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Statutory Accounting Principles (E) Working Group

Phoenix, Arizona

March 16, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Phoenix, AZ, March 16, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Todrick Burks (AL); Kim Hudson, Michelle Lo, and Laura Clements (CA); William Arfanis and Jack Broccoli (CT); Rylynn Brown (DE); Cindy Andersen (IL); Stewart Guerin (LA); Judy Weaver and Steve Mayhew (MI); Doug Bartlett and Pat Gosselin (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker and Rachel Hemphill (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Adopted its Feb. 20, 2024; Jan. 29, 2024; Jan. 10, 2024; and 2023 Fall National Meeting Minutes

The Working Group met March 7, 2024, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss the Spring National Meeting agendas.

During its Feb. 20, 2024, meeting, the Working Group took the following action: 1) exposed revisions to *Statement of Statutory Accounting Principles (SSAP) No. 21R—Other Admitted Assets* to incorporate a new measurement method for residual interests; 2) exposed revisions to provide detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and residual interests on Schedule BA (Ref #2023-16); 3) adopted revisions to SSAP No. 21R to incorporate a collateral loan disclosure for year-end 2024; and 4) exposed additional changes that propose collateral loan reporting lines for Schedule BA (Ref #2023-28).

The Working Group conducted an e-vote that concluded Jan. 29, 2024, to expose additional revisions made to the drafts of *SSAP No. 93R—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits* as part of Agenda Item 2022-14 New Market Tax Credits.

During its Jan. 10, 2024, meeting, the Working Group took the following action: 1) adopted *Interpretation (INT) 23-04* *Scottish Re Life Reinsurance Liquidation Questions*; 2) adopted revisions to reject *Accounting Standards Update (ASU) 2016-13, Measurement of Credit Losses on Financial Instruments* (CECL) and related subsequent ASUs; and 3) exposed revisions to expand the transparency of reporting for collateral loans.

Malm made a motion, seconded by Sherman, to adopt the Working Group’s Feb. 20, 2024 (Attachment One-A); Jan. 29, 2024 (Attachment One-B); Jan. 10, 2024 (Attachment One-C); and Dec. 1, 2023 (*see NAIC Proceedings – Fall 2023, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

1. Reviewed Comments on Exposed Items

The Working Group reviewed comments received (Attachment One-D) on its exposed items.

1. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item 2022-14: New Market Tax Credits. Wil Oden (NAIC) stated the agenda item was drafted in response to the Inflation Reduction Act and the subsequent issuance of *ASU 2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, which permitted the application of the proportional amortization method for income tax equity investments. He stated that this agenda item updates the title and broadens the scope of *SSAP No. 93—Investments in Tax Credit Structures*, to include any qualifying tax credit investment, regardless of structure or the type of state or federal tax credit program. Additionally, the title and scope of *SSAP No. 94R—State and Federal Tax Credits* was expanded to include both state and federal purchase tax credits. Oden stated that interested parties submitted comments for the Jan. 29 exposure. He stated that most of the comments provided by interested parties were regarding updates to the risk-based capital (RBC) reporting lines for tax credit investments, though one comment noted an error in the examples, which NAIC staff have since corrected. Oden recommended the Working Group adopt the exposed revisions, which have been updated to reflect suggested example edits from interested parties. He recommended the Working Group sponsor a blanks proposal in the annual statement reporting categories for tax credit investment RBC, using suggestions from the interested parties’ comment letter. Oden recommended the Working Group direct staff to send a referral to the Life Risk-Based Capital (E) Working Group to inform it of planned reporting line changes. He recommended the Working Group direct NAIC staff to prepare an issue paper to document the discussions.

Weaver made a motion, seconded by Sherman, to adopt the exposed revisions to *SSAP No. 34—Investment Income Due* *and Accrued* and SSAP No. 48 (Attachment One-E), SSAP No. 93R (Attachment One-F), and SSAP No. 94R (Attachment One-G), and to direct NAIC staff to complete the recommended actions. The motion passed unanimously.

1. Agenda Item 2023-25

Bruggeman directed the Working Group to agenda item 2023-25: ASU 2023-03 – SEC Updates. Oden stated that agenda item 2023-25 was drafted in response to *ASU 2023-03 – SEC Updates*, which amended various aspects of U.S. Securities and Exchange Commission (SEC) guidance on stock compensation equity-based payments. Oden stated that interested parties had no comments on this item and that NAIC staff recommend the Working Group adopt the exposed revisions to *Appendix D–Nonapplicable GAAP Pronouncements,* to reject ASU 2023-03 as not applicable to statutory accounting.

Walker made a motion, seconded by Bartlett, to adopt revisions to Appendix D to reject ASU 2023-03 (Attachment One-H) as not applicable to statutory accounting. The motion passed unanimously.

1. Agenda Item 2023-27

Bruggeman directed the Working Group to agenda item 2023-27: ASU 2023-04 – SEC Updates – Crypto. Jake Stultz (NAIC) stated this agenda item is specific to ASU 2023-04 paragraphs specifically regarding crypto currency. Stultz stated that the original exposure recommended this be rejected in *Appendix D–Non-Applicable GAAP Pronouncements*. He stated that interested parties did not have any comments and that NAIC staff recommend the Working Group adopt this agenda item.

Walker made a motion, seconded by Malm, to adopt revisions to Appendix D to reject ASU 2023-04 (Attachment One-I) as not applicable to statutory accounting. The motion passed unanimously.

1. Agenda Item 2023-29

Bruggeman directed the Working Group to agenda item 2023-29: IMR/AVR Preferred Stock. Julie Gann (NAIC) stated that this agenda item addresses interest maintenance reserve (IMR) and asset valuation reserve (AVR) preferred stock. She stated that this is an annual statement instruction revision only, and it was identified that the guidance and the annual statement instructions still directed that perpetual preferred stock be allocated between IMR/AVR based on NAIC designation. Gann stated that, previously, guidance was revised so that those are always at fair value, so there was a disconnect between the annual statement instructions and the statutory accounting measurement guidance. She stated that the exposed revisions clarified that only redeemable preferred stock with NAIC designations would go through IMR and that perpetual preferred stock would always go through AVR. Gann stated that interested parties agreed, but they also identified that mandatorily redeemable preferred stock should also be included because since it is mandatorily redeemable, it should also be at fair value. She stated that NAIC staff are recommending f adoption of the exposed revisions with slight revisions to refer to the mandatory redeemable convertible preferred stocks, regardless of whether they are redeemable or perpetual. Gann stated that interested parties approve of the revisions.

Sherman made a motion, seconded by Clark, to adopt the revisions, which will be forwarded as a proposal to the Blanks (E) Working Group, to clarify that realized gains and losses on perpetual preferred stock and mandatory convertible preferred stock shall not be added to IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to AVR (Attachment One-J). The motion passed unanimously.

1. Agenda Item 2023-30

Bruggeman directed the Working Group to agenda item 2023-30: Admissibility Requirements of Investments in Downstream Holding Companies*.* Robin Marcotte (NAIC) stated that the Working Group exposed consistency revisions to the existing guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to update language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. Marcotte stated that interested parties provided comments suggesting the removal of one extra exposed phrase. She stated that NAIC staff recommend the Working Group adopt the exposed revisions with the deletion of the extra exposed phrase.

Clark made a motion, seconded by Bartlett, to adopt the exposed revision with the minor modification proposed by interested parties. The revisions update the language in SSAP No. 97, paragraph 24, on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology (Attachment One-K). The motion passed unanimously.

1. Agenda Item 2023-31

Bruggeman directed the Working Group to agenda item 2023-31: Model 630 Mortgage Guaranty Insurance. Marcotte stated that the Working Group exposed a project to address the updates to the *Mortgage Guaranty Insurance Model Act* (#630). She stated that this model is excerpted in *Appendix A-630 Mortgage Guaranty Insurance,* which is referenced in *SSAP No. 58—Mortgage Guaranty Insurance*. She stated that this agenda item was intended to announce the project and ask for comments on a proposed effective date. Marcotte stated that interested parties had no comments and that NAIC staff recommend the Working Group direct staff to develop updates to SSAP No. 58 and *Appendix A-630—Mortgage Guaranty Insurance* for future discussion. She stated that because there are approximately 10 mortgage guaranty insurers, and they are concentrated in a small number of states, NAIC staff will work with the effected states to establish a proposed effective date.

Bruggeman noted agreement with directing NAIC staff as outlined and noted a motion was not required for the Working Group to direct NAIC staff.

1. Agenda Item 2024-01

Bruggeman directed the Working Group to agenda item 2024-01: Bond Definition – Debt Securities Issued by Funds. Gann stated that this agenda item was a revision to the adopted guidance for the principles-based bond definition in *SSAP No. 26R—Bonds*. She stated that the goal was to clarify the guidance for debt securities issued by funds and that, currently, the guidance adopted allows debt securities issued by SEC registered funds to be classified as issuer credit obligations. She stated that the SEC registration is a key component of that guidance and is a rule component. Gann stated that since the Working Group is trying to make the bond definition principles-based, revisions have been exposed to eliminate that specific rule and instead incorporate a principles-based concept that could be used in determining whether debt security issued by funds meets the criteria of an operating entity and should be recognized as issuer credit obligations.

Gann stated that interested parties requested a small change regarding the description of the amount of debt, proposing a change from marginal to prudent. She stated that a support letter was also received from PineBridge Investments. Gann stated that during the interim with the exposure, the Working Group received several informal comments from both regulators and industry, identifying some interpretations of this guidance that were going beyond the intent. She stated that some companies were interpreting this guidance to allow debt securities from feeder funds or rated notes to automatically be classified as issuer credit obligations, even though equity-type interests backed them. She stated that due to this, NAIC staff are not recommending the adoption of this guidance at this time. Instead, NAIC staff recommend re-exposure with direction to regulators and the industry to work together to develop guidance that accurately identifies what should be permitted as debt securities issued by funds that cannot be extrapolated to also include feeder funds or other collateralized fund obligation (CFO) type investments that are intended to be assessed as asset-back securities. Gann stated that the current guidance has the SEC registration component and that until and unless something else is adopted that replaces that guidance, only debt securities issued by SEC-registered funds would be permitted to be classified as issuer credit obligations under the principles-based bond definition.

Bruggeman stated that the feeder funds were a discussion topic at some point during the bond definition discussion, and there was a lot of back and forth to make sure the Working Group understood how they worked. He stated that the Working Group does not want to start making changes to the project’s original intent and that the point of the revisions was to make the guidance better aligned with the residual’s definition.

Clark stated that the principle is that an asset-backed security (ABS) issuer is an entity that exists with the primary purpose of raising debt capital. He stated that the exposed guidance was trying to better clarify how to evaluate a fund under those criteria. He stated that given a feeder fund’s sole purpose is to raise capital through investors that have to invest in debt instruments but cannot directly invest in a master fund, he is confused how there could be any kind of interpretation that would allow all feeder fund issuances to be issuer credit obligations. He stated that it seems like that would be completely contradictory to what it says, so through this re-exposure period, he will look for some clarification on how the Working Group can avoid that interpretation or help the Working Group understand how that interpretation came to be in the first place.

Mike Reis (Northwestern Mutual), representing interested parties, stated that interested parties support the goal the exposure is trying to achieve. He stated that interested parties had several calls and believed they understood what it meant and thought they had the same conclusion that Clark did on feeder funds. He stated that interested parties look forward to working with the Working Group to achieve the objective without misinterpretation.

Clark made a motion, seconded by Weaver, to re-expose the agenda item for debt securities issued by funds with a request for regulators and industry to provide comment on the proposed language that assists with clarifying the scope of guidance and to the types of debt securities issued by funds that should be considered as operating entities, and the proposed language to better define the extent of debt that may be issued to fund operations. This re-exposure and request for clarification intends to address interpretations from the original exposure that the revised guidance would permit feeder funds (and other structures that raise debt capital) to be classified as issuer credit obligations, which is not intended under the guidance. The motion passed unanimously.

1. Agenda Item 2019-21

Bruggeman directed the Working Group to agenda item 2019-21: SSAP No. 21R - Principles-Based Bond Project. Gann stated that in February, the Working Group exposed an updated SSAP No. 21R for a shortened comment period to allow a final look at proposed revisions to encompass the guidance for non-bond debt securities, the accounting and reporting guidance in the classification of those in scope of SSAP No. 21R, and then to prescribe the measurement method for residual interests. She stated that the component of the non-bond debt securities has been exposed a couple of times now with no comments received. Gann stated that the last couple of exposures were focused on the measurement method for the residual interests. She stated that the way the guidance is currently written is that there is a new amortized cost calculation for residual interests in which a company would calculate the effective yield based on expected cash flows at the time of acquisition, and then as cash flows are received, anything received in accordance with that effective yield would be recognized as interest income. She stated that the amounts received in excess would reduce the book/adjusted carrying value (BACV). Gann stated there is also a practical expedient included where a company could elect to take all cash flows received from residual as a reduction to BACV. She stated that if electing the practical expedient, no interest income would be recognized until the BACV ends at zero. She stated that also under the new SSAP No. 21R measurement method, the recognition of residual interest would be capped at cost. Gann stated that some companies have recorded increases in cost historically, so the current BACV is significantly higher than the cost. She stated that the guidance in SSAP No. 21R is intended to be prospective, so NAIC staff do not necessarily anticipate those to be an elimination, but going forward, recognition of residuals would be kept at cost.

Gann stated that two comments were received from interested parties. One was a minor editorial change on sub-paragraph numbering, and the other had to do with a disclosure component related to *SSAP No. 43R—Loan- Backed and Structured Securities*. She stated that the way the guidance is worded in SSAP No. 21R is that in the non-bond debt security guidance, they would follow SSAP No. 43R for the recognition of other than temporary impairment (OTTI) allocation between IMR and AVR. Gann stated that interested parties provided a comment on the bifurcated impairment disclosure that exists in SSAP No. 43R, and the edit would have expanded the disclosure requirement for SSAP No. 21R to be an individual security reporting if they had bifurcated impairment. She stated that is not what was intended in that disclosure, so NAIC staff are recommending that the Working Group not adopt the interested parties’ change since there already is an aggregate disclosure, and the individual one is only for those with bifurcated impairment. Gann stated that NAIC staff recommend the Working Group adopt SSAP No. 21R, with minor sub-paragraph edits as identified by interested parties. She stated that this will be the last SSAP revised as part of the principles-based bond definition. She stated that, upon adoption, the project should be complete minus the issue paper, which is being drafted for historical documentation purposes. Gann stated that Schedule D was already adopted by the Blanks (E) Working Group, and the only remaining piece on the reporting side is Schedule BA, which is currently exposed, and the adoption consideration should occur in May. She stated that NAIC staff are also working on a comprehensive training program for the bond project and are hoping to have it completed in 2024.

Bruggeman stated that this is planned to be effective Jan. 1, 2025, with early adoption allowed for residuals only. He stated that those companies that are increasing BACV from the original cost should be very conservative and follow the company’s accounting policy.

Kasinow made a motion, seconded by Walker, to re-expose revisions to SSAP No. 21R to incorporate a new measurement method for residual interests. The current revisions incorporate industry’s proposal of an “effective yield with a cap” method, as well as a practical expedient to allow the “cost recovery” method. The motion passed unanimously.

1. Agenda Item 2022-12

Bruggeman directed the Working Group to agenda item 2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*.* Marcotte stated that this agenda item was originally introduced in 2022 and proposed to nullify *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*, as it is inconsistent with guidance in *SSAP No. 25—Affiliates and Other Related Parti*es on affiliated related party transactions regarding economic and non-economic transactions between related parties. Marcotte stated that interested parties recommend replacing the guidance in INT 03-02 with additional guidance in SSAP No. 25 to add a paragraph which would continue to allow the use of book value for the transfer of assets, only related to existing intercompany pooling arrangements and those modifications. She stated that for *SSAP No. 63—Underwriting Pools*, on intercompany pooling, interested parties also proposed additional changes that would continue to allow intercompany pooling arrangements to be held at book value. Marcotte stated that this will be narrow, specific, and only apply to intercompany pooling, and it should not be analogized to other situations. She stated that NAIC staff recommend the Working Group decide between two options. The first option is to nullify and no longer allow an exception for intercompany pooling. The second option, if the Working Group decides to maintain an exception that allows the transfer of assets at book value for these intercompany pooling agreements, NAIC staff suggest that it be narrow and specific. She stated that NAIC staff recommend nullifying INT 03-02 with both options. Marcotte also stated that some states require a Form D filing to review assets being transferred in addition to the reinsurance agreement, but that NAIC staff did not add extra language related to that.

Bruggeman stated that perhaps, in completing the reviews of Form D for reinsurance, the regulator needs to make a comment on the book value or confirm that any assets instead of cash were reported at book value and or market value. He stated that the Working Group should not override what the state requires from a company. He stated that in honing it down to just intercompany pooling adjustments, or especially adding a new company, it makes sense to do it at book value because otherwise the liabilities coming across are different than what the assets are.

Arfanis, Clark, and Hudson expressed support for the exposure with the additional wording suggested by interested parties. Malm suggested that the Working Group refer this issue to the Risk-Focused Surveillance (E) Working Group to provide notification of the changes.

Arfanis made a motion, seconded by Clark, to expose revisions to SSAP No. 63 and SSAP No. 25 to address transfers of assets when modifying intercompany pooling agreements. In addition, the Working Group exposed its intent to nullify INT 03-02. The motion passed unanimously.

1. Agenda Item 2024-06

Bruggeman directed the Working Group to agenda item 2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts*.* Marcotte stated that this agenda item resulted from a referral from the Valuation Analysis (E) Working Group regarding reinsurance risk transfer and reserve credit for a particular form of reinsurance observed by regulators in the life insurance industry. She stated that the referral identified issues on evaluating reinsurance for risk transfer when there is more than one type of reinsurance, and there is an interdependence of the types of reinsurance, including but not limited to an experienced refund based on the aggregate experience. Marcotte stated the Valuation Analysis (E) Working Group noted that these types of reinsurance contracts should be evaluated together and not have separate risk transfer evaluations. She stated that the Working Group also noted concerns with overstated reserve credit due to bifurcated risk transfer analysis and provided an example treaty with coinsurance and a yearly renewable term that had an aggregate experience refund and the inability to independently recapture the separate types of reinsurance. Marcotte stated that the Valuation Analysis (E) Working Group expressed concern that some companies were taking too large of a reserve credit and noted concerns on risk transfer. She stated that NAIC staff recommend exposing new guidance that is derived from *SSAP No. 62R—Property and Casualty Reinsurance, Implementation Guide*. She noted that the source of the guidance in SSAP No. 62R was U.S. generally accepted accounting principles (GAAP), and under GAAP, the proposed guidance is also relevant to long-term contracts.

Bruggeman stated that the Working Group previously made SSAP changes related to reinsurance with the goal of being as consistent as possible across all business types. He stated that in a Form D filing, there cannot be a series of separate transactions and that regulators must look at them together. Bruggeman stated that is what the Valuation Analysis (E) Working Group is attempting to convey.

Clark made a motion, seconded by Walker, to expose revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contracts features, such as experience rating refunds. The exposure also recommends adding a reference in *Appendix A-791—Life and Health Reinsurance Agreements*, paragraph 6, clarifying the yearly renewable term guidance regarding the entirety of the contract. The motion passed unanimously. The Working Group also directed notification of the exposure to VAWG, the Life Actuarial (A) Task Force, and the Reinsurance (E) Task Force.

1. Considered Maintenance Agenda—Pending Listing

Stolte made a motion, seconded by Walker, to expose the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance until May 31, except for agenda item 2024-13, which has a comment deadline of April 19. The motion passed unanimously.

1. Agenda Item 2024-02

Bruggeman directed the Working Group to agenda item 2024-02: ASU 2023-01, Leases (Topic 842), Common Control Arrangements. Stultz stated that this agenda item is a clean-up item to Financial Accounting Standards Board (FASB) Topic 842 which covers two separate issues. He stated that the first issue is an optional practical expedient, specifically for private companies and not for profit companies, that NAIC staff are recommending the Working Group reject. The second issue provides updated guidance for leasehold improvements associated with a lease between entities under common control or within the same holding company group. Stultz stated since assets are going to be held in the same holding company group, it allows companies to factor that in when establishing the life of leasehold improvements. He stated that this issue could impact some companies that have these arrangements and so, in order to keep the statutory accounting guidance for leases as close as possible to U.S. GAAP while also maintaining the operating lease treatment for statutory accounting, NAIC staff recommend the Working Group incorporate this guidance for the leasehold improvements into *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*.

1. Agenda Item 2024-03

Bruggeman directed the Working Group to agenda item 2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets*.* Stultz stated that this agenda item is for accounting guidance and disclosure guidance for crypto assets. He stated that ASU 2023-08 establishes that crypto assets are intangible assets and provides several updates for disclosures. He stated that NAIC staff recommend the Working Group expose the FASB definition of crypto currency into *SSAP No. 20—Nonadmitted Assets* with minor modification to align with statutory accounting language, which would permanently clarify that crypto assets do not meet the definition of an admitted asset for statutory accounting. He also stated that NAIC staff recommend the Working Group maintain existing general interrogatories for crypto assets as that will allow regulators to obtain the cryptocurrency information in situations when companies do hold these assets and, upon adoption of the recommended guidance, nullify *INT 21-01: Accounting for Cryptocurrencies*.

1. Agenda Item 2024-04

Bruggeman directed the Working Group to agenda item *2024-04:* *Conforming Repurchase Agreements*. Gann stated that this agenda item was drafted in response to a referral from the Life Risk-Based Capital (E) Working Group received in January, which addressed conforming repurchase agreements. She stated that the referral was received pursuant to an American Council of Life Insurers (ACLI) request to modify the treatment of repurchase agreements in the life RBC formula, to converge with the treatment of conforming securities lending programs. Gann stated that NAIC staff reviewed the referral and provided an immediate response. She said in that response, it was identified that accounting and reporting are currently different for securities lending and repurchase agreements. As such, before an RBC factor change is considered, further investigation is needed to assess and determine whether convergence of accounting and reporting guidance for securities lending and repurchase agreements is appropriate for statutory accounting. Gann stated that, also in the referral response, it was identified that this topic would be addressed as an agenda item as soon as possible. She stated that NAIC staff have identified several other areas to recommend for Working Group review, including:

* Schedule DL currently only encompasses securities lending and expanding that to repurchase agreements would be part of the agenda item.
* Blanks reporting revisions would be needed to incorporate the RBC factor change for a new line for conforming repurchase agreements.
* An assessment of conforming provisions on Schedule DL.

Gann stated that NAIC staff are recommending exposure of the agenda item and for the Working Group to direct NAIC staff to work with industry and regulators to review these items during the exposure period.

1. Agenda Item 2024-05

Bruggeman directed the Working Group to agenda item 2024-05: Appendix A-791 Life and Health Reinsurance Agreements*.* Marcotte stated that the agenda item is a response to the other Valuation Analysis (E) Working Group exposure sent to the Working Group. She stated that the Valuation Analysis (E) Working Group recommended a clarifying edit to Appendix A-791, Section 2.c’s question and answer (Q&A) section. Marcotte stated that the Valuation Analysis (E) Working Group recommends deleting one sentence within the Q&A section because the sentence was unnecessary and may create confusion and misinterpretation. She stated that NAIC staff recommend exposing the agenda item to remove the sentence and notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force, and the Reinsurance (E) Task Force of the exposure.

1. Agenda Item 2024-07

Bruggeman directed the Working Group to agenda item 2024-07: Reporting of Funds Withheld and Modco Assets. Stultz stated that this agenda item stemmed from the larger IMR project where NAIC staff identified a need to identify assets that are subject to a funds withheld or a modified coinsurance (modco) arrangement. He stated that the goal of this agenda item is to work towards establishing new reporting for funds withheld assets, and then further including a signifier for modco assets. Stultz stated that NAIC staff are recommending the Working Group add a new part to Schedule S for the Life and Fraternal and Health Annual Statements and Schedule F for Property/Casualty and Title, similar to in structure to the current Schedule DL. He stated that this reporting will allow for the reporting of assets that are subject to funds withheld arrangements as well as a signifier for assets subject to a modco arrangement, with the goal of having it flow cleanly into RBC.

1. Agenda Item 2024-08

Bruggeman directed the Working Group to agenda item 2024-08: Consistency Revisions for Residuals. Gann stated that this agenda item will eliminate all the edits that were done previously and will incorporate the guidance into one location. Gann stated that, with the adoption of SSAP No. 21R which includes the definition of residuals, and all of the accounting and reporting guidance, this agenda item will eliminate the definitions that were included in SSAP No. 26R, *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, SSAP No. 43R, and SSAP No. 48, so that there is a single source for the definition of residuals and all of those SSAPs point to the guidance in SSAP No. 21R. She stated that this will be consistent and will eliminate situations where the guidance may be different in one SSAP versus the other. Gann stated that NAIC staff are recommending exposure of all the edits within the agenda item.

1. Agenda Item 2024-09

Bruggeman directed the Working Group to agenda item 2024-09: SSAP No. 2R – Clarification*.* Gann stated that this agenda proposes an editorial change to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*. She stated that NAIC staff were made aware of lingering references that imply that ABS, mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported in the scope of SSAP No. 2R. She stated that those items are no longer allowed to be reported as cash equivalents or short-term investments under revisions already adopted. Gann stated that this agenda item has minor edits to remove those lingering references so there is no confusion that everything that goes within the scope as an asset-backed security, mortgage loan, or a Schedule BA item will no longer be included on Schedule DA or Schedule E, Part 2.

1. Agenda Item 2024-10

Bruggeman directed the Working Group to agenda item 2024-10: SSAP No. 56R – Book Value Separate Accounts*.* Gann stated that this agenda item was drafted to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. Gann stated that SSAP No. 56 anticipates a fair value measurement method, although there is guidance included within supporting fund accumulation contracts (GICs) that allows a book value measurement method. She stated that there is no direct guidance in SSAP No. 56 to identify how transfers should occur from the general account to the separate account. This agenda item is a concept to recommend the Working Group to direct NAIC staff to work with the industry to develop consistent guidance so that all parties are operating with the same approach for SSAP No 56.

1. Agenda Item 2024-11

Bruggeman directed the Working Group to agenda item 2024-11: ASU 2023-09, Improvements to Income Tax Disclosures*.* Oden stated that this agenda item was drafted in response to ASU 2023-09, which was issued to enhance the transparency and decision usefulness of income tax disclosures. Oden stated that the most significant change made by this is a new tax rate reconciliation disclosure, which would require companies to disclose certain information and the difference between its effective tax rate, and the stated federal, state, and foreign income tax rates. He stated that under ASU 2023-09, public companies would be required to disclose detailed quantitative and qualitative disclosures for the tax rate reconciliation while private companies only must provide certain qualitative disclosures. Additionally, ASU 2023-09 also requires all entities to provide additional disclosures on income tax expense and income taxes paid and removes two existing income tax disclosures from the codification. Oden stated NAIC staff recommend that the Working Group expose revisions to adopt ASU 2023-09 with modification to *SSAP No. 101—Income Taxes*. He stated that NAIC staff specifically recommend the adoption of the private company tax rate reconciliation requirement (qualitative disclosures only), both additional disclosures and income tax expense and income taxes paid, and to remove only one of the two income tax disclosures eliminated by ASU 2023-09.

1. Agenda Item 2024-12

Bruggeman directed the Working Group to agenda item 2024-12: Updates to SSAP No. 27*.* Oden stated that this agenda item was developed in response to a question received on the annual statement Note 16 table for reporting off balance sheet risk for derivative contracts. He stated that the current table only allows for three types of derivative contracts to be reported and does not have the equivalent of an “other” category for contracts that do not fit within the three existing categories. Oden stated that it was also noted that *SSAP No. 27—Off-Balance Sheet and Credit Risk Disclosures* references *FAS 105—Disclosure of Information about Financial Instruments with Off-Balance-Sheet*, which was superseded prior to the establishment of the FASB codification. Oden stated that NAIC staff recommend that the Working Group expose this agenda item with revisions to SSAP No. 27 to remove reference to FAS 105 as well as to revise the annual statement instructions.

1. Agenda Item 2024-13

Bruggeman directed the Working Group to agenda item 2024-13: Update SSAP No. 107 Disclosures*.* Marcotte stated that this agenda item was initiated by UnitedHealth Group and recommends updates to the disclosure requirements in *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* to remove disclosures related to transitional reinsurance and the risk corridors programs, which have both expired. She stated that NAIC staff also added additional revisions to remove related parts of the roll forward illustration in Exhibit B of SSAP No. 107 for the expired programs. Marcotte stated that NAIC staff have coordinated with the Blanks (E) Working Group to develop a proposal to have the disclosures removed for the year-end 2024 financial statements.

1. Agenda Item 2024-14EP

Bruggeman directed the Working Group to agenda item 2024-14EP: Accounting Practices and Procedures Manual Editorial*.* Stultz stated that this agenda item recommends editorial revisions to remove the “Revised” and “R” previously intended to identify a substantively revised SSAP from SSAP titles and SSAP references within the manual. NAIC staff consider the “Revised” and “R” identifiers as no longer useful.

1. Considered Maintenance Agenda – Active Listing

A. Agenda Item 2023-26

Bruggeman directed the Working Group to agenda item 2023-26: ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative. Oden stated that this ASU is intended to update certain disclosure requirements so that readers can more easily compare entities subject to existing SEC disclosures with entities that were not previously subject to these disclosures. He stated that the revisions consist of changes that would broaden the scope of disclosures to both private and public entities, as well as miscellaneous clarifications or technical corrections to other disclosures. Oden stated NAIC staff recommend the Working Group expose revisions to adopt with modification certain disclosures from ASU 2023-06 within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. He stated that NAIC staff recommend rejection of the weighted average interest rate disclosure due to concerns about the complexity of the calculation. Oden stated that the Working Group is also requesting input on whether the accounting policy disclosure for cash flows associated with derivatives, Accounting Standards Codification (ASC) 230-10-50-9, would provide useful information to regulators.

Sherman made a motion, seconded by Weaver, to expose revisions to adopt, with modification, certain disclosures from ASU 2023-06 for statutory accounting within SSAP No. 15 and SSAP No. 103. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators. The motion passed unanimously.

1. Discussed Other Matters
2. Discussion of Collateral Loan Reporting

Clark addressed questions received on the reporting of collateral loans for year-end 2024, noting that all collateral loans shall be reported in the collateral loan reporting line on Schedule BA. He noted that it has been identified that some entities have been reporting collateral loans within the non-registered private equity fund reporting lines to allow RBC to be determined based on the type of underlying collateral. Although that reporting line will not be deleted until 2025, he noted that it would be erroneous for companies to continue reporting collateral loans within that line for 2024 unless they have a permitted practice, as it is now explicit that reporting line should not be used for those investments.

1. Review of U.S. GAAP Exposures

Stultz identified two GAAP items currently exposed by the FASB. He stated that comments are not recommended at this time and that NAIC staff recommend review of the final issued ASUs under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

1. Update on the IMR Ad Hoc Subgroup

Gann stated that the IMR Ad Hoc Subgroup has met regularly since its first meeting in October 2023. She stated that discussions have focused on how IMR affects actuarial calculations, the definition and purpose of IMR, the impact of derivatives on IMR, and how reinsurance impacts IMR. Gann stated that the IMR Ad Hoc Subgroup has meetings scheduled through the 2024 Summer National Meeting. She stated that key elements expected as part of the future discussions will be to provide more detail on the derivatives impacting IMR. These discussions are expected to include concepts for how companies determine effectiveness for these “economically effective” derivatives that do not qualify as “accounting effective” under *SSAP No. 86—Derivatives* as well as the concepts reporting entities have used in determining the amortization timeframe for IMR generated from derivative gains/losses.

Gann stated that NAIC staff will be compiling information on the reported 2023 year-end IMR in the statutory financial statements, including the extent that insurance reporting entities have moved to a net negative (disallowed) IMR position, and the extent (if any) companies have exceeded the 10% admittance threshold. She stated that NAIC staff will share information on the reported financial statement info with regulators as soon as possible.

1. IAIS Audit and Accounting Working Group (AAWG Update)

Gann stated that she and Maggie Chang (NAIC) have been recently involved in monitoring International Association of Insurance Supervisors (IAIS) discussions, including the Climate Risk Disclosure Subgroup. Gann stated that there have been many meetings and discussions towards the development of an IAIS paper to provide guidance for supervision of climate-related risks and disclosure. She stated that recent discussions have focused on linking the paper to disclosure requirements in Insurance Core Principle (ICP) 9 (Supervisory Review and Reporting) and ICP 20 (Public Disclosure). She stated that topics including issues with data quality, data validation, metrics, and U.S. stakeholder concerns in public reporting have been highlighted as part of the discussions. Gann stated that discussions have also included the Accounting and Auditing Working Group (AAWG), which has met recently to discuss items including the International Accounting Standards Board (IASB) exposure on proposed amendments to Financial Instruments with Characteristics of Equity, information on the Climate Risk Disclosure Subgroup, and discussions on the International Auditing and Assurance Standards Board (IAASB) exposure draft ISA 240, as well as the Auditor’s Responsibilities Related to Fraud in an Audit of Financial Statements.

Gann stated that this update is intended to inform the Statutory Accounting Principles (E) Working Group regulators and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS AAWG. Any questions on discussions or if additional information is requested, please contact NAIC staff.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Hearing/01 - SAPWG Minutes 3-16-2024 TPR.docx