**Attachment 15**

**Statutory Accounting Principles (E) Working Group**
**2022 Summer National Meeting**
**Comment Letters Received**

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

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

June 3, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Items Exposed for Comment by the Statutory Accounting Principles Working Group on April 4, 2022, with Comments due June 3

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group).

We offer the following comments:

**Ref #2021-20: Effective Derivatives – ASU 2017-12**

The Working Group exposed two documents for public comment. The first document (labeled 21-20 SSAP No. 86 – Exhibit A 3-2-22), proposes revisions in the form of a new Exhibit A (which will replace both Exhibit A and Exhibit B of SSAP No. 86 that adopts with modification U.S. GAAP guidance in determining hedge effectiveness. The second document (labeled 21-20 SSAP No. 86 – Excluded Components - 3-17-22), proposes measurement methods for excluded components in hedging Ref # 2021-20. The Working Group also directed staff to continue to work with industry representatives on other elements within ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities.

Interested parties support the changes and we look forward to working with the staff on the further updates.

**Ref #2022-01: Conceptual Framework – Updates**

The Working Group moved this agenda item to the active listing, categorized as a SAP

clarification, and exposed revisions to the Preamble, SSAP No. 4—*Assets and Nonadmitted Assets* and SSAP No. 5R—*Liabilities, Contingencies and Impairment of Assets* to incorporate 1) updates from FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 7, Presentation which identifies factors to consider when deciding how items should be displayed on the financial statements, and 2) Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements, which updates the definitions of an asset and a liability. The Working Group also exposed two draft issue papers for historical documentation of these SAP clarifications.

Interested parties request an additional 30 days to review this item.

**Ref #2022-02: SSAP No. 48 – Alternative Valuation of Minority Ownership Interests**

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed two possible options for the U.S. GAAP audit exception in SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*. The options are described below:

Option #1 proposes to delete the audited U.S. tax basis equity as a permissible valuation method as this method does not appear to be utilized by insurers.

Option #2 proposes to retain the audited U.S. tax basis equity valuation method but clarifies that the audit must reside at the investee level.

Interested parties recommend that Option #2 be adopted as there are insurers who use this approach for investments in some partnerships.

**Ref #2022-04: ASU 2021-10, Government Assistance**

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 24—*Discontinued Operations and Unusual or Infrequent Items* which incorporate certain disclosures from ASU 2021-10 to supplement existing disclosures regarding unusual or infrequent items.

Interested parties have no comment on this item.

**Ref #2022-05: ASU 2021-09, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities**

The Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to reject ASU 2021-05 in SSAP No. 22R—*Leases*.

Interested parties have no comment on this item.

**Ref :2022-06: ASU 2021-07, Compensation – Stock Compensation**

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 104R—*Share-Based Payments* to incorporate a practical expedient for the current price input, a required component for option-pricing models which are utilized in the determination of fair value for share-based payments.

Interested parties have no comment on this item.

**Ref #2022-07: ASU 2021-08, Business Combinations**

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 47—*Uninsured Plans* and SSAP No. 68—*Business Combinations and Goodwill* to reject ASU 2021-08 for statutory accounting. In addition, the proposed revisions to SSAP No. 68 include notations that the rejection of ASU 2021-08 does not impact the determination of U.S. GAAP book value in an acquired entity.

Interested parties have no comment on this item.

* * *

Thank you for considering interested parties' comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: NAIC staff
Interested parties

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

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

July 19, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Ref# 2022-01: Conceptual Framework – Updates

Dear Mr. Bruggeman:

Interested parties appreciate the extension of the comment deadline and the opportunity to comment on Ref# 2022-01 that was released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) during its meeting on April 4 in Kansas City.

We offer the following comments:

**Ref #2022-01:** Conceptual Framework – Updates

**Liability**

Interested parties are concerned with the change for the liability definition as the FASB notes it will change the definition of a liability, expanding the population of liabilities and it will need to be reviewed on a standard basis. On expanding the population of liabilities, paragraph 12 states that the FASB recognized "the revised definition potentially expands the population of liabilities to include certain obligations to issue or potentially issue an entity's own shares rather than settle an obligation exclusively with assets. In essence, clarifying that instruments with characteristics of both liabilities and equity may in fact be classified as liabilities in certain situations."

We noted that there is not an analysis by the SAPWG of the impact on the various SSAP's of incorporating the guidance. The FASB states that *needs* to be done "Thus, the FASB concluded that the specific facts and circumstances at the standards level (or in the case of statutory accounting, at the SSAP level) must be utilized to determine whether the entity has created a constructive obligation and must recognize a liability." Please see the shaded text from the FASB

excerpts below.

From the Liability Paper:

9. The updated liability definition from Concept Statement No. 8 no longer includes the term *probable* or the phrase *in the future* and *as a result of past transactions or events.* The FASB concluded that the term *probable* has historically been misunderstood as implying that a future obligation must meet a probability to a certain threshold before the definition of a liability was met. Thus, if the probability of a future transfer of an asset (or the requirement to provide a service) was low, a liability would likely not be recognized. In removing the term *probable* (and replacing it with "present obligation"), FASB concluded that in almost all situations, the presence of an obligation will be apparent. It stated that most present obligations are legally enforceable, including obligations arising from binding contracts, agreements, statutes, or other legal or contractual means. Chapter 4 also discusses the prevalence of certain business risks and how to assess if they result in the recognition of a liability. The FASB concluded that while certain businesses have a risk that a future event will cause them to transfer an economic benefit (an asset), the risk itself does not represent a present obligation because exposure to a potential negative consequence does not constitute a present obligation.

10. However, the FASB also stated that situations lacking clear legal or contractual evidence of a present obligation may pose particular challenges that may make it difficult to discern whether a present obligation exists. In these settings, the FASB stated that constructive obligations or other noncontractual obligations are created by circumstance rather than by explicit agreement. In the absence of an explicit agreement, sufficient information to distinguish a present obligation is likely only available at the specific standards level. Thus, the FASB concluded that the specific facts and circumstances at the standards level (or in the case of statutory accounting, at the SSAP level) must be utilized to determine whether the entity has created a constructive obligation and must recognize a liability.

12. When reviewing the substance of the revisions, the FASB concluded that the updated definition resulted in a clearer and more precise definition. Furthermore, while it did not fundamentally change the historical concept of a liability, the revised definition potentially expands the population of liabilities to include certain obligations to issue or potentially issue an entity's own shares rather than settle an obligation exclusively with assets. In essence, clarifying that instruments with characteristics of both liabilities and equity may in fact be classified as liabilities in certain situations.

13. In general, the FASB did not anticipate that the liability definition revisions would result in any material changes in instrument reclassification (e.g., items now being classified as a liability when previously they were not considered liabilities). Again, FASB Concept Statements are not authoritative and thus the guidance in any specific standard will still be utilized for instrument measurement and classification. For statutory accounting purposes, the updated definition should be viewed similarly, that is it does not change fundamental concepts, change current practices, or introduce a new, original or a

modified accounting principle. The revisions to the definition of a liability clarify the definitional language and do not modify the original intent of SSAP No. 5R and thus the changes are deemed to be a statutory accounting principle clarification.

Consistent with the FASB approach that an evaluation needs to be done at the standards level, interested parties recommend that for the case of statutory accounting the Working Group complete an SSAP-by-SSAP analysis to identify potential effects prior to amending the definition of liability to avoid unintended consequences.

* * *

Thank you for considering interested parties' comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: NAIC staff
Interested parties