election of the transition deferral in SSAP No. 102 will be recognized over a 3-year* period.

* This is a reporting entity projection and may be revised based on future expenses and activity.

Recognized Surplus Impact at Transition & Remaining Transition Liability		**Prior Service Cost**	**Unrealized Losses**
Transition Liability:	543	103	440
Amount Recognized Jan. 1, 2013	(263)		
Remaining Transition Liability	**280**		

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 3	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(1,922)	$(1,922)
Projected Benefit Obligation	$(2,099)	$(2,099)
Plus: Non-Vested Liability	(103)	(103)
Total PBO	$(2,202)	$(2,202)
Plan Assets at Fair Value	0	0
Funded Status	($2,202)	($2,202)

~~Transition Obligation / (Asset)~~	~~0~~	
~~Prior Service Cost~~	~~0~~	
~~Prior Service Cost (Non-Vested)~~	~~103~~	
~~Unrecognized Losses / (Gains)~~	~~440~~	
~~Total Unrecognized Items~~	~~543~~	~~–~~
~~Overfunded Plan Asset / (Liability for Benefits)~~	~~(1,659)~~	~~(1,922)~~

~~In the March 31, 2013, financial statements, the $1,922 liability for pension benefits was reflected in the financial statements as follows:~~

- ~~Aggregate Write-Ins for Liabilities: $263~~
- ~~Accrued Benefit Cost: $1,659~~
- ~~Surplus Deferral - Unrecognized Transition Liability - $280~~

~~*(Note – This disclosure shall be completed on a quarterly and annual basis, with updated financial information reflecting the current and prior reporting periods, until the plan is fully funded without any transition liability remaining.)*~~

~~**Illustration 3 – Paragraph 97 Example Note Disclosure – December 31, 2015 – After Overfunded Contribution:**~~

~~At December 31, 2015, ABC entity contributed $3,300 towards the pension plan. This contribution resulted in the plan being in an overfunded status. Pursuant to the requirements of SSAP No. 102, ABC immediately recognized the remaining transition liability ($171.40). Although the transition liability has been fully-recognized to unassigned funds, the amortization of the liability into net periodic pension cost has not changed.~~

~~Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, with the contribution resulting in an overfunded-plan status, ABC entity was restricted to a 3-year transition schedule as follows:~~

~~January 1, 2013 (Transition)~~	~~$263.00~~
~~December 31, 2014~~	~~$108.60~~
~~December 31, 2015~~	~~$171.40~~
~~Total Transition Liability~~	~~$543.00~~

~~In the December 31, 2015, annual financial statements, pension obligations were reflected as follows:~~

- ~~Prepaid Benefit Cost - $844 (Nonadmitted)~~
- ~~Overfunded Plan Asset - $(217) (Nonadmitted)~~

~~These amounts are both reported as Aggregate Write-Ins for Other-Than-Invested Assets resulting in a net $628.~~

4. Underfunded Plan with Prepaid Benefit Cost – No Surplus Deferral Elected

Consideration of contributions or tax effects are not reflected in this example.

Example 4	Dec. 31, 2012[1]	Jan. 1, 2013	Dec. 31, 2013	Jan. 1, 2014	Dec. 31, 2014
Accumulated Benefit Obligation	(1,532)	(1,532)	(1,732)	(1,732)	(1,957)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$ (1,632)	$ (1,632)	(1,832)	(1,832)	(2,057)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,052)	(2,277)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)
Total PBO	$(1,852)	$(1,852)	(2,152)	(2,152)	(2,377)
Plan Assets at Fair Value	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	348	123
Transition Obligation / (Asset)	0	**0**	**0**	**0**	**0**
Prior Service Cost	48	**0**	**0**	**0**	**0**
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**
Unrecognized Losses / (Gains)	600	**0**	**0**	**0**	**0**
Total Unrecognized Items	748	**0**	**0**	**0**	**0**
Net Overfunded Plan Asset / (Liability for Benefits)	**496**	**(252)**	**(552)**	**348**	**123**

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012 immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

January 1, 2013 – Transition Date, Recognize "Unrecognized Items"

	Debit	Credit
A. Unassigned Funds – Prior Service Cost	48	
Unassigned Funds – Prior Service Cost (Non-vested)	100	
Unassigned Funds – Unrecognized Losses	600	
Liability for Plan Benefits *(Aggregate Write-In for Liabilities)*		252
Overfunded Plan Asset *(Aggregate Write-In for Other-Than-Invested Assets)*		496
B. Change in Nonadmitted – Overfunded Plan Asset	496	
Unassigned Funds		496

Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact.

[1] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

~~Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan and establishes the appropriate liability to reflect the unfunded status. (Reporting entities will need to continue to track these categories separately.)~~

~~December 31, 2013 – Recognition of Net Periodic Pension Cost~~
~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~Components of Net Periodic Cost~~	**~~Dec. 31, 2013~~**
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~300~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~
~~Total~~	~~18.70~~
~~Total Net Periodic Pension Cost~~	**~~318.70~~**

~~C. Liability for Pension Benefits 18.70~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Transition Liability 18.70~~

~~This entry occurs prior to amortization of the items recognized at transition. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~D. Net Periodic Pension Cost 318.70~~
~~Prepaid Benefit Cost 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, the prepaid benefit cost will be reduced with the recognition of periodic cost.~~

~~E. Overfunded Plan Asset 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Unassigned Funds 318.70~~

~~Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

~~F. Change in Nonadmitted – Prepaid Benefit Cost 318.70~~
~~Unassigned Funds 318.70~~

~~G. Unassigned Funds 318.70~~
~~Change in Nonadmitted – Overfunded Plan Asset 318.70~~

~~Entries to reflect the change in nonadmitted assets for both entries "D" and "E." These entries offset.~~

H. Unassigned Funds 318.70
Liability for Pension Benefits 318.70
(Aggregate Write-In for Liabilities)

Entry recognizes the unfunded liability from the 2013 net periodic costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is actual return on plan assets different from expected return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry "H" at year-end.

January 1, 2014 – Contribution

	Jan. 1, 2014
Contribution	$900

I. Prepaid Benefit Cost 900
(Aggregate Write-In for Other-Than-Invested Assets)
Cash 900

J. Liability for Pension Benefits 552
(Aggregate Write-In for Liabilities)
Overfunded Plan Asset 552

With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $348.

K. Unassigned Funds 900
Change in Nonadmitted - Prepaid Benefit Cost 900

L. Change in Nonadmitted- Overfunded Plan Asset 552
Unassigned Funds 552

Entries recognize the impact as a result of the nonadmitted overfunded plan asset from entry "I" and "J."

December 31, 2014 – Recognition of Net Periodic Pension Cost

After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	200
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	225
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00

Total	18.70
Total Net Periodic Pension Cost	**243.70**

This example assumes no changes in the amortization timeframe. As noted in footnote 6 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date.

Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.

M. Overfunded Plan Assets 18.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry made to unassigned funds for the amount that will be amortized into periodic pension cost for the current period. Since the plan is currently overfunded, this is offset by overfunded plan asset.

N. Unassigned Funds 18.70
Change in Nonadmitted - Overfunded Plan Asset 18.70

This entry reflects the change in nonadmitted from entry "M."

O. Net Periodic Pension Cost 243.70
Prepaid Benefit Cost 243.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost. Once that amount is exhausted, an accrued liability would be recorded.

P. Change in Nonadmitted - Prepaid Benefit Cost 243.70
Unassigned Funds 243.70

Entries to reflect the change in nonadmitted assets for entry "O."

Example 4 - Underfunded Plan with Prepaid Benefit Cost – No Surplus Deferral Elected:

	Aggregate Write-In For Other-Than-Invested Assets		**Change in Nonadmitted Assets**	**Net Periodic Cost**	**Unassigned Funds**	**Liability for Pension Benefits**	**Cash**
	Overfunded Plan Asset	**Prepaid Benefit Cost**					
Existing Balance 12/31/2012		496 DR		–	496 CR 496 DR	–	

			496 CR[2]				
Transition Entries 1/1/2013							
A	496 CR				748 DR	252 CR	
B			496 DR		496 CR		
Jan. 1, 2013	**496 CR**	**496 DR**	–	–	**252 DR**	**252 CR**	
Jan. 1, 2013 - Net	–		–	–	**252 DR**	**252 CR**	–
Dec. 31, 2013:							
C					18.70 CR	18.70 DR	
D		318.70 CR		318.70 DR[3]			
E	318.70 DR				318.70 CR		
F			318.70 DR		318.70 CR		
G			318.70 CR		318.70 DR		
H					318.70 DR	318.70 CR	
Dec. 31, 2013	**177.30 CR**	**177.30 DR**	–		**552 DR**	**552 CR**	
Dec. 31, 2013 - Net	–		–	–	**552 DR**	**552 CR**	
Jan. 1, 2014 Contribution							
I		900 DR					900 CR
J	552 CR					552 DR	
K			900 CR		900 DR		
L			552 DR		552 CR		
After Contribution	**729.30 CR**	**1077.30 DR**	**348 CR**		**900 DR**	–	**900 CR**
Jan. 1, 2014 - Net	**348 DR**		**348 CR**		**900 DR**	–	**900 CR**
Dec. 31, 2014:							
M	18.70 DR				18.70 CR		
N			18.70 CR		18.70 DR		
O		243.70 CR		243.70 DR[11]			
P			243.70 DR		243.70 CR		
Dec. 31, 2014	**710.60 CR**	**833.60 DR**	**123 CR**		**900 DR**	–	**900 CR**
Dec. 31, 2014 - Net	**123 DR**		**123 CR**		**900 DR**		**900 CR**

5. Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Funded ABO

Consideration of contributions or tax effects are not reflected in this example.

Example 5	**Dec. 31, 2012[4]**	**Jan. 1, 2013**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Jan, 1, 2015**	**Dec. 31, 2015**
Accumulated Benefit Obligation	$(1,032)	$(1,032)	$(1,232)	$(1,457)	$(1,457)	$(1,657)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$(1,132)	$ (1,132)	(1,332)	(1,557)	(1,557)	(1,757)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100

[2] This reflects the change reported in prior years.

[3] Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

[4] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Total PBO	$(1,852)	$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	(677)	223	23
Transition Obligation/(Asset)	0	**0**	**0**	**0**	**0**	
Prior Service Cost	48	**0**	**0**	**0**	**0**	
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**	
Unrecognized Losses/(Gains)	600	**0**	**0**	**0**	**0**	
Total Unrecognized Items	748	**0**	**0**	**0**	**0**	
Net Overfunded Plan Asset/ (Liability for Benefits)	**496**	**(25.20)**	**(325.20)**	**(475.40)**	**223**	**23**
Surplus Impact Deferred		**(226.80)**	**(226.80)**	**(201.60)**	**-**	**-**

Surplus Impact – The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total "unrecognized items" rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected without any impact to surplus even though the plan is underfunded. This is because a reduction in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.

Determine the initial transition surplus impact under the deferral election:

In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	25.20
93.b.ii.	Anticipated Annual Amortization of "Unrecognized Items" (Assume 40-year Uniform Amortization)	18.70
93.b.iii.	Difference Between unfunded ABO and Accrued Benefit Cost. (In this example, ABO is fully funded.)	–
	Transition Liability	**25.20**

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

January 1, 2013 – Transition Date

2. Unassigned Funds ———— 496
   Overfunded Plan Asset ———— 496
   (Aggregate Write-In for Other-Than-Invested Assets)

3. Change in Nonadmitted – Overfunded Plan Asset ———— 496
   Unassigned Funds ———— 496

4. Unassigned Funds – Transition Liability ———— 25.20

Liability for Plan Benefits 25.20
(Aggregate for Write-In Liability)

Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) The first two entries (Entry A & B) have a **ZERO surplus impact** and the third entry recognizes a liability for 10% of the surplus impact calculated at transition as that is the greatest element from paragraph 93.b.

December 31, 2013 – Recognition of Net Periodic Pension Cost
After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.

As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such, unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	300
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**318.70**

Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.

D. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~E. Net Periodic Pension Cost 318.70~~
~~Prepaid Benefit Cost 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)~~

~~F. Overfunded Plan Asset 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Unassigned Funds 318.70~~

~~Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

~~G. Change in Nonadmitted – Prepaid Benefit Cost 318.70~~
~~Unassigned Funds 318.70~~

~~H. Unassigned Funds 318.70~~
~~Change in Nonadmitted – Overfunded Plan Asset 318.70~~

~~Entries to reflect the change in nonadmitted assets for both entries "E" and "F." These entries offset.~~

~~I. Unassigned Funds 318.70~~
~~Liability for Pension Benefits 318.70~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry reflects the unfunded liability from the 2013 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry "I" at year-end.~~

~~December 31, 2014 – Recognition of Deferred Transition Impact~~

~~J. Unassigned Funds – Transition Liability 25.20~~
~~Liability for Pension Benefits 25.20~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. This entry represents the minimum transition liability to be recognized subsequent to transition. Since it is assumed that there is no change in the amortization expectations, and ABO is still funded, this entry reflects 10% of the transition surplus impact.~~

~~December 31, 2014 – Recognition of Net Periodic Pension Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2014**~~
~~Service Cost~~	~~100~~

Interest Cost	75
Expected Return on Plan Assets	(50)
Total	125
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**143.70**

Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.

K. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

L. Net Periodic Pension Cost 143.70
Prepaid Benefit Cost 143.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

M. Overfunded Plan Asset 143.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 143.70

Entry reflects the change in overfunded plan assets as a reduction in the contra-asset from initial transition.

N. Change in Nonadmitted – Prepaid Benefit Cost 143.70
Unassigned Funds 143.70

O. Unassigned Funds 143.70
Change in Nonadmitted – Overfunded Plan Asset 143.70

Entries reflect the change in nonadmitted assets for both entries "L" and "M." These entries offset.

~~P. Unassigned Funds 143.70~~
~~Liability for Pension Benefits 143.70~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry reflects the unfunded liability from the 2014 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry "P" at year-end.~~

~~January 1, 2015 – Recognition of Cash Contribution~~

	~~**Jan. 1, 2015**~~
~~**Contribution**~~	~~$900~~

~~Q. Prepaid Benefit Cost 900.00~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Cash 900.00~~

~~R. Liability for Pension Benefits 475.40~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Overfunded Plan Asset 475.40~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~S. Unassigned Funds 900.00~~
~~Change in Nonadmitted – Prepaid Benefit Cost 900.00~~

~~T. Change in Nonadmitted – Overfunded Plan Asset 475.40~~
~~Unassigned Funds 475.40~~

~~With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $223.~~

~~U. Unassigned Funds 201.60~~
~~Overfunded Plan Asset 201.60~~

~~Since the plan is in an overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.~~

~~V. Change in Nonadmitted – Overfunded Plan Assets 201.60~~
~~Unassigned Funds 201.60~~

~~Entry reflects the change in nonadmitted assets from entry "U."~~

~~December 31, 2015 – Recognition of Net Periodic Pension Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2015**~~
~~Service Cost~~	~~100~~

Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**218.70**

(Previous notes on amortization continue to apply.)

W. Overfunded Plan Asset 18.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.

X. Unassigned Funds 18.70
Change in Nonadmitted – Overfunded Plan Asset 18.70

Entry reflects the change in nonadmitted assets from entry "W."

Y. Net Periodic Pension Cost 218.70
Prepaid Benefit Cost 218.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.

Z. Change in Nonadmitted – Prepaid Benefit Cost 218.70
Unassigned Funds 218.70

Entry reflects the change in nonadmitted assets from entry "Y." This example assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded at year-end in an **additional entry** impacting the Overfunded Plan Asset. If the plan became underfunded due to these changes, then the amount of the underfunding would then be recorded as a Liability for Pension Benefits.

Example: Assume the PBO increased by $100 at year-end due to discount rate changes, etc. This would cause the plan to be underfunded by $77.00.

1. Unassigned Funds 100.00
Overfunded Plan Asset 23.00
Liability for Pension Benefits 77.00

2. Change in Nonadmitted – Overfunded Plan Asset 23.00

Unassigned Funds 23.00

Example 5 - Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Funded ABO:

	Aggregate Write-In For Other-Than-Invested Assets		Change in Nonadmitted Assets	Net Periodic Cost	Unassigned Funds	Liability for Pension Benefits	Cash
	Overfunded Plan Asset	Prepaid Benefit Cost					
Existing Balance 12/31/2012 (This reflects pre-2012 Entries)		496 DR	496 CR[5]	–	496 CR 496 DR	–	
Transition Entries – 1/1/2013							
A	496 CR				496 DR		
B			496 DR		496 CR		
C					25.20 DR	25.20 CR	
Jan 1, 2013	496 CR	496 DR	–	–	25.20 DR	25.20 CR	
Jan 1, 2013 - Net	–		–	–	25.20 DR	25.20 CR	
Dec. 31, 2013:							
D					18.70 CR	18.70 DR	
E		318.70 CR		318.70 DR[6]			
F	318.70 DR				318.70 CR		
G			318.70 DR		318.70 CR		
H			318.70 CR		318.70 DR		
I					318.70 DR	318.70 CR	
Dec. 31, 2013	177.30 CR	177.30 DR	–		325.20 DR	325.20 CR	
Dec. 31, 2013 - Net	–		–	–	325.20 DR	325.20 CR	
Dec. 31, 2014:							
J					25.20 DR	25.20 CR	
K					18.70 CR	18.70 DR	
L		143.70 CR		143.70 DR[14]			
M	143.70 DR				143.70 CR		
N			143.70 DR		143.70 CR		
O			143.70 CR		143.70 DR		
P					143.70 DR	143.70 CR	
Dec. 31, 2014	33.60 CR	33.60 DR	–		475.40 DR	475.40 CR	
Dec. 31, 2014 – Net	–		–	–	475.40 DR	475.40 CR	
Jan. 1, 2015 – Contribution							
Q		900.00 DR					900.00 CR
R	475.40 CR					475.40 DR	
S			900.00 CR		900.00 DR		
T			475.40 DR		475.40 CR		
U	201.60 CR				201.60 DR		
V			201.60 DR		201.60 CR		

[5] This reflects the change reported in prior years.

[6] Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

Jan. 1, 2015 – After Contribution	710.60 CR	933.60 DR	223.00 CR		900 DR	——	900 CR
Jan 1, 2015 - Net	223.00 DR		223.00 CR	–	900 DR	——	900 CR
Dec. 31, 2015:							
W	18.70 DR				18.70 CR		
X			18.70 CR		18.70 DR		
Y		218.70 CR		218.70 DR[14]			
Z			218.70 DR		218.70 CR		
Dec. 31, 2015	691.90 CR	714.90 DR	23.00 CR		900.00 DR		900.00 CR
Dec. 31, 2015 - Net	23.00 DR		23.00 CR		900.00 DR		900.00 CR

6. Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Unfunded ABO

Consideration of contributions or tax effects are not reflected in this example.

Example 6	Dec. 31, 2012[7]	Jan. 1, 2013	Dec. 31, 2013	Dec. 31, 2014	Jan. 1, 2015	Dec. 31, 2015
Accumulated Benefit Obligation	$(1,632)	$(1,632)	$(1,932)	$(2,057)	$(2,457)	(2,457)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$(1,732)	$(1,732)	(2,032)	(2,157)	(2,557)	(2,557)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100
Total PBO	$(1,852)	$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	(677)	223	23
Transition Obligation / (Asset)	0	**0**	**0**	**0**	**0**	
Prior Service Cost	48	**0**	**0**	**0**	**0**	
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**	
Unrecognized Losses / (Gains)	600	**0**	**0**	**0**	**0**	
Total Unrecognized Items	748	**0**	**0**	**0**	**0**	
Net Overfunded Plan Asset / (Liability for Benefits)	**496**	**(132)**	**(432)**	**(582.20)**	**223**	**23**
Additional Minimum Liability (Unfunded ABO)	(32)	0	The concept of an additional minimum liability and related intangible asset for plans with an unfunded ABO is eliminated in SSAP No. 102.			
Intangible Asset	32	0				
Surplus Impact Deferred		**(120)**	**(120)**	**(94.80)**	–	–

Surplus Impact – The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total "unrecognized items" rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected, without any impact to surplus, even though the plan is underfunded. This is because a reduced in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.

Determine the initial transition surplus impact under the deferral election:

In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:

	Minimum Transition Liability	
93.b.i	10% of Calculated Surplus Impact at Transition	25.20
93.b.ii	Anticipated Annual Amortization of "Unrecognized Items" (Assume 40-year Uniform Amortization)	18.70
93.b.iii	Difference Between unfunded ABO and Accrued Benefit Cost.	132.00
	Transition Liability	**132.00**

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

January 1, 2013 – Transition Date

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Unassigned Funds 32
    Intangible Asset 32

Additional Minimum Liability 32
    Unassigned Funds 32

Application of SSAP No. 102 – Recognition of Unfunded Status with Surplus Deferral:

A. Unassigned Funds 496
    Overfunded Plan Asset 496
    (Aggregate Write-In for Other-Than-Invested Assets)

B. Change in Nonadmitted – Overfunded Plan Asset 496
    Unassigned Funds 496

C. Unassigned Funds – Transition Liability 132
    Liability for Pension Benefits 132

[7] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

~~Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) Entries A & B have a **ZERO surplus impact** and the third entry recognizes a liability for the unfunded ABO per the requirements of paragraph 93.b.~~

~~December 31, 2013 – Recognition of Net Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such, unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~300~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~
~~Total~~	~~18.70~~
~~**Total Net Periodic Pension Cost**~~	~~**318.70**~~

~~Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.~~

~~D. Liability for Pension Benefits 18.70~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Transition Liability 18.70~~

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~E. Net Periodic Pension Cost 318.70~~

Prepaid Benefit Cost 318.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

F. Overfunded Plan Asset 318.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 318.70

Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.

G. Change in Nonadmitted – Prepaid Benefit Cost 318.70
Unassigned Funds 318.70

H. Unassigned Funds 318.70
Change in Nonadmitted – Overfunded Plan Asset 318.70

Entries to reflect the change in nonadmitted assets for both entries “E” and “F.” These entries offset.

I. Unassigned Funds 318.70
Liability for Pension Benefits 318.70
(Aggregate Write-In for Liabilities)

Entry reflects the unfunded liability from the 2013 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry “I” at year-end.

December 31, 2014 – Recognition of Deferred Transition Impact

In accordance with paragraph 93 of SSAP No. 102, the minimum amount recognized each subsequent year shall be an amount that reflects the conditions of paragraph 93.b. As such, the surplus recognized shall be the **greater of:**

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact at Transition	25.20
93.b.ii.	Anticipated Annual Amortization of “Unrecognized Items” (Assume 40-year Uniform Amortization)	18.70
93.b.iii.	Difference Between unfunded ABO and Accrued Benefit Cost/Fair Value of Plan Assets. (Dec. 31, 2014 - Fair value of plan assets together with the Liability for Pension Benefits exceed the ABO.)	–
	Transition Liability	**25.20**

(Previous note on amortization continues to apply.)

J. Unassigned Funds – Transition Liability 25.20
Liability for Pension Benefits 25.20
(Aggregate Write-In for Liabilities)

Entry represents the minimum transition liability to be recognized subsequent to transition. (10% of the transition surplus impact is the greatest component of paragraph 93.b. as of Dec. 31, 2014.)

December 31, 2014 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	100
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	125
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**143.70**

(Previous note on amortization continues to apply.)

K. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.

L. Net Periodic Pension Cost 143.70
Prepaid Benefit Cost 143.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

M. Overfunded Plan Asset 143.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 143.70

Entry reflects the change in overfunded plan assets as a reduction in the contra-asset to correspond with the change in net periodic pension cost. With this entry, the Prepaid Benefit Cost and Overfunded Plan Assets net to zero. This is appropriate as the plan is underfunded and a liability is reflected.

N. Change in Nonadmitted – Prepaid Benefit Cost 143.70
Unassigned Funds 143.70

O. Unassigned Funds 143.70
Change in Nonadmitted – Overfunded Plan Asset 143.70

Entries to reflect the change in nonadmitted assets for both entries "L" and "M." These entries offset.

~~P. Unassigned Funds 143.70~~
~~Liability for Pension Benefits 143.70~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry reflects the full unfunded liability, including impact from the 2014 plan-related costs.~~

~~Note - This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry "P" at year-end.~~

~~January 1, 2015 – Recognition of Cash Contribution~~

	~~**Jan. 1, 2015**~~
~~**Contribution**~~	~~$900~~

~~Q. Prepaid Benefit Costs 900.00~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Cash 900.00~~

~~R. Liability for Pension Benefits 582.20~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Overfunded Plan Asset 582.20~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~S. Unassigned Funds 900.00~~
~~Change in Nonadmitted – Prepaid Benefit Cost 900.00~~

~~T. Change in Nonadmitted – Overfunded Plan Asset 582.20~~
~~Unassigned Funds 582.20~~

~~With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $223.~~

~~U. Unassigned Funds 94.80~~
~~Overfunded Plan Assets 94.80~~

~~As the surplus deferral was elected, with the overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.~~

~~V. Change in Nonadmitted – Overfunded Plan Assets 94.80~~
~~Unassigned Funds 94.80~~

~~Entry reflects the change in nonadmitted assets from entry U.~~

December 31, 2015 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2015**
Service Cost	100
Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**218.70**

(Prior amortization note continues to apply.)

W. Overfunded Plan Asset 18.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

X. Unassigned Funds 18.70
Change in Nonadmitted – Overfunded Plan Asset 18.70

Entry reflects the change in nonadmitted assets from entry "W."

Y. Net Periodic Pension Cost 218.70
Prepaid Benefit Cost 218.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.

Z. Change in Nonadmitted – Prepaid Benefit Cost 218.70
Unassigned Funds 218.70

Entry reflects the change in nonadmitted assets from entry "Y."

Example 6 - Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Unfunded ABO:

	Aggregate Write-In For Other-Than-Invested Assets		**Change in Nonadmitted Assets**	**Net Periodic Cost**	**Unassigned Funds**	**Liability for Pension Benefits**	**Cash**
	Overfunded Plan Asset	**Prepaid Benefit Cost**					
Existing Balance 12/31/2012 (This reflects pre-2012 Entries)		496 DR		–	496 CR 496 DR	–	

			~~496 CR~~[8]				
~~**Transition Entries – 1/1/2013**~~							
~~A~~	~~496 CR~~				~~496 DR~~		
~~B~~			~~496 DR~~		~~496 CR~~		
~~C~~					~~132 DR~~	~~132 CR~~	
~~**Jan 1, 2013**~~	~~**496 CR**~~	~~**496 DR**~~	–	–	~~**132 DR**~~	~~**132 CR**~~	
~~**Jan. 1, 2013 – Net**~~	–		–	–	~~**132 DR**~~	~~**132 CR**~~	–
~~**Dec. 31, 2013:**~~							
~~D~~					~~18.70 CR~~	~~18.70 DR~~	
~~E~~		~~318.70 CR~~		~~318.70 DR~~[9]			
~~F~~	~~318.70 DR~~				~~318.70 CR~~		
~~G~~			~~318.70 DR~~		~~318.70 CR~~		
~~H~~			~~318.70 CR~~		~~318.70 DR~~		
~~I~~					~~318.70 DR~~	~~318.70 CR~~	
~~**Dec. 31, 2013**~~	~~**177.30 CR**~~	~~**177.30 DR**~~	–		~~**432.00 DR**~~	~~**432.00 CR**~~	
~~**Dec. 31, 2013 – Net**~~	–		–	–	~~**432.00 DR**~~	~~**432.00 CR**~~	–
~~**Dec. 31, 2014:**~~							
~~J~~					~~25.20 DR~~	~~25.20 CR~~	
~~K~~					~~18.70 CR~~	~~18.70 DR~~	
~~L~~		~~143.70 CR~~		~~143.70 DR~~[17]			
~~M~~	~~143.70 DR~~				~~143.70 CR~~		
~~N~~			~~143.70 DR~~		~~143.70 CR~~		
~~O~~			~~143.70 CR~~		~~143.70 DR~~		
~~P~~					~~143.70 DR~~	~~143.70 CR~~	
~~**Dec. 31, 2014**~~	~~**33.60 CR**~~	~~**33.60 DR**~~	–		~~**582.20 DR**~~	~~**582.20 CR**~~	
~~**Dec. 31, 2014 – Net**~~	–		–	–	~~**582.20 DR**~~	~~**582.20 CR**~~	–
~~**Jan. 1, 2015 – Contribution**~~							
~~Q~~		~~900 DR~~					~~900 CR~~
~~R~~	~~582.20 CR~~					~~582.20 DR~~	
~~S~~			~~900 CR~~		~~900 DR~~		
~~T~~			~~582.20 DR~~		~~582.20 CR~~		
~~U~~	~~94.80 CR~~				~~94.80 DR~~		
~~V~~			~~94.80 DR~~		~~94.80 CR~~		

[8] ~~This reflects the change reported in prior years.~~

[9] ~~Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.~~

~~**Jan. 1, 2015 – After Contribution**~~	~~**710.60 CR**~~	~~**933.60 DR**~~	~~**223.00 CR**~~		~~**900 DR**~~	~~**—**~~	~~**900 CR**~~
~~**Jan. 1, 2015 – Net**~~	~~**223.00 DR**~~		~~**223.00 CR**~~	–	~~**900 DR**~~	~~**—**~~	~~**900 CR**~~
~~**Dec. 31, 2015:**~~							
~~W~~	~~18.70 DR~~				~~18.70 CR~~		
~~X~~			~~18.70 CR~~		~~18.70 DR~~		
~~Y~~		~~218.70 CR~~		~~218.70 DR~~[17]			
~~Z~~			~~218.70 DR~~		~~218.70 CR~~		
~~**Dec. 31, 2015**~~	~~**691.90 CR**~~	~~**714.90 DR**~~	~~**23 CR**~~		~~**900 DR**~~		~~**900 CR**~~
~~**Dec. 31, 2015 - Net**~~	~~**23 DR**~~		~~**23 CR**~~	–	~~**900 DR**~~	–	~~**900 CR**~~

Staff Review Completed by: Jake Stultz, July 2023

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/H - 23-21 - Remove Transition Language SSAP 92, 102.docx

Interpretation of the
Statutory Accounting Principles (E) Working Group

INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax

INT 23-02 Dates Discussed
August 13, 2023

INT 23-02 References

Current:

SSAP No. 9— Subsequent Events
SSAP No. 101—Income Taxes

INT 23-02 Issue

Key Provisions of the Inflation Reduction Act

1. The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The Act and the CAMT go into effect for tax years beginning after 2022. Reporting entities shall refer to the Act and the resulting regulations and other tax guidance to determine application, but a high-level summary of CAMT is below.

   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.

   b. The CAMT differs from the previous traditional alternative minimum tax (AMT) that applied under pre-2018 tax law in that it starts at a financial statement measure (book income) – not an Internal Revenue Code tax calculation. Adjusted financial statement income does not include other comprehensive income including unrealized gains and losses on available for sale securities. The determination of whether the CAMT applies is made on a tax-controlled group basis (scope determination), the tentative CAMT is based on the group's adjusted financial statement income (not adjusted regular taxable income), and any tax due (liability determination) is based on a comparison of consolidated tentative CAMT to consolidated regular tax.

   c. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes, this could include standalone unaffiliated entities which meet the specified income thresholds) with average annual adjusted financial statement income in excess of $1 billion for three prior taxable years. The threshold is reduced to $100 million in the case of certain foreign-owned corporations. A corporation that meets the applicable threshold is an "applicable corporation." Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular tax liability.

   d. 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.

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e. 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 are acceptable. If the taxpayer is part of a tax-controlled group of corporations, the group's applicable financial statement is the applicable financial statement for each member of the group.

f. To determine its U.S. federal income tax liability, an applicable 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 sum of the regular corporate income tax plus base erosion and anti-abuse tax (BEAT) liability.

g. Any CAMT paid is available indefinitely as a credit carryover that could reduce future regular tax in future years when the regular tax liability is in excess of CAMT tax liability. That is, the CAMT tax credit can be used to reduce the regular tax but not below CAMT liability.

h. A foreign tax credit (FTC) will reduce the tentative minimum CAMT. Note that unused FTCs can be carried forward for 5 years. General business credits can generally be offset up to 75% of regular and minimum tax.

2. The Working Group previously issued *INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* which addressed third quarter 2022 through second quarter 2023. INT 22-02 noted that a reasonable estimate of the CAMT was not possible for those reporting periods and required disclosures.

3. This interpretation is focused on addressing accounting and reporting aspects of the CAMT for third quarter 2023 reporting (reporting period July 1 through September 30, 2023). As most reporting entities will not be above the applicable corporation threshold and will not be subject to the CAMT calculation, this guidance has been developed as an interpretation. While most insurers will not be applicable corporations, this interpretation provides temporary third quarter 2023 statutory accounting guidance for all reporting entities that are or expect to be applicable entities with respect to the CAMT. A separate interpretation is being developed for year-end 2023 and periods thereafter.

4. Although it is likely that most insurers that are applicable corporations will be members of a tax-controlled group of corporations and included in a consolidated federal income tax return with other members of the group, this interpretation applies to all applicable reporting entities. For reporting entities subject to the CAMT, this includes an unaffiliated corporation[1] that files a separate tax return, a member of a tax-controlled group not included in the common parent company's consolidated tax return that files a separate company tax return or a separate consolidated tax return with other members of the group, or as a member of the common parent's consolidated return group.

Interpretation Issues

5. *SSAP No. 101—Income Taxes,* paragraph 7.e. requires the statutory valuation allowance adjustment as a direct reduction in the gross DTA if, based on the weight of available evidence, it is more likely than not that some or all of the gross DTAs will not be realized. Gross DTA less the statutory valuation allowance

[1] As used herein, an "unaffiliated" corporation is one that is not a member of a tax-controlled group.

results in adjusted gross DTAs. The statutory valuation allowance adjustment is not reported as a separate line in the statutory financial statements (it is an off-balance sheet item that reduces the gross DTAs). The statutory valuation allowance is disclosed.

6. The statutory accounting calculation for admissible DTAs is determined using adjusted gross DTAs (gross DTAs reduced by the valuation allowance). For statutory accounting, admittance of adjusted gross DTAs in SSAP No. 101 depends on a three-component calculation, for which the second step limits admittance of adjusted gross DTAs to those that are expected to be realized in a timeframe that does not exceed three years. The actual number of years permitted depends on specifics for each reporting entity (type and other information about the reporting entity), but the maximum timeframe is three years. The last step admits DTAs which can be offset by DTLs.

7. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II[2] subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. For subsequent events identified after the statutory financial statements reporting date (example September 30) but before the statements are filed (example, November 15), reporting entities are generally required by their domestic state to amend their filed statutory financial statements. Under this guidance, as additional information is made available on the impact of the Act, or information becomes available to update estimates and assessments, under existing statutory accounting guidance in SSAP No. 9, reporting entities would need to identify updated estimates as a Type I subsequent event in the audited financial statements.

Issue 1 – Consideration of the Act for Third Quarter 2023 Financial Statements

8. Under statutory accounting guidance, reporting entities filing statutory financial statements would have to consider the applicability of the CAMT and if applicable, attempt to determine the impact on the statutory valuation allowance as well as assess DTAs for admissibility (e.g., realization timeframe). These elements will be collectively referred to as “calculations impacted by the Act” or “calculations impacted by the CAMT.” Exceptions to these calculations impacted by the CAMT have previously been provided under INT 22-02 through second quarter 2023.

9. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for third quarter 2023 (July 1 through September 30, 2023, financial statements.)

Issue 2 – Consideration of Subsequent Events for Third Quarter 2023 Financial Statements

10. SSAP No. 9 requires consideration of subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. An exception to this requirement has also previously been provided under INT 22-02 through second quarter 2023.

11. For reporting entities that materially revise or establish calculations impacted by the CAMT during the third quarter 2023 or immediately subsequent the third quarter (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of

[2] A Type I subsequent event relates to an event or transaction that provides additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Under SSAP No. 9, entities shall recognize in the financial statements the effects of all material Type I subsequent events. A Type II subsequent event pertains to events or transactions that provide evidence to conditions that did not exist at the balance sheet date but arose after that date. Type II events are disclosed in the financial statements.

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the CAMT and any related liabilities), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2023 financial reporting.

INT 23-02 Discussion

12. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.

Response: Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

13. Reporting entities that are aware they will be subject to the CAMT would normally have to reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for the third quarter 2023. The Act was adopted in August 2022; however, entities may continue to have a considerable number of unknown variables for September 30, 2023, reporting. As such, the Working Group has determined that a reasonable estimate might not be determinable for third quarter 2023 interim financial statements for the calculations impacted by the CAMT for some entities.

14. If a reporting entity is an applicable corporation and has determined a reasonable estimate, it shall be disclosed. If a reporting entity is an applicable corporation and cannot determine a reasonable estimate, the reporting entity shall disclose that they expect to be an applicable corporation but have not determined a reasonable estimate.

15. Because reasonable estimates of calculations impacted by the CAMT might not be determinable, reporting entities shall only disclose impacts related to CAMT for third quarter 2023 financial statements for which reasonable estimates are possible, If the reporting entity is an applicable corporation, they shall make the following disclosures regarding the CAMT and the Act:

a. A statement regarding whether the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if it expects to be liable for CAMT in 2023. For example:

i. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it does not expect to be liable for CAMT in 2023.

ii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has not determined as of the reporting date if it will be liable for CAMT in 2023. The third quarter 2023 financial statements do not include an estimated impact of the CAMT because a reasonable estimate cannot be made.

iii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it expects to be liable for CAMT in 2023. The third quarter 2023 financial statements shall disclose the estimated impact of the CAMT.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

16. For third quarter 2023 reporting, CAMT updated estimates or other calculations affected by the Act determined subsequent to third quarter statutory financial statement or filing date shall not be recognized as Type I subsequent events. Meaning, amended third quarter financial statements are not required to reflect updated estimates subsequent to the third quarter filing date and prior to the filing of the third quarter

financial statements. With the disclosure required under Issue 1, additional subsequent event disclosure (such as what would be required for Type II event) is not required.

17. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

INT 23-02 Status

18. The tentative consensuses in this interpretation were adopted on tbd, to provide reporting guidance regarding the calculations impacted by the CAMT and provide limited-scope, limited-time exceptions to the valuation allowance and DTA calculations in response to legislation under SSAP No. 101 as well as Type I subsequent event requirements in SSAP No. 9 for September 30, 2023, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for the third quarter 2023.

19. This interpretation will be automatically nullified on November 16, 202 and as additional guidance for year end 2023 reporting is being separately developed.

20. Further discussion is planned.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/8-13-23 summer national meeting/meeting/i - 23-22 - int 23-02t 3q camt 7-21-23.docx

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

Issue: Actuarial Guideline 51 and Appendix A-010 Interaction

Check (applicable entity):

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

Description of Issue:
In 2017, the National Association of Insurance Commissioners (NAIC) adopted Actuarial Guideline 51, *The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51). Subsequent to the adoption of AG 51, American Academy of Actuaries, Health Practice Council, Financial Reporting and Solvency Committee have 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 (A&H) insurance reserve adequacy, as found in paragraph 24 of 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.*

As an illustration of the observed diversity in practice, consider the following illustrative, simplified example:

1. Company XYZ has three lines of business: long-term care insurance, Medicare Supplement (Med Sup) insurance, and whole life insurance.

2. Cash flow testing performed for the long-term care block in isolation, in accordance with AG 51, shows deficiencies in all tested scenarios.

3. Cash flow testing performed for the entity as a whole, including both the life and A&H business combined, shows significant sufficiencies at the entity level in all tested scenarios.

4. A gross premium valuation performed on the long-term care reserves, in isolation, indicates that those reserves are deficient by $250 million.

5. A gross premium valuation performed on the Medicare Supplement reserves, in isolation, indicates that those reserves contain $150 million of sufficiency.

Given these facts, does Company XYZ need to strengthen its accident and health reserves in order to comply with the requirements of the NAIC *Accounting Practices & Procedures Manual*?

Depending on how one views the intended interaction between AG 51 and Appendix A-010, in this illustrative example one could conclude either that Company XYZ's reserves are adequate, or that they are deficient by $100 million.

Argument that the reserves are adequate:

- Section 4.C of AG 51 sets out conditions for "determining whether additional reserves are necessary" for a block of long-term care insurance.

- In particular, Section 4.C.1 of AG 51 says that "a reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company."

- In light of point 3 above, this implies that Company XYZ does not need to establish any additional reserves for its long-term care block. In effect, here Company XYZ gets to use sufficiencies that exist in its life reserves to avoid needing to strengthen its LTC reserves.

- There had been an exposure draft of AG 51 in February 2017 that contained the following language: "Requirements for standalone analysis for a health insurance major block of contracts, per *Model Regulation #010*, still apply even if aggregation of cash-flow testing results occurs." However, this language was deleted from the version of AG 51 that was adopted later in 2017.

Argument that the reserves are deficient by $100 million:

- Combining points 4 and 5 above, a gross premium valuation performed on Company XYZ's A&H business in total shows a net deficiency of $100 million ($250 million LTC deficiency, offset by $150 million Medicare Supplement sufficiency).

- Paragraph 26 of Appendix A-010 reads, in part, "…a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy."

- Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity's A&H reserves, in total, need to be adequate; nor is AG 51 explicitly referenced within the Valuation Manual Section VM-25, "Health Insurance Reserves Minimum Reserve Requirements," as a source of guidance on minimum reserve requirements.

- Thus, Company XYZ's health reserves, taken as a whole, must at a minimum exceed the reserves produced by a gross premium valuation, regardless of AG 51. This would imply that Company XYZ needs to strengthen its LTC reserves by $100 million, bringing the total deficiency in the gross premium valuation of its A&H reserves to zero.

Existing Authoritative Literature:

Excerpts from *SSAP No. 54R— Individual and Group Accident and Health Contracts* (bolding added):

> 11. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. **A prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.** Statutory reserves meet the definition of liabilities as defined in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. The actuarial methodologies referred to in paragraph 12 meet the criteria required for reasonable estimates in SSAP No. 5R.
>
> 12. **The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820, A-822 (as applicable), the *Valuation Manual* and the actuarial guidelines found in Appendix C of this Manual (as applicable).** Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

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Reserve Adequacy

24. As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be determined on the basis of unearned premium reserves, contract reserves, additional reserves, claim reserves (including claim liabilities), and miscellaneous reserves combined; however, each component shall be computed separately.

Excerpts from Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts* (bolding added)**:**

23. These standards apply to all individual and group health and accident and sickness insurance coverages, including single premium credit disability insurance. All other credit insurance is not subject to Appendix A-010.

24. When an insurer determines that adequacy of its health insurance reserves requires reserves in excess of the minimum standards specified herein, such increased reserves shall be held and shall be considered the minimum reserves for that insurer.

25. With respect to any block of contracts, or with respect to an insurer's health business as a whole**, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.** Such a gross premium valuation will take into account, for contract in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect.

26. Such a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy. Adequate reserves (inclusive of claim, premium and contract reserves, if any) shall be held with respect to all contracts, regardless of whether contract reserves are required for such contracts under these standards.

40. This statement incorporates the requirements of Appendices **A-010,** A-225, A-641, A-820, A-822 (as applicable), the *Valuation Manual,* the Actuarial Standards Board *Actuarial Standards of Practice* and **the actuarial guidelines found in Appendix C** of this manual (as applicable).

Excerpts from NAIC Valuation Manual, Section VM-25:

VM-25: HEALTH INSURANCE RESERVES MINIMUM RESERVE REQUIREMENTS A. Purpose 1. Reserve requirements for individual A&H insurance policies issued on and after the Valuation Manual operative date and reserve requirements for group A&H insurance certificates issued on and after the Valuation Manual operative date are applicable requirements found in the AP&P Manual; Appendix A, which includes A-10; and applicable requirements found in the AP&P Manual Appendix C, which includes Actuarial Guideline XXVIII—Statutory Claim Reserves for Group Long-Term Disability Contracts With a Survivor Income Benefit Provision (AG 28); Actuarial Guideline XLIV—Group Term Life Waiver of Premium Disabled Life Reserves (AG 44); Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47); and Actuarial Guideline L—2013 Individual Disability Income Valuation Table (AG 50).

Excerpts from *Actuarial Guideline 51 - The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)*

"Background. The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-25)* contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and

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reasonableness of LTC reserves. The reserve adequacy testing required by Model #10 and VM-25 does not provide regulators comfort as to the reserve adequacy of companies with material blocks of LTC business. As such, regulators must rely upon asset adequacy analysis required by the *NAIC Valuation Manual* (*VM-30*) to evaluate the solvency position of companies with sizable blocks of LTC business. This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTC block of contracts. In particular, this Guideline….

Asset adequacy analysis specific to all inforce LTC business, and without consideration of results for other block of business within the company, must be performed for valuations associated with the December 31, 2017, and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding identification of key risks. Material assumptions associated with the LTC business shall be determined using moderately adverse deviations in actuarial assumptions.

4.B When determining whether additional reserves are necessary:

1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then additional reserves shall be established as required by section 2.C.2. of *VM-30*.

2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block.

First Page of Exhibit C

The NAIC Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, formerly known as the Life and Health Actuarial Task Force, have been asked on many occasions to assist a particular state insurance department in interpreting a statute dealing with an actuarial topic relative to an unusual policy form or situation not contemplated at the time of original drafting of a particular statute. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, in developing an interpretation or guideline, must often consider the intent of the statute, the reasons for initially adopting the statute and the current situation. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force feel that for those situations which are sufficiently common to all states, that the publishing of actuarial guidelines on these topics would be beneficial to the regulatory officials in each state and would promote uniformity in regulation which is beneficial to everyone. To this end, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force have developed certain actuarial guidelines and will continue to do so as the need arises. **The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.**

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):

Actuarial Guideline 51 was adopted by the Health Insurance and Managed Care (B) Committee in June 2017 and subsequently incorporated into Appendix C of the NAIC *Accounting Practices & Procedures Manual*.

As noted above, the February 2017 exposure draft of what was then called Actuarial Guideline LTC contained different language than the version adopted later that year as AG 51. The following are excerpts from the February 2017 exposure draft of AG LTC, with emphasis added. The bolded italicized language below does not exist, either verbatim or in modified form, within the adopted version of AG 51:

"Background The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-25)* contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. ***For instance, the Model Regulation states, "a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts"; however, other wording in the Model Regulation creates confusion for some on whether the test of adequacy is required at the major block of contract level. In the absence of uniform guidance, insurers may not be determining adequacy of LTC reserves in a uniform manner.*** As such, this Guideline provides uniform guidance and limits to certain assumptions for the asset adequacy testing applied to an insurer's major LTC block of contracts. …"

3.C "When determining whether additional reserves are necessary:

1. In the case where cash-flow testing is used for both LTC business and for the companywide analysis.
   a. A deficiency in the LTC segment may be offset by a projected and justified overall cash-flow testing sufficiency in non-LTC segments. The LTC-related assumptions in the companywide cash-flow testing shall be the same as with the standalone LTC cash-flow testing.
   b. To the extent projected LTC reserve sufficiency is not offset through aggregation, reserves for LTC business shall be increased by any additional reserves required to eliminate the projected reserve insufficiency.
   c. ***Requirements for standalone analysis for a health insurance major block of contracts, per Model Regulation #010, still apply even if aggregation of cash-flow testing results occurs."***

2. "In cases where cash-flow testing is not used for LTC business, reserves for LTC business shall be increased by any additional reserves required by the standalone LTC business asset adequacy analysis to eliminate a reserve insufficiency."

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

To our knowledge the 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.

In May 2022, the actuarial consulting firm Milliman released its seventh triennial survey on long-term care valuation practices.[1] Figure 2 of that report presents information about the approach companies use for aggregating statutory reserve adequacy testing results. The three options shown were "LTC line of business," selected by 8 out of the 20 respondents; "health or life business lines combined," selected by 2 out of the 20; and "company level," selected by 10 out of the 20. Figure 1 of that report presents information about the types of reserve adequacy testing that is performed.

The three options shown were:

1. "GPV only" ("Gross Premium Valuation only") selected by 3 out of the 20 respondents;
2. "Cash flow testing and GPV," selected by 4 out of the 20; and
3. "Cash flow testing only," selected by 13 out of the 20.

Taking these two pieces of data together, it would appear that many of the 20 companies participating in this Milliman survey believe that performing cash flow testing at the legal entity level is enough to satisfy reserve adequacy considerations in light of AG 51, and that there is not a separate requirement for the legal entity's accident and health

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reserves to be adequate in aggregate under a gross premium valuation.

Recommended Conclusion or Future Action on Issue:

The committee recommends that the Working Group issue an interpretation to clarify the intended interaction between AG 51 and Appendix A-010, along the lines of one of the following two statements below, depending on which statement reflects the NAIC's underlying intent:

Statement A: " With respect to an entity having a block of LTC insurance subject to Actuarial Guideline 51, even if Section 4.C of Actuarial Guideline 51 implies that the entity does not need to establish additional reserves for the LTC block, it nevertheless remains true that the entity's accident & health reserves in total must be adequate under a gross premium valuation in accordance with paragraph 26 of Appendix A-010."

Statement B: "With respect to an entity having a block of LTC insurance subject to Actuarial Guideline 51, if Section 4.C of Actuarial Guideline 51 implies that the entity does not need to establish additional reserves for the LTC block, then the reserves for the LTC block are deemed to be adequate for purposes of applying the requirements of paragraph 26 of Appendix A-010 if no other A&H blocks are deficient."

1 https://us.milliman.com/-/media/milliman/pdfs/2022-articles/5-24-22_2021_report_on_survey_of_ltci_valuation.ash

Recommending Party:

American Academy of Actuaries, Health Practice Council
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February 23, 2023

Staff Review Completed by:
Robin Marcotte, July 2023

Staff Recommendation:
This agenda item addresses the February 23 request from the Financial Reporting and Solvency Committee of the Health Practice Council of the American Academy of Actuaries, to the Long-Term Care Actuarial (B) Working Group and to the Statutory Accounting Principles (E) Working Group which requested clarifications regarding some observed diversity in practice across issuers of long-term care insurance with regard to how the guidance in *Actuarial Guideline LI: The application of Asset Adequacy Testing to Long Term Care Insurance Reserves* (AG 51), specifically Section 4.C, on determining when additional reserves may be necessary, interacts with existing guidance on accident and health insurance reserve adequacy, in *SSAP No. 54R—Individual and Group Accident and Health Contracts*, paragraphs 12 and 24 and Appendix A-010*, Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts,* paragraph 26. The fundamental question is regarding whether gross premium valuation only, cash flow testing only or both cash flow testing and gross premium valuation are required.

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose clarifying revisions and an illustration to SSAP No. 54R to clarify that gross premium valuation (under A-010) and cash flow testing (under AG 51) are both required if indicated. In addition, the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group should receive formal notice of the exposure.

The recommendation is based on the following key points:

1. SSAP No. 54R, paragraph 12 references both Appendix A-010 and the Actuarial Guidelines in Appendix C. SSAP No. 54R, paragraph 24 explicitly notes the A-010 requirements for a prospective gross premium valuation as the ultimate test for reserve adequacy.

2. Appendix A-010 is based on a widely adopted NAIC model law 10 *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*. Appendix A-010 and Model 10 require that that an entity's A&H reserves, in total, need to be adequate. The front of Appendix C notes that the Actuarial Guidelines "The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance."

3. The adoption of the AG -51 did not change the provisions of the Model Law 10 or Appendix A-010. The provisions of the model law and Appendix A-010 both require health insurance reserves to be sufficient from a gross premium valuation standpoint on their own.

   a. Paragraph 26 of Appendix A-010 reads, in part, "…a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy."

   b. Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity's A&H reserves, in total, need to be adequate. (Note that amending the Model #10 would require going through the NAIC model law procedures, therefore, until such a process is undertaken.)

   c. AG 51is not explicitly referenced within the *Valuation Manual* Section VM- 25, "Health Insurance Reserves Minimum Reserve Requirements," as a source of guidance on minimum reserve requirements.

4. AG 51 Section 4.C. provides an additional long term care reserves adequacy cash flow test which allows aggregation. The AG 51 cash flow testing is in addition to the requirements of A-010, it does not replace the gross premium valuation requirements of A-010.

Therefore, in response to the example, in the initial illustration, additional reserves are indicated under A-010 and SSAP No. 54R. (Statement A is the correct response for the Illustration on page 1.) In the example provided, a gross premium valuation performed on Company XYZ's A&H business in total shows a net deficiency of $100 million ($250 million LTC deficiency, offset by $150 million Medicare Supplement sufficiency).Therefore, the answer is that the company would need to post an additional $100 million such that the Long-Term Care and Medicare Supplement reserves are sufficient, from a gross premium valuation standpoint, in total.

Proposed revisions to SSAP No. 54R

12. The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820, A-822 (as applicable), the *Valuation Manual* and the actuarial guidelines found in Appendix C of this Manual (as applicable). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Reserve Adequacy

24. As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be determined on the basis of unearned premium reserves, contract reserves, additional reserves, claim reserves (including claim liabilities), and miscellaneous reserves combined; however, each component shall be computed separately. Pursuant to Appendix A-010, paragraph 26 an entity's

accident and health reserves in total must be adequate under a gross premium valuation. The requirements of ***Actuarial Guideline 51 - The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)*** provide a test which indicates whether reserves in addition to the requirements of A-010 are indicated. AG 51 does not change the base requirements of A-010. (See Long Term Care Illustration in Exhibit A)

New Exhibit to SSAP No. 54R

Long-term Care Illustration on Interaction between SSAP No. 54R, and A-010 and AG 51

This illustration is to address the interaction in long term care reserving requirements noted in this statement, Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts* and *Actuarial Guideline 51 - The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51).* At a high level, A-010 is from Model #10 of the same name which provides the minimum requirements. AG 51 is an actuarial guideline which provides a test for whether additional reserves are indicated. AG 51 does not change the base requirements of A-010.

Consider the following illustrative, simplified example:

1. Company XYZ has three lines of business: long-term care insurance, Medicare Supplement (Med Sup) insurance, and whole life insurance.

2. Cash flow testing performed for the long-term care block in isolation, in accordance with Actuarial Guideline 51 (AG 51), shows deficiencies in all tested scenarios.

3. Cash flow testing performed for the entity as a whole, including both the life and A&H business combined, shows significant sufficiency at the entity level in all tested scenarios.

4. A gross premium valuation performed on the long-term care reserves, in isolation, indicates that those reserves are deficient by $250 million.

5. A gross premium valuation performed on the Medicare Supplement reserves, in isolation, indicates that those reserves contain $150 million of sufficiency.

Given these facts, does Company XYZ need to strengthen its accident and health reserves in order to comply with the requirements of the NAIC *Accounting Practices & Procedures Manual*?

Response: Yes, Company XYZ needs to strengthen its accident and health reserves by $100 million. This number is determined by the following:

	Millions
Long term care GPV, reserves are deficient by	($250) million.
Medicare Supplement GPV reserves sufficiency of	$150 million.
Accident and health GPV reserve net deficiency of	**$100 million**

Appendix A-010 paragraph 26 and SSAP No. 54R, paragraph 24 both require gross premium valuation.

Actuarial Guideline 51 is a test for additional reserves. That is, passing AG 51 does not relieve the reporting entity of the requirement of SSAP No. 54R and A-010 to have adequate accident and health reserves indicated by gross premium valuation.

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Summer 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 Accounting Standards Update—Compensation—*Stock Compensation (Topic 718): Scope Application of Profits Interest Awards*	July 10, 2023
Proposed Accounting Standards Update—Financial Instruments—*Credit Losses* (Topic 326): Purchased Financial Assets	August 28, 2023

Proposed Accounting Standards Update—Compensation—*Stock Compensation (Topic 718): Scope Application of Profits Interest Awards*

The FASB is issuing the amendments in this proposed Update to improve generally accepted accounting principles (GAAP) by adding an illustrative example to demonstrate how an entity would apply the scope guidance in paragraph 718- 10-15-3 to determine whether profits interest and similar awards ("profits interest awards") should be accounted for in accordance with Topic 718, Compensation— Stock Compensation.

Certain entities provide employees or other service providers with profits interest awards to align compensation with an entity's operating performance and provide those holders with the opportunity to participate in future profits and/or equity appreciation of the entity. The term profits interest is not defined in GAAP but differentiates those interests from capital interests held by investors that provide those holders with rights to the existing net assets in a partnership. Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, stakeholders have indicated that it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation— General, or other Topics). As a result, stakeholders have highlighted existing diversity in practice.

Currently, entities evaluate the terms, conditions, and characteristics of a profits interest award and apply judgment to determine whether to account for the award under Topic 718 or Topic 710. However, stakeholders have indicated that there is diversity in practice even when evaluating similar fact patterns. Therefore, stakeholders requested examples to clarify when the guidance in Topic 718 should be applied to profits interest awards (referred to herein

as the “scope application issue”). In addition, entities accounting for economically similar awards consistently would benefit investors and other allocators of capital.

The scope application issue, along with other related issues, was identified and discussed by the Private Company Council (PCC) because of the prevalence of profits interest awards among private companies. However, given that the PCC research indicated that certain public business entities (PBEs) also may be required to account for profits interest awards, the PCC recommended that the Board add a project to address the scope application issue for PBEs and entities other than PBEs (that is, all reporting entities). The Board added that project, Scope Application of Profits Interests Awards: Compensation—Stock Compensation (Topic 718), to its technical agenda in December 2022.

The amendments in this proposed Update would apply to all reporting entities that account for profits interest awards as compensation to employees in return for goods or services.

The amendments in this proposed Update would improve GAAP by adding an illustrative example that includes four fact patterns to demonstrate how an entity would apply the scope guidance in paragraph 718-10-15-3 to determine whether a profits interest award should be accounted for in accordance with Topic 718. The fact patterns in the proposed illustrative example focus on the scope conditions in paragraph 718-10-15-3. The proposed illustrative example is intended to reduce (1) complexity in determining whether a profits interest award is subject to the guidance in Topic 718 and (2) existing diversity in practice.

The amendments in this proposed Update would be applied either (1) retrospectively to all prior periods presented in the financial statements or (2) prospectively to profits interest awards granted or modified on or after the effective date. If the proposed amendments are applied prospectively, an entity would be required to disclose the nature of and reason for the change in accounting principle. The effective date and whether early adoption of the proposed amendments should be permitted will be determined after the Board considers stakeholder feedback on the proposed amendments.

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree that the amendments in this proposed Update should apply to all reporting entities (including PBEs and entities other than PBEs)? Please explain why or why not.

Question 2: Is the proposed illustrative example included in paragraphs 718-10- 55-138 through 55-148 to determine whether a profits interest award should be accounted for in accordance with Topic 718 clear and operable? Please explain why or why not. Should the illustrative example include other considerations or exclude any considerations? If yes, please explain how you would change the proposed illustrative example.

Question 3: An entity would be required to apply the proposed amendments either (a) retrospectively to all prior periods presented in the financial statements or (b) prospectively to awards granted or modified on or after the effective date with an associated disclosure that describes the nature of and reason for the change in accounting principle. Do you agree with the proposed transition provisions? If not, why not, and what basis would be more appropriate and why?

Question 4: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than PBEs be different from the amount of time needed by PBEs? Should early adoption be permitted? Please explain your response.

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Staff Review and Commentary:

Comment deadline was July 10, 2023

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

Proposed Accounting Standards Update—Financial Instruments—*Credit Losses (Topic 326): Purchased Financial Assets*

Since the issuance of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Board has monitored and assisted stakeholders with the implementation of Topic 326. Post-Implementation Review (PIR) activities included forming a Credit Losses Transition Resource Group (TRG); conducting outreach with a broad range of stakeholders on costs, benefits, and operability; developing educational materials and staff guidance; conducting educational workshops; and performing an archival review of financial reports.

One area that stakeholders have highlighted in connection with the PIR of Topic 326 is the accounting for acquired financial assets. Financial assets acquired through (1) a business combination, (2) an asset acquisition, and (3) the consolidation of a variable interest entity (VIE) that is not a business are initially recorded at fair value, and an allowance for expected credit losses (ACL or allowance) is separately recognized in accordance with Topic 326. Any purchase discount or premium (the difference between the purchase price and the par value of an acquired financial asset) is subsequently accreted or amortized to interest income in accordance with Topic 310, Receivables.

Topic 326 provides criteria for identifying purchased financial assets with credit deterioration (PCD or PCD assets). PCD assets have experienced a more-than insignificant deterioration in credit quality since origination based on an assessment by the acquirer as of the date of acquisition. That assessment is subjective because Topic 326 does not define what constitutes a "more-than insignificant" deterioration in credit quality. However, the Board clarified in Update 2016-13 its intent that a broad population of purchased financial assets should be eligible for PCD classification—not limited to nonaccrual loans or other "impaired" assets. Acquired financial assets that do not meet the PCD criteria (non-PCD) are accounted for in a manner consistent with originated financial assets. For non-PCD assets, the amount embedded in the purchase price that is attributable to expected credit losses is recognized as a "Day-1" credit loss expense in the income statement.

Under the PCD model, an entity records an allowance and also records the offsetting entry as an addition to the amortized cost basis. Thus, the initial amortized cost basis for PCD assets is an amount equal to the sum of the purchase price and the ACL (commonly referred to as the gross-up approach). The difference, if any, between the amortized cost basis and the par value is a noncredit 2 discount which is accreted or amortized to interest income. Applying the gross-up approach results in the amount embedded in the purchase price attributable to expected credit losses being excluded from interest income.

The initial amortized cost basis for non-PCD assets is equal to the purchase price. An ACL is separately recorded through a charge to credit loss expense equal to the total amount of expected credit losses in the period of acquisition. The purchase discount or premium, if any, is subsequently recognized as interest income using the effective interest rate as of the acquisition date.

Investors, lenders, creditors, and other allocators of capital (collectively, "investors") and preparers noted that two acquisition accounting approaches (PCD and non-PCD) create unnecessary complexity and reduce comparability. The accounting for non-PCD assets, specifically, has been described by stakeholders as unintuitive because a loss is recorded upon the acquisition of financial assets without more-than-insignificant deterioration in credit quality since origination (non-PCD), whereas no loss is recorded upon the acquisition of financial assets with more-than-

insignificant deterioration in credit quality since origination (PCD), which results in accounting that is not economically neutral. To the extent a credit discount is reflected in the fair value and again through a Day-1 allowance for non-PCD assets, the portion reflected in fair value is ultimately reversed as enhanced yield. To compensate for this result, many preparers provide supplemental non-GAAP information that excludes the acquisition accounting accretion effect on yield. In addition, investors explained that the criteria for identifying PCD assets are difficult to understand and are not applied consistently in practice. The majority of feedback (substantially all investors and a majority of practitioners and preparers) from the PIR process suggested that a uniform approach should be applied in the accounting for acquired financial assets and preferred the gross-up approach that is currently applied to PCD assets.

The amendments in this proposed Update would address the comparability and complexity concerns expressed by stakeholders by eliminating the credit deterioration criterion that currently limits the use of the gross-up approach to PCD assets. The proposed Update would require the application of that single accounting approach to all acquired financial assets (with certain limited exceptions, such as available-for-sale [AFS] debt securities).

The amendments in this proposed Update would apply to all entities subject to the guidance in Topic 326 including public business entities, private companies, and not-for-profit entities.

The amendments in this proposed Update would expand the population of financial assets subject to the gross-up approach in Topic 326 that is currently applied to PCD assets. Specifically, an acquirer no longer would be required to determine whether an acquired financial asset is a PCD or non-PCD asset upon acquisition based on the degree of credit deterioration since origination. Instead, the gross-up approach would be applied to all financial assets that are part of a business acquired in a business combination. For financial assets recognized through (1) an asset acquisition or (2) the consolidation of a VIE that is not a business, the acquirer would identify purchased financial assets on the basis of certain criteria that are intended to account for similar transactions in a similar manner. The criteria include a bright-line time-based threshold and a qualitative assessment by the acquirer of its involvement with the origination of the financial asset. When a financial asset is acquired after the bright-line time-based threshold and the acquirer was not involved with the origination, the acquired asset would be accounted for using the gross-up approach.

An acquirer's assessment of involvement with the origination of a financial asset would consider qualitative characteristics that, if present, indicate that the transaction is economically similar to the acquirer originating the financial asset and, therefore, is required to be accounted for by the acquirer in a manner consistent with originated financial assets. The amendments in this proposed Update expand the use of the gross-up approach without affecting the measurement, presentation, or disclosure requirements.

The effective date and whether early adoption of the amendments in this proposed Update would be permitted will be determined after the Board considers stakeholders' feedback on the proposed amendments. The proposed amendments would be applied on a modified retrospective basis to the beginning of the fiscal year that an entity has adopted the amendments in Update 2016-13. A cumulative-effect adjustment, if necessary, would be recorded as of the later of (1) the beginning of that reporting period and (2) the beginning of the earliest period presented.

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: The amendments in this proposed Update would expand the population of acquired financial assets accounted for under the gross-up approach, which currently applies only to PCD assets. Should certain classes of financial assets or specific transactions be included (for example, AFS debt securities) or excluded (for example, credit cards or similar revolving credit arrangements)? Please explain why or why not.

Question 2: Would the proposed amendments enhance comparability and improve the decision usefulness of financial information? Are there specific disclosures related to these proposed amendments that would be useful to investors? Please explain why or why not.

Question 3: Do you foresee operability or auditing concerns in applying the grossup approach to certain classes of financial assets (for example, credit cards or other revolving arrangements), certain types of transactions (for example, business combinations, asset acquisitions, or the consolidation of a VIE that is not a business), or certain classes of financial assets in specific transactions (for example, credit cards or other revolving arrangements in an asset acquisition)? Please describe the nature of those concerns and the magnitude of associated costs, differentiating between one-time costs and recurring costs. Are there practical expedients or implementation guidance that would mitigate your concerns? Are there practical expedients or implementation guidance that would enhance comparability? For any proposed practical expedients suggested, please explain your reasoning.

Question 4: There are no proposed amendments to the gross-up approach as it is currently applied to PCD assets; rather, there are proposed amendments that would expand the population of financial assets that apply the gross-up approach at acquisition. Do you agree that no amendments are needed to the existing gross up approach? Please explain why or why not.

Question 5: Do you agree with the proposed seasoning criteria in paragraph 326- 20-30-15 and 30-16? If not, please explain why or why not and describe any potential alternatives for the Board's consideration.

Question 6: Do you agree with the modified retrospective transition guidance in this proposed Update? Should early adoption be permitted? Please explain why or why not.

Question 7: How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Please explain your response.

Staff Review and Commentary:

Comment deadline is Aug. 28, 2023

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Meeting/K - Review of GAAP Exposures - NOT Updated.docx

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