ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force Dec. 14, 2022, Minutes

Statutory Accounting Principles (E) Working Group Dec. 13, 2022, Minutes (Attachment One)

Statutory Accounting Principles (E) Working Group Nov. 16, 2022, Minutes (Attachment One-A)

Comment Letter Dated Sept. 19, 2022, from Fermat Capital Management, LLC to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Working Capital Finance Investments (WCFI) (Attachment One-A1)

Comment Letter Dated Oct. 19, 2022, from John Garrison on Behalf of The Lease-Backed Securities Working Group to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Exposed Items Related to the Definition of a Bond – Bond Definition, Issue Paper, SSAP No. 26R and SSAP No. 43R (Attachment One-A2)

Comment Letter Dated Oct. 20, 2022, from D. Keith Bell (The Travelers Companies) and Rose Albrizio (Equitable) Representing Interested Parties to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Exposed Items Related to the Definition of a Bond – Bond Definition, Issue Paper, SSAP No. 26R and SSAP No. 43R (Attachment One-A3)

Comment Letter Dated Oct. 7, 2022, from D. Keith Bell (The Travelers Companies) and Rose Albrizio (Equitable) Representing Interested Parties to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Items Exposed with Comments Due Oct. 7, 2022 (Attachment One-A4)

Comment Letter Dated Oct. 28, 2022, from D. Keith Bell (The Travelers Companies) and Rose Albrizio (Equitable) Representing Interested Parties to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax (Attachment One-A5)

Comment Letter Dated Oct. 31, 2022, from Mike Monahan and Paul Graham, American Council of Life Insurers (ACLI) to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Proposal for the NAIC to Fulfil the Original Intent of the Interest Maintenance Reserve (IMR) (Attachment One-A6)

Statutory Accounting Principles (E) Working Group Oct. 24, 2022, Minutes (Attachment One-B)

Comment Letters Received Regarding Exposure of *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act* (Attachment One-B1)

Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act (Attachment One-B2)

Statutory Accounting Principles (E) Working Group Oct. 6, 2022, E-Vote Minutes (Attachment One-C)

Comment Letters Received Regarding the Inflation Reduction Act (Attachment One-C1)

Comments Received on Previously Exposed Items (Attachment One-D)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-09; ASU 2022-01 – Fair Value Hedging – Portfolio Layer Method (Attachment One-E)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-10; ASU 2022-12 – Troubled Debt Restructuring and Vintage Disclosures (Attachment One-F)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-13; Related Parties – Footnote Updates (Attachment One-G)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2021-25; Leasehold Improvements After Lease Termination (Attachment One-H)

INT 22-02: Third Quarter 2022 Through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax (Attachment One-I)

Memorandum Dated Nov. 21, 2022, to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, and Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group,

from NAIC Staff Regarding Update on Working Group Items Included in the List of Macroprudential (E) Working Group Considerations (Attachment One-J)
Review of GAAP Exposures for Statutory Accounting (Attachment One-K)
Blanks (E) Working Group Nov. 17, 2022, Minutes (Attachment Two)
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-12BWG; Effective Annual 2023; Combine the Health Analysis of Operations Supplement Page and the Health Care Receivable Supplement Pages (Exhibits 3 and 3A) in to One Supplement Filing for Health Blank Pages Filed as a Supplement by Life\Fraternal Companies (Attachment Two-A)
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-19BWG Modified; Effective Annual 2023/Annual 2024; Modify the Life Insurance (State Page) to Include the LOB Detail Reported on the Analysis of Operations by Lines of Business Pages; Add Definitions for Life and Annuity Products to the LOB Definitions in the Health Appendix (Attachment Two-B)
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the Nov. 17, 2022, Meeting (Attachment Two-C)
Revised Blanks Agenda Item Submission Form (Attachment Two-D)
Memorandum Dated Oct. 25, 2022, to Pat Gosselin, Chair of the Blanks (E) Working Group, From Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Regarding Third Quarter 2022 Disclosures – INT 22-02 (Attachment Two-E)
State Filing Checklists (Attachment Two-F)

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Draft Pending Adoption

Draft: 1/3/23

Accounting Practices and Procedures (E) Task Force
Tampa, Florida
December 14, 2022

The Accounting Practices and Procedures (E) Task Force met in Tampa, FL, Dec. 14, 2022. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Mike Causey, Vice Chair, represented by Jackie Obusek (NC); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Chris Erwin (AR); Ricardo Lara represented by Kim Hudson and Susan Bernard (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown (DE); David Altmaier represented by Virginia Christy (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); James J. Donelon represented by Melissa Gibson (LA); Gary D. Anderson represented by John Turchi (MA); Timothy N. Schott represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver and Steve Mayhew (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Troy Downing represented by Erin Snyder (MT); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Marlene Caride represented by John Sirovetz (NJ); Chris Nicolopoulos represented by Pat Gosselin (NH); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Michael Humphreys represented by Melissa Greiner (PA); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Thomas Baldwin (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Jon Pike represented by Malis Rasmussen (UT); Scott A. White represented by Greg Chew and Doug Stolte (VA); Kevin Gaffney represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); and Jeff Rude represented by Doug Melvin (WY).

1. Adopted its Summer National Meeting Minutes

Walker directed the members to the Task Force's Summer National Meeting minutes. Hancock made a motion, seconded by Orth, to adopt the Task Force's Aug. 11 minutes (*see NAIC Proceedings – Summer 2022, Accounting Practices and Procedures (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Statutory Accounting Principles (E) Working Group

Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met Dec. 13. During this meeting, the Working Group adopted its Nov. 16, Oct. 24, Oct. 6, and Summer National Meeting minutes. Bruggeman stated that during its Nov. 16 meeting, the Working Group took the following action:

A. Exposed, until Feb. 23, 2023, as new statutory accounting principle (SAP) concepts, a revised *Statement of Statutory Accounting Principles (SSAP) No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities*, and a document that details revisions to other SSAPs to reflect updated proposed guidance under the principles-based bond project.

B. Exposed, until Dec. 1, 2022, revisions to *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* to extend the effective date to include year-end 2022 and first-quarter 2023 with an additional disclosure regarding applicable entities. This INT provides an exception related to accounting impacts of the federal Inflation Reduction Act. This action was taken in lieu of proceeding with *INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax*.

C. Received comments on negative interest maintenance reserve (IMR) in regard to bonds sales in the current rising interest rate environment.

Bruggeman stated that during its Oct. 24 meeting, the Working Group took the following action:

A. Adopted INT 22-02, which includes proposed changes for new required disclosures and allows a subsequent event exception but does not require reporting changes for the third quarter of 2022 as reasonable estimates cannot be made

B. Discussed INT 22-03 and planned further discussion during its Nov. 16 meeting.

Bruggeman stated that during its Oct. 6 meeting, the Working Group took the following action:

A. Exposed INT 22-02 to include accounting exceptions to the federal Inflation Reduction Act for the third quarter of 2022, with required disclosures.

B. Exposed INT 22-03 to address the fourth-quarter 2022 and interim 2023 accounting of the Inflation Reduction Act.

Bruggeman stated that during its Dec. 13 meeting, the Working Group adopted the following clarifications to statutory accounting guidance:

A. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*: Revisions clarify that leasehold improvements shall be immediately expensed upon lease termination, unless limited exceptions are met. (Ref #2021-25)

B. *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions identify foreign open-end investment funds as a fund in which ownership percentage is not deemed to reflect control unless the entity actually controls with the power to direct the underlying company. (Ref #2022-13)

C. *SSAP No. 36—Troubled Debt Restructuring*: Revisions reject *Accounting Standards Update* (*ASU) 2022-02, Troubled Debt Restructurings and Vintage Disclosures* and identify that retained guidance reflects superseded U.S. generally accepted accounted principles (GAAP). (Ref #2022-10)

D. *SSAP No. 86—Derivatives*: Revisions adopt with modification derivative guidance from *ASU 2017-12, Derivatives and Hedging* and *ASU 2022-01, Fair Value Hedging – Portfolio Layer* to include guidance for the portfolio layer method and partial-term hedges. These revisions are effective Jan. 1, 2023, with early adoption permitted. (Ref #2022-09)

E. INT 22-02: *Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax*: Revisions extend INT 22-02 for Dec. 31, 2022, and first-quarter 2023 statutory financial statements. This INT provides an exception that does not require entities to assess valuation allowance and deferred tax asset impacts from the federal Inflation Reduction Act for the third quarter of 2022 through the first quarter of 2023. It also provides subsequent event exceptions.

Bruggeman stated that the Working Group exposed an agenda item and discussion document that proposes a new or revised *SSAP No. 93—Low-Income Housing Tax Property Credit Property Investments* to expand current guidance to capture all tax equity investments that qualify under specified criteria and provide general federal

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business tax credit or state premium tax credits for a public comment period ending Feb. 10, 2023. (Ref #2022-14)

Bruggeman stated that the Working Group exposed the following SAP clarifications to statutory accounting guidance for a public comment period ending Feb. 10, 2023:

A. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets:* Re-exposure revises the definition of a liability to be consistent with the Financial Accounting Standards Boards (FASB) Concepts Statement and directs NAIC staff to collaborate with interested parties on proposed clarifying language. The exposure also included a new *Issue Paper No. 16X—Updates to the Definition of a Liability*. (Ref #2022-01)

B. *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve:* Exposure of the agenda item on IMR guidance focuses on negative IMR. The exposure requested industry to provide potential guardrails and details on unique considerations. It also directed NAIC staff to coordinate a joint regulator discussion with the Life Actuarial (A) Task Force and to develop a memorandum regarding considerations for state insurance regulators. (Ref #2022-19)

C. *SSAP No. 21R—Other Admitted Assets:* Revisions clarify that an asset pledged as collateral must qualify as an admitted invested asset for a collateral loan to be admitted. (Ref #2022-11)

D. SSAP No. 25*:* Revisions clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or that includes the obligations of an affiliated entity, is an affiliated investment. (Ref #2022-15)

E. *SSAP No. 34—Investment Income Due and Accrued:* Exposure proposes additional disclosures for interest income due and paid-in-kind (PIK) interest included in current principal balances. It also supports a blanks proposal to data-capture the disclosure. (Ref #2022-17)

F. *SSAP No. 100R—Fair Value:* Exposure proposes to adopt with modification *ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale*. (Ref #2022-16)

G. *SSAP No. 105R—Working Capital Finance Investments:* Exposure proposes to reject *ASU 2022-04, Disclosure of Supplier Finance Program Obligations* for statutory accounting. (Ref #2022-18)

H. New Issue Paper: Exposure proposes a new issue paper to detail revisions previously adopted with the review of *ASU 2017-12, Derivatives and Hedging* and *2022-01 Fair Value Hedging – Portfolio Layer Method*. (Ref #2017-33)

I. Schedule D Reporting*:* Exposure details proposed reporting changes for bonds in response to the principles-based bond project. In addition to a new schedule and granular reporting lines, the exposure includes proposed revisions to other schedules and instructions that reference bond reporting. A corresponding blanks proposal will be developed for exposure by the Blanks (E) Working Group. The exposure also included a revised issue paper to detail current discussions and decisions on the bond project. (Ref #2019-21)

J. *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement:* Re-exposure nullifies INT 03-02 as it is inconsistent with SSAP No. 25 with comments requested on specific items. (Ref #2022-12)

Bruggeman stated that the Working Group received updates on the following items:

A. Received an update on U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.

B. Received an update on the status of items in the referral from the Macroprudential (E) Working Group.

Bruggeman made a motion, seconded by Clark, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.

3. Adopted the Report of the Blanks (E) Working Group

Gosselin provided the report of the Blanks (E) Working Group, which met Nov. 17. During this meeting, the Working Group adopted its June 8 and May 25 minutes *(see NAIC Proceedings – Summer 2022, Accounting Practices and Procedures (E) Task Force, Attachment Two-A and Attachment Two-B)*.

Gosselin stated the Working Group adopted its editorial listing and the following two proposals:

A. 2022-12BWG – Combine the Health Analysis of Operations by Lines of Business Supplement page and the Health Care Receivable Supplement pages (Exhibit 3 and Exhibit 3A) into one supplement filing set for health blank pages filed as a supplement by life/fraternal companies.

B. 2022-19BWG Modified – Modify the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. The proposal adds definitions for life and annuity products to the lines of business definitions in the health appendix.

Gosselin stated the Working Group exposed six new proposals for a public comment period ending Feb. 1, 2023.

Gosselin stated the Working Group approved adding language to the blanks proposal form to address duplication of reporting and reviewed its 2023 proposed charges adopted by the Financial Condition (E) Committee.

Gosselin stated the Working Group received a Statutory Accounting Principles (E) Working Group memorandum referencing INT 22-02 and directed its public posting.

Gosselin stated the Working Group approved the state filing checklists.

Gosselin made a motion, seconded by Doggett, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.

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Statutory Accounting Principles (E) Working Group
Tampa, Florida
December 13, 2022

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Tampa, FL, Dec. 13, 2022. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Todrick Burks (AL); Kim Hudson and Ted Chang (CA); William Arfanis and Jack Broccoli (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson (LA); Judy Weaver (MI); Pat Gosselin (NH); Bob Kasinow (NY); Melissa Greiner, Matt Milford, and Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Greg Chew (VA); and Amy Malm (WI). Also participating was: David Wolf (NJ).

1. Adopted its Nov. 16, Oct. 24, Oct. 6, and Summer National Meeting Minutes

The Working Group met Nov. 16 and Oct. 24. During its Nov. 16 meeting, the Working Group exposed revisions to agenda item 2019-21: Proposed Bond Definition. The exposure included updated drafts of *Statement of Statutory Accounting Principle (SSAP) No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Securities*. The revised drafts also include proposed transition guidance, which includes identification of the Jan. 1, 2025, effective date. The exposure included a document that details "Other SSAP Revisions" that proposes revisions to various SSAPs, including *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to exclude asset-backed securities (ABS) from short-term/cash equivalent classification and *SSAP No. 21R—Other Admitted Assets* to establish guidance for debt securities that do not qualify as bonds. The comment deadline for these exposures is Feb. 10, 2023. The Working Group also exposed revisions to *Interpretation (INT) 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax*, to extend the INT through year-end 2022 and the first quarter of 2023 with an additional disclosure regarding applicable entities, for a public comment period ending Dec. 1, 2022. The Working Group noted that the amended INT 22-02 would be automatically nullified on June 15, 2023.

During its Oct. 24 meeting, the Working Group adopted INT 22-02 for third-quarter 2022 reporting with edits to paragraph 13b recommended by interested parties. The edits are more explicit on whether a reporting entity is expected to pay in 2023 and that the corporate alternative minimum tax (CAMT) is calculated based on multiple reporting entities if a reporting entity files a consolidated tax return.

Additionally, the Working Group conducted an e-vote that concluded Oct. 6 to expose INT 22-02 and *INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax*. These interpretations are in response to the federal Inflation Reduction Act, which is effective for tax years 2023 and after. The federal Inflation Reduction Act includes the concept of CAMT, and under the existing statutory accounting guidance, an entity must consider the impact of the tax change in the statutory valuation allowance and the admissibility of deferred tax assets in the period of enactment. The proposed INTs provide exceptions to statutory accounting based on whether reasonable estimates can be made.

The Working Group also met Dec. 8 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 its Fall National Meeting agenda.

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Walker made a motion, seconded by Malm, to adopt the Working Group's Nov. 16 (Attachment One-A), Oct. 24 (Attachment One-B), Oct. 6 (Attachment One-C), and Summer National Meeting (*see NAIC Proceedings – Summer 2022, Accounting Practices and Procedures (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted Non-Contested Positions

The Working Group held a public hearing to review comments (Attachment One-D) on previously exposed items.

Malm made a motion, seconded by Arfanis, to adopt the revisions detailed below as non-contested statutory accounting revisions. The motion passed unanimously.

a. Agenda Item 2022-09

Bruggeman directed the Working Group to agenda item 2022-09: ASU 2022-01, Fair Value Hedging – Portfolio Layer Method (Attachment One-E). Julie Gann (NAIC) stated that this is the third agenda item addressing derivatives coming from *Accounting Standards Update* (*ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* and stated that this agenda item also reviews *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*. She stated that this guidance adopts U.S. generally accepted accounting principles (GAAP) for the portfolio layer method and incorporates revisions for partial term hedges with the intent to converge with GAAP to the extent possible, so if something is an effective hedge under GAAP, it would be an effective hedge under statutory accounting. Gann stated that there is a deviation for partial term hedges because the statutory accounting guidance is limited to financial asset hedges only, which mirrors the provisions for the portfolio layer method. She stated that the revisions reflect new statutory accounting principles (SAP) concepts detailed in *SSAP No. 86—Derivatives* and are effective Jan. 1, 2023, with early application permitted. Gann stated that this concludes the review of ASU 2017-12 and that anything that comes after this would be addressed in a new agenda item. She stated that there is an issue paper proposed for exposure which will be discussed the meeting portion of the agenda that documents the revisions from the derivative review from ASU 2017-12 for historical purposes.

b. Agenda Item 2022-10

Bruggeman directed the Working Group to agenda item 2022-10: ASU 2022-02: Troubled Debt Restructurings and Vintage Disclosures (Attachment One-F). Gann stated that this agenda item reviews *ASU 2022-02: Troubled Debt Restructurings and Vintage Disclosures* and revises the relevant literature section of *SSAP No. 36—Troubled Debt Restructuring*. She stated that although previously GAAP guidance was adopted related to troubled debt restructuring, the new GAAP guidance is being rejected for this topic as it was revised in line with their current expected credit loss (CECL) standard. Since CECL has not been adopted for statutory accounting, the SAP clarification revisions retain the guidance in SSAP No. 36 and identify the rejection of U.S. GAAP.

c. Agenda Item 2022-13

Bruggeman directed the Working Group to agenda item 2022-13: Related Parties – Footnote Updates (Attachment One-G). Jake Stultz (NAIC) stated that this agenda item was exposed at the Summer National Meeting to incorporate SAP clarification language to exempt foreign open-ended investment funds, governed and authorized in accordance with regulations established by applicable foreign jurisdictions, from look-through provisions in *SSAP No. 25—Affiliated and Other Related Parties* unless the reporting entity has the ability to control the foreign fund.

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3. Reviewed Comments on Exposed Items – Minimal Discussion

a. Agenda Item 2021-25

Bruggeman directed the Working Group to agenda item 2021-25: Leasehold Improvements after Lease Termination. Stultz stated that this agenda item was most recently exposed at the Summer National Meeting and that it contains edits to clarify that amortization of leasehold improvements will immediately end when the lease is terminated and will require that any remaining unamortized leasehold improvement balance be immediately expensed. This includes scenarios where the lease terminates naturally or when the lessee purchases the property. Stultz stated that the agenda item includes a specific exclusion in *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities* that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded, in some cases, from the purchase cost of the real estate.

Stultz stated that the final issue with this agenda item related to leasehold improvements where the lessee purchases real estate that they had been previously leasing. He stated that the guidance that is being proposed would clarify that in this situation, leasehold improvements should be expensed, just like any other lease termination. He noted that the industry position is that the value of the leasehold improvements is essentially being excluded from the purchase price of the real estate, when in practice it is unlikely that a professional real estate company would not work to get any value that they can out of the sale of the property, as they are obligated to their investors to do so. He noted that if the industry recommendation were followed, after the purchase, the real estate would be at its market value on the books, plus the remaining unamortized balance of leasehold improvements, thereby overstating fixed assets by the remaining balance of the leasehold improvements.

Stultz stated that interested parties provided a detailed comment letter that is included in the meeting materials. He stated that the comment letter included a minor revision suggesting an update to *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*, paragraph 9. Stultz stated that NAIC staff recommend adoption of this agenda item, with the minor revisions to SSAP No. 19, paragraph 9.

Malm made a motion, seconded by Weaver, to adopt the exposed SAP clarification, which clarifies that amortization of leasehold improvements will immediately end when the lease is terminated and will require that any remaining unamortized leasehold improvement balance be immediately expensed in SSAP No. 19 and SSAP No. 73, with the additional revisions to SSAP No. 19, paragraph 9 suggested by interested parties (Attachment One-H). The motion passed unanimously.

b. INT 22-02

Bruggeman directed the Working Group to INT 22-02: *Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax*. Robin Marcotte (NAIC) stated that the Working Group exposed revisions to this agenda item on Nov. 16, and that it was originally issued to only cover the third quarter of 2022, but it has been extended through the first-quarter 2023 financial statements. She stated that the guidance in INT 22-02 provides statutory exceptions to the impacts of the CAMT, as reasonable estimates cannot be made. She stated that the extension includes disclosures previously included in INT 22-02, with a new disclosure to identify whether the reporting entity or the controlled group of corporations for which the reporting entity is a member has determined that they expect to be required to perform calculations to determine if they will owe the CAMT. Marcotte stated that this expands a subsequent event exception to include events identified through Dec. 31, 2022. She stated that INT 22-02 has a nullification date of June 15, 2023. She stated that interested parties support adoption of INT 22-02, indicating that many entities will not have information they

need until the second quarter of 2023. Marcotte stated that NAIC staff recommend adoption of the revisions as exposed to INT 22-02.

Rosemarie Albrizio (Equitable), representing interested parties, stated that interested parties support adoption of the amended interpretation to allow additional time for additional guidance to be provided by the U.S. Department of the Treasury (Treasury Department). She stated that adoption of this amended interpretation would also allow time to determine allocation from the consolidated tax to the reporting entities and to determine the impact on tax-sharing arrangements.

Weaver made a motion, seconded by Clark, to adopt the exposed revisions to INT 22-02 (Attachment One-I). The motion passed unanimously.

4. Reviewed Comments on Exposed Items

a. Agenda Item 2022-01

Bruggeman directed the Working Group to agenda item 2022-01: Conceptual Framework – Updates for Liabilities. Marcotte stated that the Financial Accounting Standards Board (FASB) updated *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 FASB also updated *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. She stated that at the Summer National Meeting, the Working Group adopted changes to the preamble, updates to the definition of an asset in *SSAP No. 4—Assets and Nonadmitted Assets* and *Issue Paper No. 166—Updates to the Definition of an Asset*. The Working Group also re-exposed revisions to the definition of a liability in a draft issue paper.

She stated that FASB treats the asset and liability definitions in the same manner as statutory accounting treats the Statement of Concepts when developing guidance. So, the updates do not change FASB authoritative literature. By contrast, statutory accounting has treated SSAP No. 4 and *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets,* which incorporated these FASB definitions, as authoritative statements. Marcotte stated that FASB noted that some existing authoritative FASB literature, particularly for liabilities, is inconsistent with the definition changes in the *Concepts Statement No. 8*. Marcotte stated that interested parties suggested that an additional footnote be added to both the definition of an asset and a liability due to the different treatment between GAAP and SAP on these definitions. She stated that NAIC staff recommend that the Working Group re-expose, with some footnote language proposed by NAIC staff, or just re-expose to allow additional work on a footnote to point to topic-specific guidance in other SSAPs when there is a conflict with SSAP No. 5R.

Bruggeman stated that there are items where the guidance is in the NAIC Annual Statement Instructions and not in the SSAPs. He stated that he understands industry's concern with the possibility of having conflicting guidance.

Albrizio stated that the issue is that the annual statement instructions have accounting guidance, so the wording should be carefully considered. Additional time would be helpful to work with NAIC staff. Bruggeman stated that the recommendation is to continue the exposure to allow time to collaborate with interested parties to adjust the language. Hudson stated support for giving additional time to consider this issue.

Weaver made a motion, seconded by Clark, to re-expose in order to allow for additional time for all parties to discuss the issue. The motion passed unanimously.

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b. Agenda Item 2022-11

Bruggeman directed the Working Group to agenda item 2022-11: Collateral for Loans. Marcotte stated that the Working Group exposed revisions to SSAP No. 21R at the Summer National Meeting to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets. She stated that this agenda item was drafted to address an inconsistency regarding the collateral loan guidance in *SSAP No. 20—Nonadmitted Assets* and SSAP 21R, as both identify the need for adequate collateral that qualifies as an invested asset. She stated that SSAP No. 20 was more explicit than the guidance in SSAP No. 21R. Marcotte stated that interested parties provided comments recommending the inclusion of a footnote indicating that *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* investments would not need to be audited if provided as support for a collateral loan to be admitted. If the loan defaulted and the reporting entity takes possession of the collateral, an audit would be required for the investment to be admitted pursuant to SSAP No. 48. She stated that NAIC staff recommend the Working Group discuss the exposed revisions to SSAP No. 21R, as well as the footnote provided by interested parties. She stated that some state insurance regulators have expressed that an audit is required. Other state insurance regulators have noted a heightened concern with loans secured by related parties. Marcotte stated that NAIC staff defer to the Working Group on the action to take at this meeting. The Working Group could adopt as exposed, consider re-exposure, or expose with a proposed footnote.

Bruggeman stated that there needs to be more discussion and expressed support for a re-exposure. Hudson stated support for more consideration on this agenda item and a re-exposure.

Andrew Morse (Global Atlantic Financial Group), representing interested parties, stated that various companies have landed on generally the same accounting treatment and that the comment letter was meant to ask the Working Group's consideration about whether this treatment could become the official prescribed guidance going forward. He stated that, currently, SSAP No. 21R has two criteria for collateral. First, it must be an investment. Second, the fair value of the collateral must be sufficient to support the collateral loan. He stated that companies have built accounting controls and processes around ensuring that collateral is an investment and that fair value is sufficient. Morse stated that missing in that framework is that there is no concept of an audit for the collateral asset. He stated that per SSAP No. 48 and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, an audit is required if held directly, but an audit does not necessarily include a fair value confirmation of the pledged LLC investment, which is the foundation of the SSAP No. 21R guidance. Companies recognize that if they were eventually to take possession of the collateral directly, at that point they would need to obtain an audit. He stated that various companies have applied this same rationale and have been operating under this framework up until now. Morse stated that the Working Group's exposure redefines the first collateral requirement to be not just an investment, but an admitted invested asset, which means an audit would need to be performed of the collateral asset. He stated that is not the current practice that companies have been performing and interested parties have concerns since an audit does not validate fair value. As such, this adds additional costs and processes to reporting entities when completing the evaluation process. He stated it may cause confusion because an audit would determine an audited GAAP book value, which will not be used to evaluate the sufficiency of the collateral. He stated that interested parties believe that cases of default are rare, and they are not aware of any cases where collateral assets of this type have been taken on directly, perhaps due to the creditworthiness of the loan borrowers. He stated that their expectation is that there is only a remote likelihood that collateral assets would be owned outright. He stated that if further verification is needed, a fair value assessment would be better suited for the task. Morse stated that companies want to avoid performing duplicative and costly audits on these assets.

Bruggeman inquired how interested parties would recognize fair value for assets supporting related party collateral loans and whether they would have an independent party assess fair value.

Morse stated that they currently follow *SSAP No. 100R—Fair Value,* where there are a number of different steps taken to determine fair value, but that these would likely be classified as level 2 or level 3 fair values. He stated that interested parties have had discussions and that instead of requiring an audit, it would be better to either have an audit or a third-party assessment of the fair value. He stated that this would save companies from having to perform two processes.

In response to Clark's request for further clarification of the interested parties' proposal, Morse stated that various companies looked to SSAP No. 21R first and adopted policies around the guidance. With that experience, they believe that it is a sound approach given their opinion that a GAAP audit is not useful for this topic.

Clark made a motion, seconded by Walker, to re-expose the proposed revisions to allow for further discussion. The motion passed unanimously.

c. Agenda Item 2022-12

Bruggeman directed the Working Group to agenda item 2022-12: Review of INT 03-02: Modifications to an Existing Intercompany Pooling Arrangement. Marcotte stated that at the Summer National Meeting, the Working Group exposed the intent to nullify INT 03-02 as it is inconsistent with SSAP No. 25 guidance regarding economic and noneconomic transactions between related parties. She stated that the guidance in INT 03-02 can result in unrecognized gains or losses through the use of statutory book value when using assets, such as bonds, to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Marcotte stated that NAIC staff continue to recommend nullification of INT 03-02 and not have long-term differences between SSAPs and INTs. She stated that NAIC staff recommend the Working Group re-expose the intent to nullify INT 03-02 to allow for further discussion.

Marcotte stated that with the exposure, the Working Group should request comments on the effective date and identified key points for consideration during the exposure in response to some of the interested parties' comments received. Key points identified included that: 1) in the current interest rate environment, the fair value of many bonds is below book value; 2) SSAP No. 25 requires such transfers of assets between affiliates to use fair value and that using book value for the measurement of payments between affiliates can result in either unrecognized, or in effect, dividends or losses; 3) at the ultimate parent level, such transfer of assets (in accordance with SSAP No. 25 guidance) may be noneconomic in that the parent continues to hold an interest in the same assets; 4) while an entity can still choose to pay with assets, the transfer should be valued consistently with SSAP No. 25 guidance; 5) many of the interested parties' comments regarding GAAP's use of book value are more relevant to consolidated basis accounting, which is not consistent with the legal entity basis of statutory accounting; 6) addressing comments regarding valuation and timing of settlement compared to the effective date of the contract; 7) identifying if there is a need for differences in treatment for intercompany pooling participants that are not 100% owned by the same ultimate controlling entity; and 8) comments on *SSAP No. 62R—Property and Casualty Reinsurance* paragraphs 36d and 37 provide different treatment, noting that the regulatory objective is not to avoid gain but to properly account for intercompany retroactive contracts that include gains.

Brendan Bridgeland (Center for Insurance Research—CIR) questioned whether INT 03-02 is going to be replaced by a different INT to address pooling changes. He stated that he is aware of where changes in pooling agreements have affected consumers of particular companies.

Bruggeman stated that there is no intention to replace the INT. He stated that SSAP No. 25 is applicable for this topic. Bruggeman stated that there are footnotes and disclosures in place that address this issue.

Weaver made a motion, seconded by Gosselin, to re-expose the intent to nullify INT 03-02 and that gathering additional comments on key areas identified would also be included in the exposure. The motion passed unanimously.

5. Considered Maintenance Agenda – Pending Listing – Exposures

Walker made a motion, seconded by Gosselin, to expose agenda items 2022-14, 2022-15, 2022-16, 2022-17, and 2022-18. The motion passed unanimously.

a. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item 2022-14: ASU 2022-14: New Market Tax Credits. Gann stated that although the agenda item focuses on new market tax credits, as detailed in the recommendation, it is proposed that the topic go beyond named investment structures. She stated that the materials include a discussion document that proposes to expand *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* to encompass all tax entity investments that meet certain criteria. She stated that there are four broad types that provide tax credits under federal IRS law: 1) new market tax credits; 2) low-income housing tax credits; 3) the rehabilitation tax credit; and 4) the investment tax credit, which focuses on solar and energy. Gann stated that the discussion document follows the theme of SSAP No. 93 and would require the proportional amortization method. She stated it has some revisions to nonadmittance and assessing impairment because the benefit for insurance companies is the tax benefits and if those tax benefits are not going to be obtained or cannot be used, then that would warrant either impairment or nonadmittance depending on the situation. She stated that proposed U.S. GAAP guidance was used in developing the document, and adjustments will need to be considered once the final U.S. GAAP guidance is issued. Gann stated that a recently exposed GAAP project on this topic is also being monitored. She stated that NAIC staff are recommending exposure of both the agenda item and the discussion document. Gann stated that there will also need to be blanks and RBC changes as current guidance is specific to low-income housing tax credits, but those proposals would be developed subsequently. She also stated that a review of *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits* will be upcoming.

b. Agenda Item 2022-15

Bruggeman directed the Working Group to agenda item 2022-15: Affiliate Reporting Clarification. Stultz stated that this agenda item resulted from work on previous agenda item 2021-21: Related Party Reporting. He stated that during the discussions, there was a question of when an investment is considered an affiliated investment and, therefore, reported on the parent, subsidiary, and affiliates reporting lines in the investment schedules. Stultz stated that NAIC staff recommend the Working Group expose the agenda item, including revisions to SSAP No. 25, to clarify that any invested asset held by a reporting entity, which is issued by an affiliated entity, or which included obligations of an affiliated entity, is an affiliated investment. He stated that NAIC staff are also recommending the Working Group direct the Blanks (E) Working Group to modify the annual statement instructions as described in the attached materials.

c. Agenda Item 2022-16

Bruggeman directed the Working Group to agenda item 2022-16: ASU 2022-03, Fair Value Measurement of Restricted Securities. Stultz stated this agenda item was created to clarify GAAP when measuring the fair value of equity securities subject to contractual sale restrictions that prohibit the sale of the equity security. Stultz stated this agenda item provides updated guidance for two specific scenarios: 1) where the restriction is based on the entity holding the equity security; and 2) where the restriction is a characteristic of the equity security. Stultz

stated that NAIC staff recommend the Working Group expose revisions to SSAP No. 100R to adopt ASU 2022-03, with modifications to be consistent with statutory language in the respective statutory accounting statements. He also noted that the GAAP disclosures were not proposed to be adopted.

d. Agenda Item 2022-17

Bruggeman directed the Working Group to agenda item 2022-17: Interest Income Disclosure Update. Stultz stated that this agenda item resulted from comments related to the principles-based bond project. This agenda item proposed capturing the gross, nonadmitted and admitted amounts for interest income due and accrued, and also that a data element included in the bond proposal project be updated to reflect the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance. Stultz stated that NAIC staff recommend the Working Group expose revisions to *SSAP No. 34—Investment Income Due and Accrued* to add additional disclosures to data capture the proposed items.

e. Agenda Item 2022-18

Bruggeman directed the Working Group to agenda item 2022-18: ASU 2022-04, Disclosure of Supplier Finance Program Obligations. Marcotte stated that the amendments in this ASU apply to all entities that use supplier finance programs. The amendments require that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of the financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. She stated that these disclosures were developed as buyers who use these programs are getting a form of financing, but the amounts owed to the financial intermediaries may have been reported differently. The issue requires annual disclosures of qualitative and quantitative information about supplier finance programs. She stated that NAIC staff recommend the Working Group expose revisions in *SSAP No. 105R—Working Capital Finance Investments* to reject ASU 2022-04. This is because the insurers would not be the buyers as described in the ASU for supplier finance programs.

d. Agenda Item 2022-19

Bruggeman directed the Working Group to agenda item 2022-19: SSAP No. 7 – IMR. Gann stated that this agenda item details the background of interest maintenance reserve (IMR), current accounting guidance, and the recent discussion of the Life Actuarial (A) Task Force. It also includes broad financial results from 2021 and interim 2022 financial statements. She stated that when IMR goes negative, companies report a zero on the liability page and then are required to report a nonadmitted asset as an aggregate write-in on the asset page. In order to identify the information on companies with a net negative IMR as of the third quarter of 2022, NAIC staff did a manual review of the financial statements to identify the disallowed IMR. She stated that 60 companies were found to have negative IMR totaling $1 billion. Gann stated that the American Council of Life Insurers (ACLI) comment letter received indicated that the rising interest rates are favorable to the financial health of the insurance industry and policyholders, and negative IMR that is disallowed could affect rating agency reviews. Gann stated that NAIC staff do not have a recommendation on the agenda item and intend the drafted agenda item to facilitate discussion.

Michael Reis (Northwestern Mutual), representing interested parties, stated that IMR is a safeguard for statutory accounting. He stated that when IMR was developed, it was theoretically intended to have no minimums or maximums for positive or negative IMR. He stated that when IMR was adopted, it was only adopted for the net positive realized capital gains (net of realized capital losses) and that if there were net negative capital losses, the amount was disallowed (nonadmitted). He attributed this due to a prolonged period of declining interest rates. Reis stated industry's belief that addressing negative IMR is an urgent issue.

Bruggeman stated that the challenge within statutory accounting, under the concept of conservatism, is that recognizing the deferred capital loss as an asset is troubling because these amounts cannot be used to pay policyholder claims. He requested additional discussion, with industry-proposed viable guardrails to protect surplus and policyholders. As initial suggestions, he identified: requiring bond reinvestment; recording special surplus to limit dividends; restricting the amount of negative IMR to a percentage of surplus, bonds, invested assets, or total assets; implementing shorter time frames for when negative IMR would be amortized; and adding asset adequacy testing adjustments (potential haircutting when in net negative IMR).

Malm stated that the Working Group needs feedback from industry on specific situations, with actuaries in attendance, so all parties are in alignment going forward. Walker stated that a joint presentation with the Life Actuarial (A) Task Force could be helpful. Chang stated that it is important to look at the motivation of why a company is selling a bond. Weaver stated that the Working Group should discuss this issue with actuaries and should distribute to state insurance regulators a list of potential guardrails. Wolf stated that permitted practices for 2022 would have to be determined and finalized no later than the filing of the annual statement.

Malm made a motion, seconded by Walker, to expose agenda item 2022-19 with a request for comments by industry on potential guardrails and details on unique considerations. The Working Group directed NAIC staff to coordinate with the Life Actuarial (A) Task Force and request regulator-only sessions with industry to receive specific company information. The motion passed unanimously.

6. Considered Maintenance Agenda – Active Listing

   a. Agenda Item 2017-33

Bruggeman directed the Working Group to agenda item 2017-33: ASU 2017-12 – Derivatives and Hedging. Gann stated that this agenda item is an issue paper, containing all of the adoptions for GAAP derivative guidance, of all the previously adopted agenda items for historical documentation.

Clark made a motion, seconded by Malm, to expose the draft issue paper. The motion passed unanimously.

   b. Agenda Item 2019-12

Bruggeman directed the Working Group to agenda item 2019-12: Proposed Bond Definition. Gann stated that the issue paper has been updated to include discussions and revisions from its Nov. 16 meeting. She stated that there are three documents for reporting changes. Two of them were previously exposed and have been modified to reflect industry comments related to the general instructions for Schedule D, as well as the new annual statement instructions for Schedule D, Part 1, Section 1 and Schedule D, Part 1, Section 2. Gann stated that there is a new document, referred to as Other Reporting Changes, which summarizes all reporting schedules and instructions that refer to bonds with recommendations to reflect changes under the bond project. She stated that most are minor edits, although some schedules will have significant revisions, including the summary investment schedule, summary by country, and Schedule D, Part 1A. Gann stated that the recommended exposure period will have a Feb. 10, 2023, exposure deadline.

Clark made a motion, seconded by Stolte, to expose the documents and the agenda item. The motion passed unanimously.

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7. Discussed Other Matters

a. Update on the Macroprudential Referral

Marcotte stated that the Working Group received a referral from the Macroprudential (E) Working Group at the Summer National Meeting. She stated that the status update memorandum detailed that several items had already been addressed and some are still in progress (Attachment One-J). She noted that the Working Group will continue to respond to issues and that a status update has also been forwarded to the Macroprudential (E) Working Group.

b. Review of U.S. GAAP Exposures

Stultz identified four items with disclosure deadlines from December 2022 to February 2023 that will be reviewed by NAIC staff in the normal process (Attachment One-K).

Mike Monahan (ACLI) stated that the FASB indicated a final ASU, addressing insurance companies that sold business, will be available in Dec. 2022.

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

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/sapwg/sapwg minutes 12.13.22tpr.docx

Draft: 11/23/22

Statutory Accounting Principles (E) Working Group
Virtual Meeting
November 16, 2022

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 16, 2022. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis (AL); Kim Hudson and Susan Bernard (CA); William Arfanis (CT); Rylynn Brown and Tom Hudson (DE); Cindy Andersen and Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Joan Riddell (NY); Melissa Greiner and Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

The Working Group held a public hearing to review comments received on previously exposed items.

1. Discussed and Exposed the Proposed Bond Definition

Bruggeman directed the Working Group to agenda item 2019-21: Proposed Bond Definition, noting that comments were received on the July 18 exposed reporting changes and the Aug. 18 exposed accounting changes.

Julie Gann (NAIC) stated that there were three attachments in the materials for discussion that include documents revised from the exposure, including a revised *Statement of Statutory Accounting Principle (SSAP) No. 26R—Bonds*, revised *SSAP No. 43R—Loan-Backed and Structured Securities*, and a new document that proposes revisions to other SSAPs. She stated that NAIC staff recommend exposing these documents for comment. She stated that a revised issue paper was not provided and that NAIC staff are working to update the document for possible exposure at the Fall National Meeting.

Gann stated that the documents for statutory accounting and reporting revisions were exposed for comment in July and August. Comments were received from Fermat Capital (Fermat), the Industry Lease-Backed Securities Working Group, and interested parties. Gann summarized the comments received as follows:

- The Fermat comment letter (Attachment One-A1) requested that the Working Group use the Bond Project to clarify requirements for working capital finance investments (WCFI), with comments that these investments meet the definition of an issuer credit obligation in scope of SSAP No. 26R and should be reported on Schedule D, Part 1, as bonds. Gann stated that NAIC staff's recommendation to this comment is to incorporate revisions to paragraph 4 of SSAP No. 26R to exclude investments that are specifically identified within other SSAPs. Gann provided examples including structured settlements that are in scope of *SSAP No. 21R—Other Admitted Assets*, surplus notes that are in scope of *SSAP No. 41R—Surplus Notes,* and working capital finance notes in scope of *SSAP No. 105R—Working Capital Finance Investments*.

- The Industry Lease-Backed Securities Working Group's comment letter (Attachment One-A2) requested the inclusion of a new example to clarify that there is a class of asset-backed securities (ABS) where the ABS issuer does not actually own the underlying collateral, but rather has a security interest through loan documents, which provides recourse to the collateral in the event of default. Gann stated that NAIC staff are recommending revising Example 2 of SSAP No. 26R to address the dynamic raised in the comment letter. Gann stated that a new example was not warranted, but she believes that incorporating the concepts within the existing example addresses the concerns. She also indicated that the loan-to-value

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indicated in SSAP No. 26R, paragraph 7, needs to be changed from 70% to 100% prior to exposure of the document.

- John Garrison (Industry Lease-Backed Securities Working Group) stated support for accepting the concepts in their letter and the proposed recommended edits. Garrison stated that the proposed modifications capture the concepts noted in their comment letter and would support inclusion of these changes in the revised SSAP No. 26R.

- Mike Reis (Northwestern Mutual), representing interested parties, offered support to the concept brought up by the Industry Lease-Backed Securities Working Group and the modifications to Example 2 in SSAP No. 26R.

- Clark stated that a footnote was also added to SSAP No. 26R as a result of Garrison's comments. The footnote is related to one of the points raised, which is that throughout the definition, assets owned by the issuer are discussed. In some instances, these assets are not technically owned, but the rights to the assets have effectively been assigned to the creditor. The intention was to be inclusive of all assets that the creditor has recourse to, and the footnote was added to explicitly state this concept.

- Interested parties provided comments on all of the exposed documents (Attachment One-A3). They also provided comments on the bond definition, which was not presented as a revised document. NAIC staff have not made revisions or provided the bond definition specifically because the edits are reflected in the SSAPs as the authoritative guidance or for historical documentation in the issue paper. Interested parties also commented on the issue paper's language regarding feeder funds. Gann stated that NAIC staff and Clark have worked with industry to refine the feeder fund language and that it is not available today. The document will be presented at the Fall National Meeting with a request for exposure.

- NAIC staff have proposed new terms to be included within the glossary for SSAP No. 26R to reflect the concepts of the bond definition. Gann stated that interested parties indicated that the new glossary terms are not needed as they are within the standard. They also identified that some of the legacy terms within the glossary no longer need to be retained. Gann stated support for the proposal although the definition for bank loans should be retained. She stated that NAIC staff have made revisions to SSAP No. 26R to remove the glossary and to include the definition of bank loans within a new footnote.

- Interested parties also provided comments with regard to the income recognition detail that was added to SSAP No. 43R. They also requested clarification on the assessment of cash flows and changes in cash-flow projections. Gann stated that industry and Clark have worked with NAIC staff to refine the proposed changes. Gann stated that the key changes from the prior exposure pertain to the use of U.S. generally accepted accounting principles (GAAP) language in determining the ability to use a prospective method, which would be a high credit quality distinction, and how the assessment is completed at the time of the initial acquisition. She stated that clarification was made to indicate that if there is an adverse change in expected cash flows and the investment is impaired, meaning that fair value is less than amortized cost, an other-than-temporary impairment (OTTI) shall be recognized.

- Interested parties identified the need for transition language. NAIC staff agreed and added additional transitional language to both of the revised documents. Gann provided a high-level summary of the additional transitional language added to SSAP No. 26R and SSAP No. 43R.

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- Interested parties provided comments on the need for additional exposure. NAIC staff agreed with the request to expose for a public comment period ending Feb. 10, 2023.

- Gann discussed additional changes to SSAP No. 26R related to the need to have the bond definition in a centralized location. She stated that prior exposures had the bond definition in both SSAP No. 26R and SSAP No. 43R. Gann stated that with the revised documents, the entire bond definition is now located in SSAP No. 26R and that securities that qualify as ABS under the bond definition will move to SSAP No. 43R for the measurement and reporting guidance.

- Interested parties provided comments concerning embedded derivatives. Gann provided a summary of the comments and stated that the full text of interested parties' comments was included in the meeting materials. She stated that NAIC staff worked with industry and Clark to provide revisions, detailed in the agenda and SSAP No. 26R, that were more explicit that the performance variations that restrict bond classification are intended to reflect non-debt variables. She stated that the guidance is not intended to restrict situations that are commonly related to debt instruments, such as vanilla inflation or benchmark interest rate adjustments such as with U.S. Treasury Inflation Indexed Securities (TIPs) or Secured Overnight Financing Rate (SOFR) linked coupons.

Bruggeman stated there was concern of being able to meet a Jan. 1, 2024, deadline to implement the proposed changes considering vendor and NAIC staff need to implement the changes. He stated that, given this concern, he directed NAIC staff to incorporate a Jan.1, 2025, effective date in order to provide time to implement the changes.

Reis expressed appreciation to both NAIC staff and the Iowa Insurance Division staff for working with interested parties on these issues. He stated that interested parties support the changes made. Reis stated that interested parties agree that the Jan. 1, 2024, implementation date would be too soon. He stated that interested parties will focus their next exposure comments on fatal flaws, consistency, language, and readability issues, and that the main concepts have been ironed out. Reis discussed two specific items, one of which was the embedded derivative language Gann discussed. He stated that interested parties do not want to mirror Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) extensive language and guidance and want to spend the requisite time to get this right. He said this is a big issue and will be a focus of interested parties as they want to ensure there are no unintended consequences. Reis stated the second point is related to securities that do not meet the bond definition language in SSAP No. 26R, paragraph 3.d., and may potentially go on Schedule BA, Other Long-Term Invested Assets. He stated that these are generally good investments. Reis provided an example of an environmental, social, or government (ESG) bond that may be caught in this language and receive a risk-based capital (RBC) charge that is not commensurate with the risk. He stated that interested parties are asking that these types of investments that do not meet the bond definition, and are moved to Schedule BA, are reviewed to ensure that they receive the appropriate RBC charge.

Bruggeman directed NAIC staff to add Reis' comment concerning ESG bonds to the list of issues to discuss with the NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group in order to make sure all parties are in agreement.

Clark stated support for Bruggeman's comment and indicated that in facilitating discussion with the RBC group, it would be helpful to group assets expected not to qualify under the bond definition into categories, to the extent that there are particular asset types expected to fall out. Input from industry on what those categories are will likely be necessary. He stated that the embedded derivative topic is the largest outstanding issue that requires

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substantive discussion. Clark stated that under U.S. GAAP, different accounting and measurement guidance applies to different types of financial instruments. Recognizing that multiple financial instruments could be combined in order to avoid the accounting and reporting methodology that would otherwise apply, GAAP adopts a concept whereby features that are not clearly and closely related to each other must be bifurcated and accounted for separately. However, due to the complexity of doing this in practice, many companies elect to carry the entire contract at fair value. He stated that under statutory accounting, there may be additional incentives to combine instruments given the reliance of the capital framework on accounting classification, such that non-bond risk/return can receive bond capital treatment. So, with the proposed bond definition, he stated that the intent is to develop a principle that appropriately safeguards against non-bond risks being characterized as bond risks, ideally, without bringing in the unnecessary complexity of the U.S. GAAP embedded derivative guidance. Clark highlighted the inclusion of this concept as a specific component for the Working Group to consider and provide any feedback they may have on it. He stated that when this issue initially came up several years ago with structured notes and principal protected notes (PPNs), there were some safeguards established at that time. He stated that for structured notes, if the reference variable component could result in a loss of principal, then it was treated as a derivative under *SSAP No. 86—Derivatives*. Clark stated that the new guidance would go further where there is a non-debt variable component and require those to move to SSAP No. 21R and Schedule BA.

Gann stated that there is another document up for exposure with regard to accounting guidance referred to as Proposed Revisions to Other SSAPs. She stated that NAIC staff reviewed each SSAP in the NAIC *Accounting Practices and Procedures Manual* (AP&P Manual) to identify any references to loan-backed securities, names that needed to be revised, or additional references to bonds. She stated that revisions have been proposed to update references and guidance under the bond definition. Gann stated that this document also includes revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to exclude ABS from being in scope of the cash equivalent or short-term guidance. Gann stated the document also includes proposed revisions to SSAP No. 21R to specify accounting and reporting guidance for debt securities that do not qualify as bonds.

Gann discussed interested parties' comments (Attachment One-A4) related to the reporting revisions exposed in July 2022 . She stated that the revisions identified reporting lines and the descriptions of what is included in the reporting lines. She discussed the split to Schedule D, which will now have two Parts: 1) Schedule D–1–1 for issuer credit obligations; and 2) Schedule D–1–2 for ABS. She stated NAIC staff are, for the most part, supportive of the comments received. Gann stated that revised documents were not available for this meeting and that NAIC staff will present these at the Fall National Meeting. She stated that at the Fall National Meeting, the documents will go beyond what has currently been presented for the instructions and Schedule D and will encompass a review of the entire annual statement and reporting instructions for all areas that may be affected by the updated bond definition or new reporting structure.

Gann went on to discuss some of the comments received from interested parties provided in the Hearing Agenda. She identified one comment that may require discussion was related to a revision recommending deletion of a new column for current overcollateralization percentage proposed strictly for ABS. Industry identified that it would be operationally challenging to include that information for ABS every time they file Schedule D–1–2. She stated agreement that it would be operationally challenging and identified that column was originally considered for the sub-schedule that was considered before the current split schedule proposal. Gann stated that the original intent was for the column to be limited to specific SBS structures and that with the new proposal, it was being included for all ABS. She stated that NAIC staff are seeking input on whether this column should be retained, retained, and restricted to certain types of ABS or deleted.

Bruggeman inquired, and Gann confirmed, that summary lines will be included in the proposed Schedule D–1–2. He stated concern that the proposed revisions would only capture the data intended and not data for non-relevant

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ABS, with the goal of not having to ask for supplemental data from filers. Bruggeman directed NAIC staff to leave in the proposed revisions for now, with revisions to limit the column to specific ABS.

Tip Tipton (Thrivent), representing interested parties, thanked NAIC staff and state insurance regulators for collaborating with industry on the proposed reporting changes, and he stated that they have a good product moving forward. He highlighted one issue, Item 10, and asked for Angelica Tamayo-Sanchez (New York Life) to comment.

Tamayo-Sanchez stated that the concern with the principle-based definition in the assessment of credit enhancement is supposed to be done at the origination of the investment. This is because there could be things that start happening with the deal itself, such as a default, where companies are taking impairment, or the underlying collateral could change. She stated it would be operationally difficult to keep assessing the securities every quarter. Tamayo-Sanchez stated the reaction of interested parties is that although asset managers are reviewing the portfolio from a credit perspective, interested parties are not sure that the calculation to determine whether a security is a bond would be done at every reporting period. She stated that more data would be needed to determine what calculations are actually done regarding the over-collateralization in ABS and how that data would be fed into systems that put Schedule D together.

Clark stated that the intent is not to determine what qualifies as a bond as that is done at origination. The reporting field under discussion is more of a data element to be used in the financial analysis on the state insurance regulator side and only apply to specific subgroups. He stated that for those that do not meet the meaningful cash flow practical expedient, meaning there is a larger residual collateral exposure, they are relying on refinancing or sale. So, it was viewed that for those groupings, this data element, of obtaining updated loan-to-values, would be a useful input into the analysis process and not to determine whether it is a bond each quarter. Clark stated that he appreciates the comments if this data point is not something that is operationally achievable. He stated that it would be similar to the data maintained for commercial mortgage loans (CMLs) and residential mortgage loans (RMLs) used in the RBC calculation, and this is where they are looking for feedback as to what is the operational feasibility if applied to a smaller subset of the population.

Bruggeman stated the timing does not need to be every quarter, although state insurance regulators would like it quarterly for analysis purposes and to keep things consistent throughout the year with regard to systems. If it is not achievable every quarter, the Working Group would like to hear about it, and it may only be part of the annual filing.

Gann stated that NAIC staff's recommended actions are to expose the updated revisions to SSAP No. 26R, SSAP No. 43R, and the proposed revisions to other SSAPs for a public comment period ending Feb. 10, 2023.

Clark made a motion, seconded by Malm, to expose the revisions to 2019-21: Proposed Bond Definition, with a comment period ending Feb. 10, 2023. The motion passed unanimously.

2. Discussed INT 22-03: Inflation Reduction Action – Corporate Alternative Minimum Tax

Robin Marcotte (NAIC) stated that on Oct. 6, the Working Group exposed *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* to provide exceptions to *SSAP No. 9—Subsequent Events* and *SSAP No. 101—Income Taxes* in response to the federal Inflation Reduction Act for third-quarter 2022 and exposed *INT-22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax* to address fourth-quarter 2022 and interim 2023 reporting. On Oct. 24, the Working Group adopted INT 22-02, which included disclosures and provided that reasonable estimates and effects of the corporate alternative minimum

tax (CAMT) could not be made for third-quarter 2022. She noted that the CAMT is not effective as a tax until 2023 tax years.

Marcotte provided a summary of the exposures included in agenda item INT 22-03, as well as a summary of comments received from interested parties (Attachment One-A5). She stated that interested parties provided a fairly extensive comment letter on INT 22-03 and noted items that needed to be addressed for 2023. She noted that interested parties requested that instead of finalizing INT 22-03, that INT 22-02 be extended from third-quarter 2022 to include year-end 2022. She stated that NAIC staff recommend extending the previously adopted INT 22-02 to include the Dec. 31, 2022, financial statements. She noted that as detailed in the exposures, the CAMT is effective for 2023 tax years. Therefore, not recognizing the impacts of the CAMT for 2022 reporting would only affect the statutory valuation allowance and possibly the calculations regarding the admissibility of certain deferred tax assets. She stated that there are multiple items within the federal Inflation Reduction Act and that several U.S. Treasury regulations are pending development. She stated that in addition to the extension of INT 22-02 for year-end 2022 reporting, an additional disclosure for year-end 2022 was also recommended, which would identify applicable corporations that are required to perform the calculations to determine if the corporation of the controlled group of corporations for which the reporting entity is a member might owe the CAMT. She noted that this disclosure does not require a CAMT estimated result of the calculation, but only seeks to identify companies filing a consolidated return with an adjusted financial statement income that is expected to require the CAMT calculation. She noted that the meeting materials also propose a nullification date of March 15, 2023, because the INT is not proposed to apply to first-quarter 2023 reporting.

Rose Albrizio (Equitable), representing interested parties, stated appreciation for consideration of extending the period through year-end 2022. She noted that the interested parties' comment letter was meant to highlight some of the issues supporting extension of INT 22-02 through year-end. She stated that additional guidance is needed for 2023 and noted that interested parties have been working on proposed edits to INT 22-03 to address the tax accounting issues for 2023 reporting, which could be used for permanent guidance. She stated that interested parties have had an initial discussion with NAIC staff and are planning to discuss this again with NAIC staff following the Fall National Meeting. She stated that if INT 22-02 was extended through March 31, 2023, it would increase the possibility of the U.S. Department of the Treasury (Treasury Department) providing guidance. However, extending the INT 22-02 will not provide the guidance needed on issues specific to insurance companies (e.g., allocation of the CAMT that is calculated on a total corporate basis to individual company financial statements).

Bruggeman expressed support for extending INT 22-02 to year-end 2022, which is consistent with the NAIC staff recommendation. He also inquired if the Working Group was interested in an extension of INT 22-02 for first-quarter 2023 reporting. He noted that the year-end 2022 filing date is March 1 and that the end of the first-quarter reporting is March 31.

Kim Hudson stated support for extending through year-end 2022. He stated that theoretically it would be better for the Working Group to re-evaluate the guidance during the first quarter 2023. However, he noted a concern regarding timing issues regarding the ability of the Working Group to evaluate and adopt first-quarter 2023 guidance.

Weaver stated support for extending through year-end 2022 and into first-quarter 2023. Bruggeman asked Kim Hudson if he preferred a year-end 2022 or first-quarter 2023 extension. Hudson noted that because of the timing issues, he preferred an extension through first-quarter 2023.

Albrizio stated that interested parties will be actively working on this topic. She stated that in relation to the allocations process, this will also require the updating of tax-sharing arrangements.

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Bruggeman directed NAIC staff to adjust the language in INT 22-03 to be extended to include first-quarter 2023. He stated that the Working Group could continue discussion at the Fall National Meeting.

Kim Hudson made a motion, seconded by Weaver, to expose the revisions to *INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax,* which extend the INT to apply to year-end 2022 and first-quarter 2023 with the proposed additional disclosure regarding applicable entities, with a public comment period ending Dec. 1, 2022. Marcotte inquired regarding the nullification date, and the Working Group was also directed to draft language noting that INT 22-02 would be automatically nullified on June 15, 2023. The motion passed unanimously. Bruggeman noted that the exposure would be discussed at the Fall National Meeting.

Marcotte stated that there will be a longer process to look at SSAP No. 101 and its implementation guide due to the previous removal of the alternative minimum tax guidance in 2019.

3. Discussion of Other Matters – Negative IMR

Reis provided comments related to the American Council of Life Insurers (ACLI) submitted comment letter (Attachment One-A6) regarding its request related to the allowance (admission) of a negative interest maintenance reserve (IMR) balance in statutory accounting. He provided a summary of the comment letter, including the rationale for the development of IMR. Reis stated that if a company were to sell all of its bonds in a falling interest rate environment, it would recognize significant interest-related realized gains. This would show increased financial strength through increased surplus and would be inappropriate as the company would now have a lower yielding portfolio but show higher surplus. Therefore, the surplus does not show the entire picture in this scenario, especially where the liability is not going to change under statutory accounting. Reis stated that when IMR was developed, it was recognized that it should work both ways, as recognizing losses in a rising interest rate environment would show decreased financial strength through decreased surplus. He stated that IMR was adopted in 1992 when industry was in the middle of a decade-long declining interest rate environment, so it was only adopted for realized gains. Reis stated that at the time, the realized losses were a negative component and should have theoretically been recognized. However, after remaining on the AVR/IMR (E) Working Group's agenda for another 10 years, the Working Group was ultimately disbanded with no action being taken.

Reis stated that the ACLI hopes the NAIC can resume discussion of the allowance of negative IMR so that industry does not look inappropriately weaker in a period of rising interest rates, which are actually good for the industry. He stated that the ACLI would like to discuss this topic further with the Working Group at the Fall National Meeting, as the disallowance of a negative IMR would inappropriately show the decreased financial strength or, worse, incentivize companies to make inappropriate asset/liability management decisions with both bond investments and derivatives that hedge those bond investments. He stated that this affects decisions today, even if the negative IMR balance is not negative for all companies. He stated that the ACLI hopes the Working Group will take at least temporary action on this issue.

Bruggeman stated that it is the sale of bonds with a realized loss in this case that actually generates the negative IMR and that the increase in interest rates may be the reason for the sales but has no bearing on the IMR calculation. He stated that the Life Actuarial (A) Task Force is looking into this issue and that the Working Group must work together with the Task Force to make sure it does not get ahead on the issues. Bruggeman stated that he is not sure the Working Group can have an effective discussion at the Fall National Meeting with the short time frame. Bruggeman stated that companies that are approaching this situation should contact their domestic state insurance regulator to inquire about the potential for a permitted practice.

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Reis stated that the ACLI is supportive of the Task Force looking into this issue and the appropriate utilization of negative IMR within asset adequacy testing (AAT). He stated that it should only be included in asset adequacy if it is an admitted asset. Reis noted, in relation to the concept of companies not selling bonds, that this method may lead to a mismatch between assets and liabilities.

Bruggeman stated that he understands there are situations where a company needs to sell bonds or that it makes sense to sell bonds. He stated his point was that companies should discuss with their domestic state insurance regulators to explain why the company wants to sell bonds since every situation may be different. Bruggeman suggested exposing the ACLI letter and directed NAIC staff to put together a discussion to potentially have an exposure at the Fall National Meeting.

Malm inquired about NAIC staff compiling data to provide the Working Group and state insurance regulators information on the movement of IMR since year-end 2021 to third-quarter 2022. She expressed support for coordination between the Working Group and the Task Force on this issue.

Gann stated that NAIC staff will put together an agenda item for discussion and exposure at the Fall National Meeting. Reis stated that the ACLI is ready to take questions from NAIC staff or state insurance regulators.

Mike Monahan (ACLI) stated that AAT is a pass/fail, so it may not be the whole solution. He inquired who drafted the memorandum included in the meeting materials from NAIC staff to the Task Force. Gann stated that the memorandum was drafted by Scott O'Neal (NAIC), support staff for the Task Force.

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

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2022/11-16-22 - bond ira/minutes/sapwg minutes 11.16.22 .docx

FERMAT CAPITAL
MANAGEMENT, LLC

September 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

Dear Mr. Bruggeman

I am writing to thank the NAIC Statutory Accounting Principles (E) Working Group (the "Working Group") for the continuing effort to address the various statutory accounting issues related to bond definition and statutory reporting. We appreciate the opportunity to comment on appropriate classification of Working Capital Finance Investments ("WCFI" SSAP 105R) and offer the following comments:

1. WCFI meets the proposed definition of issuer credit obligations under SSAP 26R
2. WCFI reporting should be encompassed on Schedule D Part 1
3. SSAP 105R currently includes restrictions to issuer credit obligation eligibility determined by the Securities Valuation Office as corresponding to those issuers with CRP equivalent ratings of NAIC 2 or better, and such restrictions should be eliminated as it is incongruous with the existing RBC framework as well as creates undue burden on the prospective filing of investments given the potential for downgrade and asset in-admissibility.

As the Commission is aware, FASB recently adopted revisions to its codification that requires all filers of financial statements to footnote the classification of such WCFI arrangements – irrespective of whether the filer has a CRP rating or has an investment or non-investment grade rating by a CRP. The NAIC should use the bond project to clarify its WCFI requirements and make the noted changes.

Please let me know if you have any questions or if I can assist in any way by calling (203) 454 6815.

Sincerely,

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THE LEASE-BACKED SECURITIES WORKING GROUP

October 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: Lease-Backed Securities Working Group Comments on the Four Items Exposed Related to the Definition of a Bond – Bond Definition, Issue Pape, SSAP No. 26R and SSAP No. 43R

Dear Mr. Bruggeman:

The Lease-Backed Securities Working Group appreciates the opportunity to comment on the Four Items Exposed Related to the Definition of a Bond. Of the four exposure items, our comments are limited to SSAP 43R -- and specifically to one small proposed addition to the Appendix of SSAP 43R. We believe the inclusion of one additional example in the Appendix is necessary in order to clarify the accounting treatment of some investment structures which are not covered in the other four examples. We have attached the proposed text of a new "Example 5" to this letter, which would provide the guidance necessary to regulators covering this class of investments.

Specifically, the inclusion of this example is necessary to clarify that there is a class of asset backed securities where the ABS Issuer does not own in the underlying collateral, but rather has a security interest through the loan documents which provides recourse to the collateral in the event of a default.

Example 1 in the Appendix deals with pass-through securities issued by Federal Agencies. The other current examples, 2 through 4, all start with an equipment leasing transaction where the reporting entity invests in a "debt instrument issued by an SPV that *owns* equipment". This would exclude the many asset-backed securities where the SPV's recourse to the underlying collateral is provided by a security interest rather than an ownership interest. This is an important distinction that the inclusion of the additional example attached is necessary to clarify.

In addition, Examples 2-4 are intended to provide guidelines to regulators for transactions that either meet -- or could fail to meet -- the two ABS requirements for "meaningful" cash flows and "substantive" credit enhancement. In this analysis, these examples look at initial leverage, but also consider various combinations of amortization and asset depreciation over the life of the loan. This excludes ABS transactions backed by real estate, which -- unlike all other asset classes -- is widely acknowledged to be a non-depreciating asset. This is a significant difference, and the inclusion of an Example 5 would provide some useful benchmarks to regulators in determining which of these transactions meet the requirements for both meaningful cashflows and substantive credit support.

In summary, we believe that the addition of the attached proposed Example 5 to the Appendix to SSAP 43R is necessary to clarify the accounting treatment of an important class of securities which

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THE LEASE-BACKED SECURITIES WORKING GROUP

are not covered in the other examples, and that without this example, it leaves unspoken how these securities would be classified.

We look forward to working together with the regulators to clarify our comments and to consider any modifications or edits to the text of the example which we have attached for their consideration.

Sincerely,

John Garrison

John Garrison
On behalf of The Lease-Backed Securities Working Group

Cc: Carrie Mears

Julie Gann
Robin Marcotte
Jake Stultz
Jason Farr

[See proposed text of a new "Example 5", attached.]

THE LEASE-BACKED SECURITIES WORKING GROUP

PROPOSED NEW EXAMPLE 5:

Example 5:

A reporting entity invested in a debt instrument issued by a SPV. Payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and an assignment of the lease payments from an operating entity tenant. Additional security is provided by a mortgage on the leased property (the "underlying collateral"). The leased property is owned by the borrower under the note -- the SPV does not have any ownership interest in the underlying collateral, though it has legal recourse to it through the mortgage. The tenant makes contractually-fixed payments over the life of the lease to the borrower, who has assigned both the lease and the lease payments to the SPV as security for the debt. While the debt is outstanding, the lease, the lease payments, the mortgage, and any other forms of credit enhancement all serve as security for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the real property as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The loan-to-value at origination is 100%.

The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at debt maturity, there is a balloon payment due, totaling 50% of the original outstanding debt principal amount. The corresponding lease has no balloon payment due at lease maturity, so the borrower will either need to refinance the debt or sell the underlying real property to service the final debt balloon payment. The property has a high probability of appreciating in value over the term, however ignoring any potential for appreciation, the 50% loan-to-value at maturity is the expected figure at the end of the debt term based solely on scheduled amortization payments. The real property is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the property could be liquidated over a reasonable period of time, if necessary.

Rationale:

The lease is a cash generating non-financial asset which is expected to generate a meaningful level of cash flows for the repayment of the bonds that covers all interest payments and 50% of the principal payments. The level of reliance on the collateral value for sale or refinancing is just over the cutoff for using the practical expedient (<50%), so a full analysis is required. In reaching this determination, the reporting entity considered the predictable nature of the cash flows, which are contractually fixed for the life of the debt instrument, as well as the ability of the underlying collateral value to provide for the balloon payment through sale or refinancing in light of its characteristics. While the real property may have some market value volatility and periods of lower liquidity at points in time, the cash flows produced by the lease were concluded to reduce the loan balance to a level (50% loan-to-value) that would be able to be recovered by sale or refinancing of the property at the maturity of the loan.

The reporting entity also determined that the structure provides substantive credit enhancement in the form of overcollateralization for the final balloon payment to conclude that investors are in a different economic position than holding the real property directly, in accordance with the requirements in paragraph 3.b. In reaching this conclusion, the reporting entity noted that although the debt instrument starts with a 100% loan-to-value, contractual fixed payments from the operating entity are sufficient to cover the payment of all interest and 50% of the outstanding principal over the term of the lease. Based on the priority claim on the real property, the predictable nature of the cash flows and the collateral range over time, the reporting entity concluded that a market participant (i.e., knowledgeable investor

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transacting at arm's length) would consider that this level of overcollateralization to put the investor in a substantively different economic position than owning the underlying property directly.

For the purposes of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to consider any expected economic appreciation. Note that a debt instrument with a loan-to- value that is expected to decrease over time is not necessarily deemed to have substantive overcollateralization.

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October 20, 2022

Mr. Dale Bruggeman, Chairman
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Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Four Items Exposed Related to the Definition of a Bond – Bond Definition, Issue Pape, SSAP No. 26R and SSAP No. 43R

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the Four Items Exposed Related to the Definition of a Bond. Specifically, our comments pertain to four interrelated items – Bond Definition, Issue Paper, SSAP No. 26R and SSAP No. 43R. Interested parties understand the magnitude of this project, and all the necessary changes that need to occur to embed within the appropriate accounting literature. Interested parties are especially appreciative of both the disciplined efforts of Staff in preparing the materials and their willingness to seek timely input from interested parties throughout the process and comment period.

As all four documents are interrelated, interested parties have organized their comments in three sections, Bond Definition, Issue Paper and SSAP No.'s 26R and 43R, each with their own subsections. All interested party comments have been discussed with Staff and we believe we are in general alignment. For comments related to paragraph 3b, while we believe we are in general thematic alignment, further collaboration will need to occur to ensure intent is fully understood, agreed upon and the words adequately reflect that intent, given the complicated nature of this topic.

Such collaboration throughout this project has proved invaluable in re-defining the definition of a bond, re-writing the relevant SSAPs, and making sure that it is conceptually sound and has the necessary clarity.

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Bond Definition

Substantive Credit Enhancement

The proposed changes to the last paragraph of the substantive credit enhancement language, within the glossary, are conceptually consistent with what interested parties had previously proposed in their last comment letter. However, interested parties proposed the following technical edits for clarification purposes:

> *The first loss position may be issued as part of the securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss positions(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the ~~structure~~ investment(s) does not qualify as a Schedule D bond and should be reported on Schedule BA.*

Examples 1&2 of Appendix I

In our previous comment letter, interested parties suggested that Examples 1 & 2 of Appendix I should be incorporated within the body of the definition itself, as they are more closely aligned with guidance rather than interpretative examples.

In dialogue with Staff, we have reached agreement on how best to incorporate these examples within the body of the bond definition. Please see our comments under Paragraph 3b – Embedded Derivatives below and under SSAP No.'s 26R and 43R.

Such changes may not need to occur within the Bond Definition itself, as the actual guidance itself has not changed, and may only be needed within SSAP No. 26R.

Paragraph 3b – Embedded Derivatives

The Bond Definition includes new proposed changes to paragraph 3b which interested parties believe needs additional clarification, specifically, in terms of consistency and readability, substance, and unintended consequences. We interpret this language to relate to potential embedded derivatives which is very nuanced and complicated as evidenced by the FASB and IASB efforts which took significant time to develop and includes many of pages of interpretative guidance. Please see our comments under Paragraph 3b – Embedded Derivatives under SSAP

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No.'s 26R and 43R.

Issue Paper

Feeder Funds

Interested parties worked with Staff on language related to Feeder Funds, included within the issue paper, and ultimately agreed upon language that addresses both concerns of interested parties and Staff. The agreed upon language, while important, is not included in our letter for the sake of brevity.

SSAP No.'s 26R and 43R

Glossary and Definitions

The glossary in SSAP No. 26R includes definitions including Terms Related to the Bond Definition, Structured Notes, Principal Protected Notes, Bank Loans and Other Legacy Terms. Interested parties do not believe a glossary is necessary for the following reasons.

Terms Related to the Bond Definition

The glossary includes terms related to the Bond Definition (e.g., Asset-Backed Security, Issuer Credit Obligation) which are already included within the body of the standard. Including such terms within the glossary is at best redundant and at worst includes a definition that is not precisely the same as the definition included within the standard itself. Interested parties believe it is best to only include the definition of such terms once (i.e., within the standard) to ensure there are no inconsistencies and the standard is otherwise more efficient and cohesive.

Further, the bond definition is split between, or includes parts, within each of SSAP No. 26R and 43R. After discussions with Staff, it was suggested that it might be appropriate to only include the bond definition once, within SSAP No. 26R. As the bond definition clearly separates bonds into one of two classifications – Issuer Credit Obligations and Asset-Backed Securities, it is likely more efficient and cohesive if SSAP No. 26R addresses the definition of a bond for both SSAP No.'s 26R and 43R.

Further, it makes sense for SSAP No. 26R to address classification for both SSAP No.'s 26R (Issuer Credit Obligation) and 43R (Asset-Backed Securities) while SSAP No. 26R and 43R each separately address the separate and nuanced accounting for each.

Interested parties support this approach as it would make for greater clarity and readability.

Structured Notes

The structured note concept is a carryover from existing SSAP No. 26R, but has been changed in subtle but meaningful ways, and is also a subset of the paragraph 3b language. Such language is

better positioned within the body of the standard, in closer coordination with paragraph 3b (see our comments below under Paragraph 3b – Embedded Derivatives) and be more closely aligned with what is currently included within existing SSAP No. 26R.

Principal Protected Notes

The Principal Protected Note / Security (PPS) definition within the glossary is different from the PPS definition, which was recently adopted by the VOSTF, with interested party support, for use within the P&P Manual. Interested parties believe these definitions should be consistent and any use of PPSs within SSAP No. 26R should reference the P&P Manual Definition. Conflicting definitions would only serve to sow additional confusion related to what is already a highly complex and nuanced definition.

Bank Loans

The definition of bank loans is a legacy term from existing SSAP No. 26R which was the culmination of an extensive effort several years ago to properly define. While there are other legacy terms (see below) included within the glossary, interested parties do not believe they are necessary. However, as bank loans are explicitly defined for purposes of SSAP No. 26R, interested parties believe bank loans should be retained, as a defined term within SSAP No. 26R, but embedded within the standard itself as otherwise the glossary might only have one definition.

Other Legacy Terms

All other legacy terms, which are included within SSAP No. 26R, have a readily and common understanding (e.g., convertible bond) that are used within SSAP No. 26R (i.e., paragraph 7). However, there are other similar terms within paragraph 7 (e.g., Municipal Bonds, REITs, etc.) or elsewhere which are not included within the glossary. It would seem to make sense that either all such terms should be included within the glossary, or no such terms should be included. Interested parties do not believe the glossary is needed. However, should regulators wish to include such terms, and their related definitions within the glossary, interested parties would have no objections.

<u>Income Recognition</u>

Paragraphs 21 – 31 of SSAP No. 43R include very nuanced language, and complicated concepts, related to income recognition for Asset-Backed Securities, much of which is derived from US GAAP. Further, such language was re-aggregated within the proposed language by Staff. Interested parties agree with the reasons behind the re-aggregation by Staff, as it more coherently presents that which is currently articulated within existing SSAP No. 43R. However, interested parties worked with Staff to further refine this language to achieve two objectives; namely, ensure it appropriately fully captures the intent and common understanding of both interested parties and Staff and ensure that intent is clearly articulated. Interested parties believe both objectives have been achieved after working with Staff on the language within paragraphs 21 – 31. The agreed

upon language, while important, is not included in our letter for the sake of brevity.

Paragraph 3b – Embedded Derivatives

The newly added language in paragraph 3b of the Bond Definition, and paragraph 9b of SSAP No. 26R, is the most challenging concept the interested parties will be commenting on. It is very important that this concept and language be carefully assessed in terms of consistency and readability, substance, and unintended consequences. We interpret this language to relate to potential embedded derivatives which is very nuanced and complicated as evidenced by the FASB and IASB efforts which took significant time to develop and includes many pages of interpretative guidance. We have made significant progress working with Staff but ultimately believe more time and dialogue is needed to ensure intent is fully understood and captured. Interested parties also believe it may be beneficial for regulators to be part of all, or some of such dialogue, if they so desire. Interested parties include the most salient points below.

Consistency and Readability

Interested parties note that the latter part of paragraph 3b (bond definition) and 9b (SSAP No. 26R) includes language related to certain types of embedded derivatives. If a security runs afoul of such language, it would not be reported as a bond on schedule D. This can have potentially severe consequences. Interested parties make the following comments related to consistency and readability:

1) The paragraph 3b language is embedded within the part of the bond definition that relates only to Asset-Backed Securities (ABS). Yet the Issuer Credit Obligation (ICO) language refers to this language for Treasury Inflation Protected Securities (TIPS). Therefore, as written, it is unclear if this language is applicable to both ABS and ICOs or just ABS. Discussions with Staff have indicated that the intent is it should apply to both. As such, it was agreed that such language should be moved toward the front of the standard as an "exclusion" from the definition of a bond.

2) The structured note guidance, referred to above, is an integral part of the standard and should not be relegated to the glossary. Discussions with Staff have indicated that such language is a subset of the paragraph 3b language, and therefore should be included directly after such language. A key distinction, however, is if a security runs afoul of paragraph 3b, the security would be reported on Schedule BA, whereas a security that runs afoul of the structured note language would be reported as a derivative on Schedule DB. Several other points related to the language also need to be addressed:

    a. The base of the structured note language should be more closely aligned with the existing language within existing SSAP No. 26R.
    b. The guidance related to Cash Components of Replication Synthetic Asset Transactions (RSAT) will likely need to be changed in the P&P Manual to refer to securities that are both bonds to be reported on Schedule D and "bonds" that hereafter may be reported on Schedule BA, to ensure their eligibility will not be in question. Clarifying guidance will also be necessary in relation to the newly added

"3b" language in the AP&P Manual to ensure that the adopted updates to the Bond Definition do not unintentionally compromise the eligibility of "Safe Harbor" RSATs, or those RSATs approved by the SVO, as "Effective" RSATs, both as defined in the P&P Manual, or the eligibility of the fixed income Cash Component and Derivative Component of such "Effective" RSATs for statutory accounting measurement and valuation that is consistent with that which would apply to the otherwise permissible bond investments that the Components of "Effective" RSATs combine to replicate synthetically.

c. There will need to be clarifying guidance for when a security runs afoul with both the structured note guidance and the paragraph 3b guidance so as it is clear which takes precedence for reporting (e.g., Schedule DB or Schedule BA, respectively).

3) Example 1 of Appendix 1 essentially deals with a security where the interest or principal moves up or down in accordance with underlying equity appreciation or depreciation. As this is no longer needed (i.e., it is covered in the paragraph 3b language), interested parties recommend the deletion of this example. While example 2 of Appendix 2 is not directly related to this concept, interested parties suggest it be included right prior to the paragraph 3b language. We have shared this in a proposal with Staff, inclusive of some of other proposed changes, and believe we have general agreement on placement as well as the general acknowledgement that more collaboration needs to occur on paragraph 3b itself.

Substance

The language included within paragraph 3b is similar to concepts included within US GAAP and IFRS. However, discussions with Staff have indicated that the intent is not to mirror either of them but to prevent abuses that could occur (e.g., having interest that moves up or down with the performance of an underlying equity asset or derivative that makes the security more equity like than bond like). Trying to thread the needle on preventing abuses, not making needlessly complex and/or having unintended consequences, is nonetheless challenging. A few areas of substance that will need to be addressed include the following:

1) Interested parties have identified three types of securities with embedded derivatives that should be addressed to ensure they will not run afoul of the paragraph 3b language:
   a. Securities where the where variable interest is interest related (e.g., linked to SOFR or other similar benchmark interest rate),
   b. Securities where the variable interest is linked to credit risk characteristics of the issuer, and
   c. Securities where the interest or principal is denominated in a foreign currency.

2) Interested parties have been working with Staff, and have made progress, but additional language changes may need to be made. Both Staff and interested parties are continually thinking through the intent and specific language required with the goal of appropriately threading the needle. Nonetheless, more work needs to be done and interested parties look

forward to and anticipate further collaboration with Staff and/or regulators on this topic to clarity both intent and language.

3) Securities that run afoul of paragraph 3b will need to be reported on Schedule BA. This is in addition to any securities that will need to be reported on Schedule BA that otherwise more generally no longer meet the definition of a bond and therefore can also no longer be reported on Schedule D. This is an important point as many states have limits on the aggregate amount of investments that can be reported on Schedule BA. Many of these investments, are not inappropriate investments, but just will not meet the definition of a bond for Schedule D reporting. Interested parties are therefore concerned about the unintended consequences of this language if it is too broad – both from the limits on such investments imposed by statute and inappropriate risk-based capital charges. It is therefore important that the requisite time and commitment be dedicated to both getting this definition appropriately defined and ensuring a concurrent referral for timely risk-based capital factor development for their Schedule BA reporting. This work should be finalized simultaneously when the bond definition gets adopted.

Unintended Consequences

As noted previously, interested parties are continually thinking about this new concept, and working to identify securities that would run afoul of this new language where the intent of the language was not to capture. A few examples are included below:

1) Many insurers hold Environmental, Social and Governance (ESG) bonds where the coupon may change if certain sustainability targets are or are not met (e.g., increase or reduction of interest on CO2 emissions or workplace injuries). Typically, such adjustments are minimal or around 5 basis points.
2) Similarly, there are certain highly rated CLO transactions where the senior tranche may get additional interest if the equity or residual tranche returns meet a certain threshold.
3) Certain public ABS transactions backed by prime student loans have interest payments that vary based on the composition of the underlying pool of loans (e.g., if high interest loans prepay early, the interest due to the senior tranche may decline).
4) Certain ABS include an anticipated repayment date (ARD) function that require a step-up in interest rates payable to the holder if the securitization is not paid in full on or before the ARD.
5) Lastly, at the crux of paragraph 3b is the following sentence:

   "The debt instrument must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation of any underlying collateral value or other variable."

   While interested parties agree with what we understand to be the intent behind this language (i.e., having interest that moves up or down with the performance of an underlying asset or derivative that makes the security more equity like than bond like), there are nuances that interested parties believe still need to be addressed. For example, the "pre-determined

principal or interest" language can be interpreted several ways. It could be interpretated to mean that both the magnitude and timing of principal and interest payments must be known in advance, while it could also be interpreted to mean the amounts need to be contractual in nature but can still vary as long as the variability is not dependent on the appreciation/depreciation of an asset or variable. Further, the reference to "other variable" could be interpreted to mean interest is not allowed to vary based on any variable or just the appreciation/depreciation of the variable. See also our comments above as they are often related to this specific language.

Paragraph 44 Transition Language

The transition language in paragraph 44 of SSAP No. 26R should also be closely aligned with what proposed changes occur within SSAP No. 21 which we understand will address securities not meeting the definition of a bond for reporting on Schedule D. Currently, paragraph 44 has potentially conflicting guidance, but nonetheless will need to be read in conjunction with changes to SSAP No. 21. How to affect the transition will also need to be more fully developed – e.g., will there be gains or losses recognized on securities that may have to change reporting schedules upon transition to the new SSAP No.'s 26R and 43R, and if so, how will they be reported (e.g., as part of income, surplus, etc.).

Re-Exposure

Given the substantial scope and complexity of both this project and the changes that still need to occur, interested parties believe these documents should be re-exposed. The proposed changes not only include substantial changes related to ordering and repackaging, there is substantial flow through or references throughout the Issue Paper and SSAPs that will also need to be updated. While we have passed on many editorial and/or wordsmithing comments to Staff, at least another thorough review is warranted related to this as well. We are also the understanding that changes related to SSAP No. 2, as an example, are needed to clarify that commercial paper ABS can only be reported on Schedule D. Ideally, such SSAPs should also be re-exposed simultaneously.

*****

Interested parties continue to support the development of high-quality bond standards and believe they are headed in the right direction. Staff has tackled this project with appropriate rigor and their collaboration with us has been greatly appreciated. We stand ready to assist as this project gets nearer the finish line.

Sincerely,

D. Keith Bell Rose Albrizio

C: Interested parties
NAIC staff

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October 7, 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 August 10, 2022, with Comments due October 7th

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) during its meeting on August 10th in Portland.

We offer the following comments:

Reporting Lines/Descriptions Proposal: Issuer Credit Obligations and Asset Backed Securities

The Working Group exposed the following 2 items which propose reporting changes to improve transparency and granularity as part of the Principles-Based Bond Definition Project. The first document includes proposed reporting lines and descriptions for bonds. The second document includes a new proposed Schedule D-1 with new sections, columns, and reporting instructions to separate and capture information specific to issuer creditor obligations (Schedule D – Part 1 – Section 1) and asset-backed securities (Schedule D – Part 1 – Section 2). A variety of schedule and instruction changes are proposed for each schedule.

Attached is a marked-up version for each of the above items exposed that includes substantive comments that begin with 'IP Comments:' next to the item being addressed. The attachment also includes editorial revisions as appropriate. Also attached is a clean version that reflects all of our comments and revisions.

The following are the key items highlighted in our comments:

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- If ABS investments will no longer be allowed to be reported on Schedule DA – Part 1 (Short-Term Investments) and Schedule E – Part 2 (Cash Equivalents), should consideration be given to modifying SSAP No. 2R—*Cash, Cash Equivalents, Drafts, and Short-Term Investments*?
- In several instances, we are recommending that the column data referencing 'Acquisition' data be changed to 'Origination' to provide consistency of the data and match the instructions.
- We recommend removing the 'Current Overcollateralization Percentage (ABS)' field as it is industry's understanding that the assessment of whether the reporting entity benefits from substantive credit enhancement through subordination and/or overcollateralization is done at the date of acquisition of the investment based on the characteristics of the investment at origination.
- We are unsure as to what is being requested in the 'PIK Interest Due and Accrued' column.

Interested parties understand that the new Schedule D – Part 1 – Section 1 aligns with SSAP No. 26R and Schedule D – Part 1 – Section 2 aligns with SSAP No. 43R. To assist in this alignment, would it make sense to rename SSAP No. 26R 'Bonds – Issuer Credit Obligations' and SSAP No. 43R 'Bonds – Asset-Backed Securities'?

Our comments and suggested changes to the proposed reporting changes reflect our understanding of the concurrently exposed changes to SSAP No. 26R and SSAP No. 43R to bring the accounting and reporting into sync as part of the Principles-Based Bond Definition Project. We believe there will be an opportunity to continue to work with insurance regulators and NAIC staff on further changes as new feedback is received on these important issues.

Ref #2019-21: Proposed Bond Definition

Pursuant to the direction from the Working Group in October 2020, a small group of regulators and industry have been meeting regularly to draft a bond definition for consideration. The intent of this project is to clarify what should be considered a bond (whether captured in SSAP No. 26R—Bonds or SSAP No. 43R—Loan-Backed and Structured Securities) and reported on Schedule D-1: Long-Term Bonds: This exposure is specific to the proposed bond definition included in the exposed Form A, along with the glossary (page 5) and appendices (pages 6-12), but comments on future developments (such as reporting changes, accounting and reporting guidance for items that do not qualify as bonds, transition guidance, etc.) may also be submitted to assist in the development of these items. This exposure document reflects the direction of the Working Group from the July 18, 2022, call in which comments received after the March 2022 exposure were discussed. This exposure is accompanied by a proposed issue paper that details the discussions in developing the principles-based bond definition as well as proposed statutory accounting revisions to SSAP No. 26R and SSAP No. 43R. Proposed reporting changes were exposed July 18, 2022.

Interested parties will submit comments under a separate comment letter at a later date.

* * *

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

Reporting Proposal
General Instructions
Comment Summary

1. Page 3 - Comments indicate that the definitions for SAP Book Value, SAP Carrying Value, Adjusted Carrying Value and Recorded Investments should be reviewed.

2. Page 6 - Comments propose to clarify that convertible bonds are included with corporate bonds, with the exception of mandatory convertible bonds, which are in a separate category.

3. Page 7 - Comments identify the lines for which affiliated investments are not reported. These include government jurisdictions, SVO-Identified Bond ETFs and Certificates of Deposit.

4. Page 9 - Comments expand the definition of financial asset-backed securities that are not-self-liquidating. The revised definition is as follows: Include all financial asset-backed securities where the structure does not represent a design where the terms of the underlying collateral has contractual principal and interest that results with a conversion into cash over a period of time (e.g., receivables or other such assets).

5. Page 9 - Comments clarify the practical expedient in SSAP No. 43R, noting that it may be utilized.

6. Page 10 - Comments move the definition of affiliated reporting lines. This is a placement change from page 9.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/sapwg/atta_11.16/atta4a_10-20-22 - 43r - general_instructions.doc

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Reporting Proposal
Schedule D-1-1 & Schedule D-1-2
Comment Summary

1. Page 3 - Comments propose to reorder certain electronic columns. They have also recommended that the numbering begin again for electronic columns. (So, 1-22 for pdf, and then E1-E20 for electronic.)

2. Page 5 - Comments identify the need to provide guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to exclude asset-backed securities and to ensure consistency between the accounting and reporting for investments that will no longer be captured on Schedule DA – Part 12 (Short-Term Investments) and Schedule E – Part 2 (Cash Equivalents).

3. Page 6 - Comments request that the redesign of the "code" column, which is proposed to have a column for "restricted asset codes" and another electronic only code for other elements be duplicated on other schedules.

4. Page 11 - Comments request the inclusion of example references to the retrospective and prospective methods instead of defining the two approaches in the instructions.

5. Page 11 - Comments recommend revisions to data-capture information on interest income due and accrued as a separate project.

6. Page 11 – Comments propose to rearrange the description of 'Interest Received During Year" to move the statement that the column should reflect the combined total of all interest (cash and PIK) received for each reported investment during the year to the start of the paragraph. (This is a placement change.)

7. Page 12- Comments propose to change the description of "Acquisition Balloon Payment" to "Origination Balloon Payment" with a comment that the description indicates that it reflects the original outstanding principal amount.

8. Page 13 - Comments recommend deleting investment characteristic #8 that identifies whether an asset is bifurcated between an insulated and non-insulated separate account as it is used by a very small number of investments.

9. Page 14 - Comments recommend retaining the fair value hierarchy code that identifies that the amount reported was determined by the unit price published in the NAIC Valuation of Securities.

10. Page 17 - Comments recommend deleting the new proposed column for "Current Overcollateralization Percentage" applicable to ABS. The comments indicate that the assessment of substantive credit enhancements is completed at acquisition, therefore question why this is needed. They also note that it would be operationally challenging for reporting entities to update the info for all ABS every reporting period. Lastly, they identify that ABS securities (such as guaranteed mortgage pass-throughs) would only have credit enhancement in the form of a guarantee and would not have anything to populate in the column.

11. Page 18 - Comments recommend revising "Acquisition Overcollateralization Percentage" to reflect the "Origination Overcollateralization Percentage" noting that it would be consistent with the instructions that the original collateralization ration shall be based on supporting investment documentation.

12. Page 18 – Comments recommend that the description of PIK Interest Due and Accrued be revised to reflect the cumulative amount of PIK interest included in the current principal balance.

13. Various Edits – Industry proposed a variety of small edits / formatting changes.

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October 28, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
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RE: Interested Parties Comments on INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax

Dear Mr. Bruggeman:

Interested parties is appreciative of the opportunity to comment on INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax (CAMT), exposed by the Statutory Accounting Principles Working Group on October 6, 2022. As noted in connection with the exposure, this INT addresses fourth quarter 2022 and interim 2023 reporting. It requires reporting when reasonable estimates can be made. It provides some subsequent events exceptions regarding the CAMT, to allow estimates to be updated as information becomes available. Companies subject to the CAMT are required to have their estimates recognized fully by year end 2023. Disclosures are also provided.

Interested parties has previously made two submissions to the Working Group on the subject of the CAMT. On September 26, 2022, we requested that the Working Group permit insurance companies to defer recognition of any statutory tax accounting effects of the CAMT until no earlier than the due date for filing the quarterly statement for the first quarter of 2023. On October 14, 2022, interested parties submitted comments on INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax. INT 22-02 concluded that because of the timing of the adoption of the Act and the considerable number or unknown variables, impacts related to the CAMT should not be recognized for third quarter 2022 financial statements.

INT 22-03 considers three statutory accounting issues relating to the CAMT:
1. Calculations for year-end 2022 and interim 2023 financial statements
2. Subsequent events for year-end 2022 and interim 2023 financial statements

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3. Reporting changes to deferred tax assets and liabilities

Paragraph 12 of INT 22-03 provides that reporting entities that are aware that they will be subject to the CAMT shall reflect the impact on the calculations affected by the CAMT if the impacts are reasonably estimable for year-end 2022 and for the interim 2023 financial statements. For the following reasons, interested parties believes that the impact of the CAMT will not be reasonably estimable by reporting entities for year-end 2022, nor perhaps for interim 2023 statutory financial statements:

- Needed clarification from the Working Group of statutory tax accounting issues
- Inability of reporting entities this late in the calendar year to implement systems and process changes, to establish appropriate internal controls, or to adopt changes to intercompany tax sharing agreements necessary to make a reasonable estimate of the impact of the CAMT
- Lack of CAMT guidance from the U.S. Treasury

Accordingly, interested parties requests that the Working Group extend INT 22-02's deferral of recognition of the impacts of the CAMT at least through the year-end 2022 financial statements.

Needed Clarification from the Working Group of Statutory Tax Accounting Issues

Our September 26 letter noted that, as a result of the consolidated financial statement approach to applicability of and determination of the CAMT, substantive questions exist as to the proper income tax accounting for the CAMT in the statutory separate company financial statements of an insurance company. The CAMT is not effective until 2023, so there will be no current tax effects for year-end 2022 financial statements. However, because INT 22-03 requires a reasonable estimate for year-end 2022 financials, it appears to assume that the CAMT could have deferred tax effects for those financial statements. However, before any deferred tax effects can be estimated, a basic issue must be addressed by the Working Group as to how to reconcile the consolidated nature of the CAMT (both as to its potential applicability to a consolidated tax return group and the computation of the consolidated tax return group's tentative CAMT) with the tax accounting requirements for the separate statutory financial statements of insurance companies.

The attachment to this letter includes additional information about factors that are relevant to this matter:

- The consolidated determination of the applicable financial statement and the starting point for computation of adjusted financial statement income
- The circumstances under which an insurance company may or may not be includible in a consolidated Federal income tax return (with special considerations applicable to life insurers)
- The GAAP and statutory accounting guidance regarding income tax accounting in separate financial statements of companies included in a consolidated return
- Different methodologies for allocating consolidated tax liability pursuant to intercompany tax sharing agreements (TSAs)

Also included is an example illustrating a typical fact situation for a consolidated group including insurance companies and the types of statutory tax accounting-related questions that

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could arise. As a practical matter, reporting entities will experience a wide variety of circumstances which, we believe, requires clarifying guidance from the Working Group. In other words, we believe that before a reasonable estimate may be made, the basis or bases on which the estimate is to be determined must be clearly set forth.

For example, should an insurance company that is included in the consolidated financial statement of a consolidated tax return group that is not an "applicable corporation" as defined in the tax law (and therefore not subject to the CAMT) have to do any accounting at all for the CAMT in its separate company statutory financial statements? If an insurance company is included in a consolidated Federal income tax return of a GAAP consolidated financial statement group that is an applicable corporation, how are the impacts of the CAMT in the insurer's separate company financials determined, including in the determination of adjusted gross deferred tax assets under paragraph 11.b. of SSAP No. 101? What if the insurance company does not have available any separate company financial statements other than its statutory financial statements? How does the answers to these questions depend on whether the intercompany TSA does or does not allocate CAMT? Would the answer be different if the TSA provided for a pro rata allocation of consolidated tax liability rather than a separate return computation? Should an accounting policy election for these types of CAMT-related issues be available in the statutory financials?

Although paragraph 13 of INT 22-03 provides for reporting entities that cannot make a reasonable estimate, there is concern that audit firms will assert that such an estimate is indeed determinable. A similar concern exists with respect to the references to reasonable estimate in paragraphs 14 and 18.[1] In the absence of clarifying guidance, we are concerned that insurers and their audit firms will interpret and apply the existing tax accounting guidance in a diverse manner that will result in inappropriate inconsistencies.[2] In all these circumstances, there are threshold questions as to the basis for determining how a consolidated tax for which a consolidated tax group may be liable should be accounted for in the separate statutory financial statements of an insurance company member of the group, and interested parties requests that the Working Group issue clarifying guidance to address these CAMT-related tax accounting issues before requiring expanded CAMT disclosures.

In our letter dated September 26, 2022, we suggested a delay in the recognition of any statutory accounting effects of the CAMT until at least the first quarter 2023 statutory financial statements. This suggestion was made not only to provide additional time for initial guidance from Treasury (discussed further below), but also for consideration of the applicable statutory tax accounting issues. Interested parties will cooperate with the Working Group and NAIC staff to identify and address the various fact circumstances and issues and to consider appropriate resolutions.

[1] Paragraphs 18.a. and 18.b of INT 22-03 require disclosures similar to those required by INT 22-02, and our comments on INT 22-02 in our October 14 letter also apply here, taken in the context of the above discussion of "reasonable estimate."

[2] It has already come to the attention of interested parties that major accounting firms may be developing differing points of view on the application of the principles of SSAP No. 101 to the CAMT.

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Systems, Processes, and Internal Controls Issues/Amendments of TSAs

In addition to the statutory tax accounting uncertainties discussed above and the lack of Treasury guidance discussed below, another impediment relates to more practical matters – the inability of reporting entities at this time of year to effectively make changes in year-end reporting systems, processes, and internal controls to meet the reasonable estimate requirements of INT 22-03. Typically, by this time of year, companies have locked-down their year-end accounting processes and procedures, and it is highly unlikely that a reasonable estimate process for the CAMT could now be implemented in a manner that would satisfy all internal control procedures and other accounting system requirements. Instead, if the requirement is maintained, work-arounds would be required that would most likely lead to inconsistent and perhaps unreliable results.

Furthermore, while companies may be contemplating changes to their TSAs to account for the CAMT, time is insufficient to institute such requests and receive the required approvals for 2022. But even if there was adequate time, companies will be unable to make informed decisions about how their TSAs should deal with the CAMT in the absence of necessary tax law and tax accounting guidance clarifications. A circular equation exists – tax accounting is affected by TSAs, but TSAs are dependent on tax accounting. The tax accounting playing field must be clearly defined before appropriate TSA provisions may be implemented.

It also should be noted that, while TSAs generally do not provide for the CAMT, some TSAs still include provisions related to the AMT effective in pre-2018 years. Application of such provisions to a CAMT which the TSA was never designed to address would certainly lead to inconsistencies and inaccuracies.

Lack of Treasury Guidance

In our letter to the Working Group dated September 26, 2022, we noted that Treasury is required not only to provide general guidance to carry out the purpose of the CAMT, but also is directed or authorized to issue guidance to implement or clarify application of the law in approximately 20 specific instances. We also noted that one such instance where Treasury may alter application of the CAMT is in determining the applicable financial statement (AFS) for purposes of the CAMT, a determination that clearly is fundamental to the workings of the CAMT.[3] Further, we noted that Treasury would be asked to address the treatment of financial statement accounting issues specifically related to the insurance business. Both life insurance and property & casualty insurance trade associations have submitted letters to Treasury relating to insurance company-specific issues, and both have scheduled initial meetings with Treasury to discuss such issues.

We noted in our September 26 letter that substantive CAMT guidance is unlikely to occur until 2023. In the weeks since that letter was submitted, that expectation has been reinforced, as Treasury has acknowledged that issuing guidance on the energy tax credit provisions of the Inflation Reduction Act is a priority, rather than CAMT guidance which affects a smaller number

[3] In an October 14, 2022, letter to Treasury, the American Institute of CPAs requested that Treasury exercise its authority to determine the AFS in a manner that apparently would make the statutory financial statements of an insurance company its AFS even if, for example, it is included in the consolidated GAAP financial statements of its parent company.

of taxpayers. Accordingly, there is little expectation that Treasury guidance will be issued during the remainder of 2022 that will enhance reporting entities' ability to make a reasonable estimate of the effects of CAMT for year-end 2022.

Other Comments

We have two other comments of lesser importance than those above. First, paragraph 18.d. of INT 22-03 requires disclosure of additional information needed to complete the requirements "under ASC 740." Although this reference to ASC 740 is consistent with paragraph 7.d.ii.b) of INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act, we recommend that the words "under ASC 740" either be deleted or changed to "under SSAP No. 101." For the CAMT in particular, the accounting requirements and the ability of companies to make reasonable estimates for consolidated GAAP financial statement purposes differ from those applicable for separate company statutory financial statements.

Second, paragraph 15 of the INT requires evaluation of "partially issued" Treasury regulations in establishing a reasonable estimate for the impacts of the CAMT. This wording may have been intended to reflect anticipation that Treasury regulations or other guidance on the CAMT likely will be issued in piecemeal form, but clarification would be useful. Guidance on the tax law requirements for the CAMT may come in various forms - revenue rulings, notices, or proposed, temporary, or final regulations. Proposed regulations are subject to a notice and comment period before they may be issued in final form. The specific Internal Revenue Code language authorizing Treasury guidance on the CAMT usually refers to "regulations or other guidance." Accordingly, we recommend that the phrase "partially issued regulations" be changed to "regulations or other guidance."

Thank you for considering our comments. We look forward to further discussion of these matters and, in particular, cooperation with the Working Group and NAIC staff in clarifying the tax accounting guidance. Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell

Rose Albrizio

c: Interested parties
NAIC staff

Additional Information and Example

This attachment includes discussion of the following:

- An overview of the newly enacted corporate alternative minimum tax.
- An overview of Federal income tax rules relating to inclusion of insurance companies in consolidated Federal income tax returns.
- Accounting guidance on allocation of consolidated tax expense to separate financial statements of members.
- Statutory income tax accounting guidance for the separate financial statements of insurance companies included in consolidated Federal income tax return.
- An example of a typical fact situation for an insurance company group and the type of statutory accounting issues that might arise in such a situation.

Corporate Alternative Minimum Tax

The recently enacted law commonly referred to as the "Inflation Reduction Act of 2022" includes a corporate alternative minimum tax (CAMT) effective in 2023 that is based on an applicable corporation's adjusted financial statement income (AFSI) set forth on its applicable financial statement (AFS). A corporation is an "applicable corporation" if its rolling average pre-tax AFSI over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities (based on greater than 50% ownership), the $1 billion threshold is determined on a controlled group basis, and the group's AFS is generally treated as the AFS for all separate taxpayers in the group.[4] Except under limited circumstances that may be the subject of future Treasury guidance, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

Even if a corporation is an applicable corporation, it is not automatically subject to a CAMT liability. The corporation's tentative CAMT liability is equal to 15% of its adjusted AFSI, and CAMT is payable to the extent the tentative CAMT liability exceeds regular corporate income tax. However, any CAMT paid would be indefinitely available as a credit carryover that could reduce future regular tax in excess of CAMT.

Inclusion of Insurance Companies in Consolidated Federal Income Tax Returns

The Internal Revenue Code provides that an "affiliated group" of corporations may file a consolidated US income tax return. For this purpose, an "affiliated group" is generally defined as a chain of "includible corporations" connected through stock ownership (comprising 80% or more of vote and value) with a common parent corporation. However, includible corporations do not include foreign corporations, nor (subject to the exceptions described below) life insurance companies. On the other hand, insurance companies that are not taxed as life insurance companies are includible corporations.

Two exceptions exist to the exclusion of life insurance companies from a consolidated return. First, two or more life insurance companies may file a so-called "life-life" consolidated return,

[4] For a "foreign-parented multinational group," the $1 billion threshold is determined on a worldwide basis and the threshold for U.S.-taxpaying members of the group is reduced to $100 million.

provided they are in a parent-subsidiary relationship that satisfies the 80% ownership requirement. Second, an affiliated group that includes one or more life insurance companies may elect to treat such companies as includible corporations in a so-called "life-nonlife" consolidated return. However, a life insurance company may not be treated as includible until it has been a member of the affiliated group for 5 taxable years. During this 5-year waiting period, such a life insurance company is referred to as "ineligible". After the expiration of the 5-year period, an ineligible life company automatically becomes includible in the life-nonlife consolidated return.

Accordingly, insurance companies may be included in a consolidated Federal income tax return under the following circumstances:

- A nonlife insurance company may be includible in a consolidated return that does not include life insurance companies, or in a life-nonlife consolidated return.
    - Such a nonlife insurance company may be the parent company of a consolidated return group.
        - For example, a mutual nonlife insurance company may file a consolidated return with its 80% or more owned subsidiaries.
        - If a life-nonlife election has been made, such consolidated return includes eligible life insurance companies.
- A life insurance company may be included in a life-nonlife consolidated return if it is eligible and if the common parent company has made the life-nonlife election.
    - A life insurance company may be included in a life-life consolidated return if the requisite parent-subsidiary relationship exists with another life insurance company and either:
        - A life-nonlife election has not been made by the ultimate parent company of the affiliated group
        - A life-nonlife election has been made, but the life company is ineligible during the 5-year waiting period.
            - However, an ineligible life insurance company may <u>not</u> elect to file a life-nonlife consolidated return with its nonlife insurance company subsidiaries.
    - A life insurance company may be the parent company of a life-nonlife consolidated return group.

<u>Allocation of Consolidated Tax Expense to Separate Financial Statements of Members</u>
Accounting Standards Codification (ASC) 740-10-30-27 provides that the consolidated amount of current and deferred tax expense for a group that files a consolidated tax return is allocated among the members of the group when those members issue separate financial statements. ASC 740 does not require a single allocation method; however, the method adopted must be systematic, rational, and consistent with the broad principles of the asset and liability approach established by ASC 740. A method that allocates current and deferred taxes to members of the group by applying ASC 740 to each member as if it were a separate taxpayer meets those criteria. The separate company approach also is the preferred method for separate financial statements filed with the Securities and Exchange Commission. SEC Staff Accounting Bulletin

Topic 1B states:

> The staff believes that it is material to investors to know what the effect on income would have been if the registrant had not been eligible to be included in a consolidated income tax return with its parent. Some of these subsidiaries have calculated their tax provision on the separate return basis, which the staff believes is the preferable method.

It is recognized that under the separate taxpayer approach, the sum of amounts allocated to individual members of the group may not equal the consolidated amount. This may also be the result when there are intra-entity transactions between members of a group.

ASC 740-10-30-28 provides the following examples of methods that are not consistent with the broad principles of ASC 740:

- A method that allocates only current taxes payable to a member of the group that has taxable temporary differences.
- A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in ASC 740.
- A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

Although ASC 740 does not prescribe a single allocation method to apply when an entity allocates current and deferred income taxes, in practice, intercorporate tax allocations are often calculated using the separate return method, the benefits for losses method, or the pro rata method.

- The separate return method applies ASC 740 to the stand-alone financial statements of each member of the consolidated return group as if the group member were a separate taxpayer.
- The benefits for losses method modifies the hypothetical separate return by considering the subsidiary's net operating losses and capital losses as realized by the subsidiary in its separate financial statements when those losses are used by the parent in its consolidated tax return with a cash settlement at that time. Benefits for the subsidiary's tax credits utilized in the consolidated tax return may be similarly realized.
- Under the pro rata method, current and deferred income taxes are allocated to members of the group based on each member's relative contribution to the group's consolidated income tax expense or benefit.
    - Unlike the separate return method, the sum of the amounts allocated to individual members under the pro rata method should equal the amounts reported in the consolidated financial statements.
    - When applying the pro rata method, each component of income tax expense and each deferred tax asset and liability generally should be allocated to the group members rather than simply allocating total income taxes

An intercompany TSA may provide a reasonable basis on which to allocate income taxes among members of a consolidated group if it is systematic, rational, and consistent with the broad principles of ASC 740. When a TSA is not consistent with an allocation methodology that is

acceptable for financial statement purposes, differences may arise between the amounts reported in the financial statements and the amounts actually payable or receivable under the TSA. These differences generally should be reported as adjustments to capital (as contributed capital or dividends) in the separate financial statements of the subsidiaries.

Statutory Separate Financial Statements of Insurance Companies

The statutory financial statements filed by insurance companies with State insurance regulators are separate company statements. In recognition of this, SSAP No. 101 – Income Taxes, provides guidance for situations when the reporting entity is a member of a consolidated income tax return with one or more affiliates. As noted below, the guidance in SSAP No. 101 refers to "separate company" or "separate legal entity" determinations.

Paragraph 16 of SSAP No. 101 provides that income tax transactions between the affiliated parties shall be recognized if a) such transactions are economic transactions as defined in SSAP No. 25, b) are pursuant to a written income tax allocation agreement, and c) income taxes incurred are accounted for in accordance with GAAP principles, as modified by SSAP No. 101. Paragraph 17 provides that amounts owed to a reporting entity pursuant to a transaction recognized under paragraph 16 shall be treated as a loan or advance, and nonadmitted, pursuant to SSAP No. 25, to the extent that the recoverable is not settled within 90 days of the filing of a consolidated income tax return, or where a refund is due the reporting entity's parent, within 90 days of the receipt of such refund.

The admissibility of income tax assets is set forth in paragraphs 9 and 10 of SSAP No. 101 for current income tax recoverables, and in paragraphs 11 (which sets forth a three-component admission calculation in 11.a., 11.b., and 11.c.) and 12 for adjusted gross deferred tax assets (DTAs). Footnote 2 of SSAP No. 101 provides that, for purposes of determining the amount of adjusted gross DTAs and the amount admitted under paragraph 11, the admission calculation shall be made on a separate company, reporting entity basis. A reporting entity that files a consolidated federal income tax return with its parent should look to the amount of taxes it paid (or were allocable to it) as a separate legal entity in determining the admitted DTA under paragraph 11.a., and the DTA admitted under this paragraph cannot exceed the amount the reporting entity could reasonably expect to have refunded by its parent. The taxes paid by the reporting entity represent the maximum DTA that may be admitted under paragraph 11.a., although the amount could be reduced pursuant to the group's tax allocation agreement. The amount of admitted adjusted gross DTA under paragraph 11.b.i. is limited to the amount that the reporting entity expects to realize within the applicable realization period, on a separate company basis. The reporting entity must estimate its separate company taxable income and the tax benefit that it expects to receive from reversing deductible temporary differences in the form of lower tax payments to its parent. A reporting entity that projects a tax loss in the applicable realization period cannot admit a DTA related to the loss under paragraph 11.b., even if the loss could offset taxable income of other members in the consolidated group and the reporting entity could expect to be paid for the tax benefit pursuant to its tax allocation agreement.[5]

[5] For example, under a benefits for losses TSA.

Paragraph 12.b. of SSAP No. 101 reiterates footnote 2 in providing that the amount of carryback potential that may be considered in calculating the admitted adjusted gross DTAs under paragraph 11.a. of such a reporting entity may not exceed the amount that the reporting entity could reasonably expect to have refunded by its parent.

Certain effects of inclusion of a reporting entity in a consolidated tax return group also are addressed in SSAP No. 1 Exhibit A - Implementation Questions and Answers (Q&A). For example, Q&A 8 addresses how a company's computation of adjusted gross and admitted DTAs is impacted if it joins in the filing of a consolidated federal income tax return, and includes the following points:

- Paragraph 8.1 - For purposes of determining the amount of DTAs and the amount admitted under paragraph 11, the calculation should be made on a separate company, reporting entity basis.
- Paragraph 8.2 - A reporting entity that files a consolidated federal income tax return with its parent should look to the amount of taxes it paid (or were allocable to it) as a separate legal entity in determining the admitted adjusted gross DTAs under paragraph 11.a. Furthermore, the admitted adjusted gross DTAs under paragraph 11.a. may not exceed the amount that the reporting entity could reasonably expect to have refunded by its parent company. The taxes paid by the reporting entity represent the maximum DTAs that may be admitted under paragraph 11.a., although the amount could be reduced pursuant to the group's tax allocation agreement.
- Paragraph 8.3 - The amount of admitted adjusted gross DTAs under paragraph 11.b.i. is limited to the amount that the reporting entity expects to realize within the applicable period (determined under the Realization Threshold Limitation Tables in paragraph 11.b.) following the balance sheet date on a separate company basis. The entity must estimate its separate company taxable income and the tax benefit that it expects to receive from reversing deductible temporary differences in the form of lower tax payments to its parent. If the reporting entity had reversing adjusted gross DTAs during the applicable period for which it does not expect to realize a benefit under paragraph 11.b. on a separate company basis, the reporting entity cannot admit an amount related to such DTAs under paragraph 11.b., even though the reporting entity may be paid a tax benefit for such items pursuant to its tax allocation agreement.
- Paragraph 8.11 - Under paragraph 11.c., an entity may admit its adjusted gross DTAs, after application of paragraphs 11.a. and 11.b., based upon offset against its own existing gross deferred tax liabilities (DTLs and not against gross DTLs of other members of the affiliated or consolidated group.

Example

Assume A is a non-insurance holding company that owns 100% of the stock of life insurance companies B, C, and D. The ABCD group includes an audited GAAP financial statement in its Form 10-K filed with the SEC. B, C, and D each file audited separate company statutory financial statements with the applicable State insurance regulators. However, B, C, and D do not prepare or file separate company GAAP financial statements. GAAP ledgers are maintained on

a line of business basis across the three companies, rather than on a legal entity basis, and separate company GAAP information is not available.

The 3-year average annual adjusted financial statement income (AFSI) of the ABCD group per its 2020-2022 GAAP financial statements is expected to exceed $1 billion. Accordingly, the ABCD group expects to be an "applicable corporation" for 2023 and subsequent taxable years that will be required to compute a tentative minimum tax liability to compare to its regular tax liability to determine if any CAMT is owed. Company B's 3-year average annual AFSI per its 2020-2022 separate company statutory financial statements is expected to exceed $1 billion, but neither company C nor D are expected to reach that level.

The ABCD group files a life-nonlife consolidated Federal income tax return. The ABCD intercompany tax sharing agreement (TSA) provides that the consolidated tax liability that may be allocated to B, C, and D may not exceed the tax which B, C, or D would incur on a separate return basis. The TSA does not explicitly provide for the CAMT.

Given these facts, how are the impacts of the CAMT in B, C, and D's separate company statutory financial statements determined? Should B, C, and D be treated as applicable corporations potentially subject to CAMT in 2023 and subsequent years because that is the expectation for the ABCD consolidated tax return group? What if B, C, or D was not included in the life-nonlife return because it had not yet been a member of the group for 5 taxable years? How do the separate company/separate legal entity requirements of SSAP No. 101 apply to the CAMT? In determining admitted deferred tax assets under paragraph 11.b. of SSAP No. 101, do B, C, and D take into account GAAP income or statutory income? If the former, how could that be determined on a legal entity basis given that GAAP ledgers are maintained on a line of business basis? If the latter, is only company B required to compute tentative minimum tax liability? How does the ABCD group's separate return TSA affect the CAMT computations? What if the TSA is not amended to address the CAMT? Would the answer to these questions be different if the TSA provided for a pro rata allocation of consolidated tax liability? Should accounting policy elections for these types of CAMT-related issues be available in the statutory financials? If the ABCD group did not expect to be an applicable corporation, and therefore not subject to the CAMT, should B, C, and D have to do any accounting at all for the CAMT in their separate company statutory financial statements?

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October 31, 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

Dear Mr. Bruggeman:

Re: Proposal for the NAIC to Fulfil the Original Intent of the Interest Maintenance Reserve

The American Council of Life Insurers (ACLI) would like to request urgent action on an issue that was never fully resolved by the NAIC and has become a pressing matter for the industry due to the rapid rise in interest rates – the allowance of a net negative Interest Maintenance Reserve (IMR) balance.

The ACLI proposes the allowance of a negative IMR balance in statutory accounting. Negative IMR balances are expected to become more prevalent in a higher interest rate environment and their continued disallowance will only serve to project misleading optics on insurers' financial strength (e.g. inappropriate perception of decreased financial strength through lower surplus and risk-based capital even though higher rates are favorable to an insurer's financial health) while creating uneconomic incentives for asset-liability management (e.g. discourage prudent investment transactions that are necessary to avoid mismatches between assets and liabilities just to avoid negative IMR).

ACLI believes the necessary changes can be implemented quickly and with minimal changes to the annual statement reporting instructions.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

acli.com

The remainder of this letter expands upon these points.

Historical Context and Background

The IMR, first effective in statutory accounting in 1992, requires that a realized fixed income gain or loss, attributable to changes in interest rates (but not gains or losses that are credit related), be amortized into income over the remaining term to maturity of the fixed income investments (and related hedging programs) sold rather than being reflected in income immediately.

Since statutory accounting practices for life insurance companies are the primary determinant of obtaining an accurate picture for assessing solvency, it was imperative that the accounting practices be consistent for assets, liabilities, and income and that they be reported on a financially consistent basis. If assets and liabilities were not reported on a financially consistent basis, then the financial statements would not be useful in determining an accurate assessment of solvency or whether there were sufficient assets to pay contractual obligations when they become due.

Amortized cost valuation of fixed income investments reflects the outlook at the time of purchase and amortization reflects the yields available at time of purchase. Policy reserve liabilities are established at the same time, and the interest rate assumptions are consistent with the yields at that time. But if fixed income investments are sold, with the proceeds reinvested in new fixed income investments, a new amortization schedule is established which may be based on an entirely different yield environment, which may be inconsistent with the reserve liabilities when they were established.

IMR was created to prevent the timing of the realization of gains or losses on fixed income investments, related to interest rates changes, to affect the immediate financial performance of the insurance company. This recognized that the gains and losses were transitory without any true economic substance since the proceeds would be reinvested at offsetting lower or higher interest rates.

For example, without the IMR, if a company sold all bonds in a declining interest environment (e.g., from 4% to 2%), and reinvested in new bonds, surplus would increase through significant realized gains. The increased surplus would inappropriately reflect increased financial strength that is illusory, due to a now lower yielding portfolio, as there would be no change to the income needed to support the liabilities.

Likewise, if a company sold all bonds in an increasing interest rate environment (e.g., from 2% to 4%), and reinvested in new bonds, surplus would decrease through significant realized losses. The decreased surplus would inappropriately reflect decreased financial strength that is similarly illusory due to the reinvestment at higher yields relative to when the bonds were originally purchased.

A net negative IMR is currently disallowed in statutory accounting. This handling is contrary to its original intent which recognized that interest related gains and losses are both transitory without any true economic substance since the proceeds would be reinvested at offsetting lower or higher interest rates, respectively. See attachment I to this letter that illustrates the financially consistent

treatment of assets, liabilities, and income and how IMR is needed to achieve that objective for both realized gains and losses.

That IMR should conceptually apply to both realized gains and losses was recognized by the NAIC during and after IMR development. The below is a quote from a 2002 report by the NAIC AVR/IMR Working Group to the E-Committee:

> *"The basic rationale for the IMR would conclude that neither a maximum nor a minimum is appropriate. If the liability values are based on the assumption that the assets were purchased at about the same time as the liabilities were established, then there should be no bounds to the reserve which corrects for departures from that assumption;* ***if a company has to set up a large reserve because of trading gains, it is in no worse position that if it had held the original assets. As for negative values of the IMR, the same rationale applies.*** **However, the concept of a negative reserve in the aggregate has not been adopted."**

While realized losses can offset realized gains in IMR, the IMR instructions require the disallowance of a net negative IMR balance (e.g., as noted in the last sentence of the aforementioned quote). See attachment II to this letter, which includes the pertinent IMR instructions where negative IMR balances are currently disallowed and in need of amendment.

When IMR was originally developed, it was intended to achieve its purpose in both a declining and rising interest rate environment. The originally adopted disallowed status of a negative IMR was expected to be addressed in subsequent years. However, over time with the persistent declining interest rates, the issue lost urgency since a negative IMR would not have been a significant issue for any company. The NAIC AVR/IMR Working Group ultimately disbanded without ever addressing this longstanding item on their agenda.

With a rising interest rate environment, it is important that the allowance of a negative IMR be addressed to fulfill its original purpose. In general, rising interest rates are favorable to the financial health of the insurance industry as well as for policyowners.

Without a change, the rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital and worse, create incentives for insurance companies to take action, or not take actions, to prevent uneconomic surplus impacts where the actions (or lack thereof) themselves may be economically detrimental.

Symmetrical treatment of a negative IMR (i.e., the allowance of a negative IMR balance) would appropriately not change surplus as a sale and reinvestment would not affect the underlying insurance company liquidity, solvency, or claims paying ability, just like with a positive IMR. See attachment III to this letter that illustrates that the sale of a fixed income investment, and reinvestment in a new fixed income investment, has no bearing on a life insurance company's liquidity, solvency, or claims paying ability.

As it was initially recognized by the NAIC that IMR should apply to both gains and losses, adequate safeguards were already built into the IMR instructions for asset adequacy, risk-based capital, and troubled companies.

Negative IMR – Reserve Adequacy and Risk-Based Capital

When IMR was developed, it was anticipated that a negative IMR balance would be reflected in asset adequacy analysis. This inclusion ensures that the assets, with the appropriate allocation from the IMR (whether negative or positive), would be adequate to fund future benefit obligations and related expenses of the company.

From the standpoint of reserve adequacy, the inclusion of a negative IMR balance appropriately reduces the investment income in asset adequacy testing. Without the inclusion of negative IMR, reserve inadequacies would potentially not be recognized.

Further, with the inclusion of a negative IMR balance in asset adequacy testing, the disallowance of a negative IMR can result in double counting of losses (i.e., through the disallowance on the balance sheet and the potential AAT-related reserve deficiency). The Actuarial Opinion that covers asset adequacy analysis requires the appropriate assessment of negative IMR in its analysis.

If a negative IMR balance is used in the asset adequacy analysis, its allowance is appropriate. Likewise, if only a portion of a company's negative IMR balance is reflected in the asset adequacy analysis, only the allowance for that portion of the negative IMR balance reflected is appropriate. If a negative IMR balance is disallowed, it would be inappropriate to include in asset adequacy analysis. It is imperative there is symmetry between both reserving and accounting considerations, and there is already precedent in the asset adequacy analyses for inclusion of IMR.

Below are the current references to IMR in the valuation manual and risk-based capital calculations.

Regulation	Use	IMR references
Actuarial Opinion and Memorandum Regulation (VM-30)	Asset adequacy analysis for annual reserve opinion	An appropriate allocation of assets in the amount of the IMR, whether positive or negative, shall be used in any asset adequacy analysis.
Life principle-based reserves (VM-20)	Calculation of deterministic reserve	Calculate the deterministic reserve equal to the actuarial present value of benefits, expenses, and related amounts less the actuarial present value of premiums and related amounts, less the positive or negative pre-tax IMR balance at the valuation date allocated to the group of one or more policies being modeled
Life principle-based reserves (VM-20)	Calculation of stochastic reserve	Add the CTE amount (D) plus any additional amount (E) less the positive or negative pre-tax IMR balance allocated to the group of one or more policies being modeled
Variable annuities principle-based reserves (VM-21)	Reserving for variable annuities	The IMR shall be handled consistently with the treatment in the company's cash-flow testing, and the amounts should be adjusted to a pre-tax basis.
C3 Phase 1 (Interest rate risk capital)	RBC for fixed annuities and single premium life	IMR assets should be used for C3 modeling.

Additional IMR Safeguards

The IMR instructions do provide additional safeguards in situations where it would be appropriate to recognize interest-rate related gains and losses immediately rather than be included in the IMR.

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They were established to prevent situations where the liability the IMR supports, no longer exists. Examples noted in the annual statement instructions include:

- Major book-value withdrawals or increases in policy loans occurring at a time of elevated interest rates.

- Major book value withdrawals resulting from a "run on the bank" due to adverse publicity.

As a result, the IMR instructions include an IMR Exclusion whereby all gains or losses which arise from the sale of investments related to "Excess Withdrawal Activity" are to be excluded from IMR and reflected in net income. In short, Excess Withdrawal Activity is defined as 150% of the product of the lower of the withdrawal rate in the preceding or in the next preceding year calendar year times the withdrawal reserves at the beginning of the year.

Summary

With a rising interest rate environment, it is important that the allowance of a negative IMR be addressed to fulfill its original purpose. In general, rising interest rates are favorable to the financial health of the insurance industry as well as for policyowners. Without a change, the rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital.

The inability to recognize negative IMR could also impact the rating agency view of the industry, or worse, incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. Furthermore, there are adequate safeguards in place to ensure that allowing a negative IMR does not cause any unrecognized reserve or capital inadequacies or any overstatement of claims paying ability.

Current statutory accounting guidance creates two equally objectionable alternatives for insurers and their policyowners. Following the current statutory guidance will improperly reflect financial strength through understating surplus, so additional surplus may need to be retained. Alternatively, one could take steps to manage the current situation by limiting trading of fixed income investments and related hedging programs, which would diminish significant economic value for policyowners, as well as create a mismatch between assets and liabilities.

Both scenarios encourage short-term non-economic activity not in the best long-term interest of the insurance company's financial health or its policyowners. For insurers with diminishing IMR balances due to the rapid increase in interest rates, this dilemma is either here or fast approaching and can only be resolved now with certainty of the appropriate treatment of IMR by the NAIC.

The ACLI looks forward to urgently working with the NAIC toward fulfilling the original intent of IMR. It is imperative that insurers receive relief for year-end 2022.

If you have any questions regarding this letter, please do not hesitate to contact us.

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Sincerely,

Mike Monahan
Senior Director, Accounting Policy

Paul Graham
Senior Vice President, Chief Actuary

Simplified Example – Need for Reporting Assets, Liabilities, and Income on a Consistent Basis:

- This example shows the appropriate interrelationship of IMR on assets, reserve liabilities, and income.
- Assume a bond is held with the following characteristics:
  - Par Value: $1,000
  - Coupon: 3%
  - Term-to-maturity: 10 years
- Assume the bond is then sold at "time zero" and the proceeds are immediately reinvested in a bond with the same characteristics (e.g., term-to maturity, credit quality, coupon equivalent to market rate, etc.).
- Assume a simplified example with no existing IMR balance, where the bond supports a fixed insurance liability with the same duration as the original bond, as well as a present value of $1,000.

Table 1: Market Interest Rate Scenario			
	Same	**Lower**	**Higher**
Market interest rate	3%	2%	4%
Bond's market value	$1,000	$1,090	$919
Realized gain/(loss) if sold	$0	$90	($81)*

Realized gain/(loss) deferred to balance sheet IMR and amortized into income over remaining life of bond sold (i.e., 10 years).

Table 2: Statutory Investment Income			
IMR amortization	$0	$9	($8)
Interest income on new bond	$30	$21	$38
Total annual stat income	$30	$30	$30

On average, future income is approximately the same in each interest rate scenario as the IMR gets reduced through amortization to income.

Table 3: Statutory Balance Sheet			
Balance Sheet Bonds	$1,000	$1,090	$919
IMR	$0	($90)	$0*
Stat assets net of IMR	$1,000	$1,000	$919*
Reserves	$1,000	$1,000	$1,000
Surplus	$0	$0	($81)*

Even though the sale of the bond (and subsequent reinvestment) is non-economic, and the same income is being produced to support the liability, a negative surplus position makes it appear there is now a deficiency. Allowing the negative IMR appropriately would show no surplus impact, as is shown when a gain occurs, as there is no change in reported reserve liabilities. Appropriately consistent financial results require the allowance of negative IMR

***The negative IMR balance is currently disallowed and directly reduces surplus. This treatment is not supported by theoretical rationale and gives a distorted view of solvency.**

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Attachment II

Pertinent Annual Statement Instructions

Line 6 – Reserve as of December 31, Current Year

Record any positive or allowable negative balance in the liability line captioned "Interest Maintenance Reserve" on Page 3, Line 9.4 of the General Account Statement and Line 3 of the Separate Accounts Statement. A negative IMR balance may be recorded as a negative liability in either the General Account or the Separate Accounts Statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement.

If there is any disallowed negative IMR balance in the General Account Statement, include the change in the disallowed portion in Page 4, Line 41 so that the change will be appropriately charged or credited to the Capital and Surplus Account on Page 4. If there is any disallowed negative IMR balance in the Separate Accounts Statement, determine the change in the disallowed portion (prior year less current year disallowed portions), and make a direct charge or credit to the surplus account for the "Change in Disallowed Interest Maintenance Reserve" in the write-in line, in the Surplus Account on Page 4 of the Separate Accounts Statement.

The following information is presented to assist in determining the proper accounting:

General Account IMR Balance	Separate Account IMR Balance	Net IMR Balance
Positive	Positive	Positive (see rule a)
Negative	Negative	Negative (see rule b)
Positive	Negative	Positive (see rule c)
Positive	Negative	Negative (see rule d)
Negative	Positive	Positive (see rule e)
Negative	Positive	Negative (see rule f)

Rules:

a. If both balances are positive, then report each as aa liability in its respective statement.

b. If both balances are negative, then no portion of the negative balances is allowable as a negative liability in either statement. Report a zero for the IMR liability in each statement and follow the above instructions for handling disallowed negative IMR balances in each statement.

c. If the general account balance is positive, the separate accounts balance is negative and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the Separate Accounts Statement.

d. If the general account balance is positive, the separate account balance is negative, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the Separate Accounts Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the Separate Accounts Statement.

e. If the general account balance is negative, the separate account balance is positive, and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the General Account Statement.

f. If the general account balance is negative, the separate account balance is positive, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the General Account Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the General Account Statement.

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Attachment III

IMR Illustration – Liquidity, Solvency and Claims Paying Ability

Essentially, a negative IMR balance from an individual trade represents the present value of the future positive interest rate differential, from the new investment compared to the old investment, that puts one in the same economic position, when compared to before the trade, including total liquid assets available to pay claims.

This phenomenon can be illustrated in the following table where a 10-year bond is sold, one year after purchase, and immediately reinvested in another 10-year bond with equivalent credit quality in an interest rate environment where market interest rates increased from 2% to 4% in the intervening year.

	Coupon Rate of Bond	Market Interest Rate @ Purchase	Par Value of Bond	Fair Value @ Purchase	Fair Value @ Time of Sale	Loss on Sale	Claims Paying Liquidity
Old Bond	2%	2%	100	100	85.13	14.87	85.13
New Bond	4%	4%	85.13	85.13	85.13	N/A	85.13

The short-term acceleration of negative IMR to surplus (e.g., its disallowance) is strictly a timing issue and not a true loss of financial strength or claims paying liquidity, but it does present a temporary and inappropriate optics issue in surplus/financial strength until the IMR is fully amortized.

This phenomenon can further be illustrated by comparing two separate hypothetical companies. Assume Company A and B both have the exact same balance sheets. Then assume Company A keeps the old bond and Company B affects the trade mentioned above.

With the disallowance of a negative IMR balance, Company B now has a balance sheet that shows a relative decline of financial strength of $14.87. This weakened balance sheet contrasts with both the principle behind the development of IMR, the relative actual economic financial strength, and claims paying ability of the two entities.

There is no difference in balance sheet economics of the two entities. The negative IMR balance for Company B essentially represents the difference between cost and fair value of the investment sold, that is already embedded on Company A's balance sheet based on the existing interest rate environment. The negative IMR balance should be recognized as there is no change in economics pre and post trade (or in this instance between Company A and Company B) which is consistent with the overall principle behind IMR.

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Draft: 11/1/22

Statutory Accounting Principles (E) Working Group
Virtual Meeting
October 24, 2022

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Oct. 24, 2022. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Blase Abreo (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Eric Moser and Cindy Andersen (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett and Pat Gosselin (NH); Bob Kasinow (NY); Melissa Greiner and Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Kristin Forsberg (WI).

1. Adopted INT 22-02

The Working Group held a public hearing to review comments (Attachment One-B1) received on the Oct. 6 exposure of *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act.*

Bruggeman directed the Working Group to *INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act*. Marcotte noted that INT 22-02 was one of two interpretations the Working Group exposed in response to the federal Inflation Reduction Act, which was adopted into law on Aug. 16 and is effective for tax years 2023 and after. She stated the Inflation Reduction Act has a corporate alternative minimum tax (CAMT). Under existing statutory accounting guidance, an entity that has determined it is subject to the new CAMT must consider the impact on the statutory valuation allowance and the admissibility of deferred tax assets in the period of enactment, which is when President Joe Biden signed the Act into law. With the existing guidance, unless exceptions are made, the Aug. 16 enactment date would require reporting entity assessments for the third quarter of 2022. She stated that INT 22-02 has been drafted to provide an exception under existing guidance and not require financial reporting changes for the third quarter of 2022 because a reasonable estimate likely cannot be made. INT 22-02 proposes disclosure and allows a subsequent event reporting exception.

Marcotte noted that INT 22-02 provides an overview of the CAMT, which imposes a minimum corporate tax of 15% of the corporation's (or group of entities under common control filing a consolidated tax return) "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit. She stated that the CAMT will only apply to corporations (determined on a consolidated tax filing basis) with average adjusted financial statement income in excess of $1 billion for the three prior tax years. This threshold is reduced to $100 million in the case of certain foreign-parented corporations. She stated that a corporation's adjusted financial statement income is the amount of net income or loss the corporation reports on its applicable financial statement. The applicable financial statement income is based on book income that may be generally accepted accounting principles (GAAP), International Financial Reporting Standards (IFRS), or regulatory reporting based on a hierarchy. The CAMT amount is then compared to the normal taxable amount, and the taxpayer pays the higher of the two calculations.

Marcotte stated that several details regarding the implementation of the CAMT are pending development of guidance from the U.S. Department of the Treasury (Treasury Department). She stated that the exposed INT 22-02 ultimately provides exceptions to existing statutory accounting provisions, indicating that financial reporting changes are not required for the third quarter of 2022 because a reasonable estimate cannot be made and provides exceptions to subsequent event reporting. She stated that the exposed INT 22-02 requires disclosure by

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all reporting entities on whether they anticipate being subject to the CAMT. She noted that the interpretation is temporary and would be automatically nullified on Dec. 1, 2022.

Marcotte noted that interested parties' Oct. 14 comments on the exposure provided proposed clarifications for the disclosures in paragraph 13.b. She stated that the exposed disclosure focused on if the reporting entity had determined if it would be subject to the CAMT in 2023. The interested parties' proposed clarifications focused on two issues, the first noting that the reporting entity or a controlled group of corporations of which the reporting entity is a member could make the tax determinations because the CAMT is based on all the members filing in the consolidated tax return. She stated the second item that interested parties recommended was changing the wording "subject to the CAMT" to "liable for the CAMT." She noted that the proposed clarifications were more explicit that the CAMT is calculated based on multiple reporting entities if a reporting entity files a consolidated tax return and more explicit regarding a reporting entity's expectations of CAMT payment in 2023. With this discussion, she stated that NAIC staff recommend that the Working Group consider adopting the exposed interpretation with the edits to paragraph 13.b. proposed by interested parties. She noted that in accordance with the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* that the Working Group needed to adopt the interpretation with a two-thirds majority of the minimum of 67% of the members present.

Bruggeman stated that the intent is that reporting entities are not required to estimate the potential 2023 CAMT liability for the third quarter of 2022. He noted that because of the federal rules-making process, there are numerous rules that will not be available until well into 2023. Therefore, it made sense to have disclosure for the third quarter of 2022 reporting.

Rose Albrizio (Equitable), representing interested parties, stated support for accepting their recommended edits. She stated that replacing "subject to" with "liable for" brought more clarity to the disclosure because an applicable corporation means that it must do the CAMT calculation; it does not always mean that the reporting entity or group of entities will pay the CAMT tax. She noted that a taxpayer will not pay the CAMT unless the calculated CAMT amount exceeds the regular tax liability. Albrizio stated that interested parties recommend using the term "liable for" to provide a clearer disclosure.

Bruggeman stated that he is OK with the "liable for" language, but identifying applicable corporations may be useful. He stated that entities that are liable for an amount will at some point have to estimate it. He stated that the initial thought process was that even if a reporting entity did not know if it were liable, the reporting entity may have identified if it were an applicable corporation such that its adjusted financial statement income may necessitate the comparison of CAMT to normal tax. He also noted that an entity may be part of a group that is subject to the CAMT calculation, and it is possible that a specific member may not have to pay additional CAMT amounts.

Albrizio noted that for the currently exposed *INT 22-03: Inflation Reduction Act – Corporate Alternative Minimum Tax*, the interested parties expect to have more comments on some of the more detailed nuances of applicable and liable disclosures. She noted that the CAMT calculation is computed on the consolidated tax return but that there are other considerations regarding if a particular individual reporting entity is required to pay an additional CAMT amount.

Bruggeman noted appreciation for the interested parties' comments. He stated he understands that there may be differences between reporting entities which are subject to the calculation and those that may be liable for the payment. He noted that he anticipates some of the comments on INT 22-02 may be relevant for the current exposure of INT 22-03.

Bruggeman also noted that as a state insurance regulator, he would not be surprised to see some new filings regarding tax sharing agreements to clarify the obligations under the CAMT. He noted that the previous alternative minimum tax used the minimum taxable amount, and the new CAMT uses a consolidated book number as the starting point; that is, the CAMT is using book income (GAAP, IFRS, or statutory accounting principles [SAP]) with adjustments. Therefore, the prior link to taxable income in the old alternative minimum tax does not exist in the CAMT. He stated that determining the amount payable and other aspects of the calculations will be more complex in consolidated groups that include non-insurance entities.

Hudson made a motion, seconded by Arfanis, to adopt INT 22-02 (Attachment One-B2) with the revisions recommended by interested parties. The motion passed unanimously (which met the policy statement requirement of a two-thirds majority of the minimum of 67% of the members present).

Bruggeman noted that NAIC staff have requested direction regarding updates to the similar disclosures in INT 22-03, which is currently exposed until Oct. 28. Marcotte stated that NAIC staff request Working Group direction on if the disclosure in the exposed INT 22-03 should be expanded to separately capture applicable corporation (an entity whose adjusted financial statement income is above the threshold and, therefore, is subject to the calculation that compares CAMT to normal tax) and liable corporation (an entity that expects to pay the CAMT for 2023). Bruggeman summarized that the difference is asking if the consolidated tax return adjusted financial statement income is high enough (i.e., over $1 billion) as a separate question from if a reporting entity expects to pay the CAMT. Bruggeman noted that would be valuable information if a reasonable estimate can be made. Clark stated that he would like to see a separate disclosure regarding whether a reporting entity is an applicable corporation in INT 22-03. As there were no objections by Working Group members, NAIC staff were directed to work with industry regarding updates to the disclosures in INT 22-03. Bruggeman noted that the Working Group will consider the INT 22-03 during its Nov. 16 meeting, which will primarily focus on the bond project.

Marcotte stated that a memorandum regarding the adoption of third quarter of 2022 disclosures would be forwarded to the Blanks (E) Working Group for discussion during its Nov. 17 meeting.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/Att1B-SAPWGmin10-24-22.docx

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October 14, 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: Interested Parties Comments on INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax

Dear Mr. Bruggeman:

Interested parties appreciates the opportunity to comment on INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax (CAMT), exposed by the Statutory Accounting Principles Working Group on October 6, 2022. As noted in connection with the exposure, this INT does not require financial reporting changes for third quarter 2022 because a reasonable estimate cannot be made. It requires disclosure and allows a subsequent event exception.

Paragraph 13.b. of the exposure requires a disclosure "regarding whether the reporting entity has determined if they expect to be subject to the CAMT in 2023" and provides three examples. As discussed in interested parties' letter to the Working Group regarding the CAMT dated September 26, 2022, this determination would first require a determination of "applicable corporation" status, as the CAMT may even potentially apply only to applicable corporations. Our letter stated:

> A corporation is an applicable corporation if its rolling average pre-tax [adjusted financial statement income] over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities (based on greater than 50% ownership), the $1 billion threshold is determined on a controlled group basis, and the group's AFS is generally treated as the AFS for all separate taxpayers in the group.[1] Except under

[1] For a "foreign-parented multinational group," the $1 billion threshold is determined on a worldwide basis and the threshold for U.S.-taxpaying members of the group is reduced to $100 million.

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limited circumstances that may be the subject of future Treasury guidance, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

Even if a corporation is an applicable corporation, it is not automatically subject to an AMT liability. The corporation's tentative AMT liability is equal to 15% of its adjusted AFSI, and AMT is payable to the extent the tentative AMT liability exceeds regular corporate income tax.

Accordingly, 1) a reporting entity that is a member of a controlled group of related corporate entities is not an applicable corporation potentially subject to the CAMT unless the controlled group is an applicable corporation, and 2) an applicable corporation that is potentially subject to the CAMT is not actually liable for CAMT unless the consolidated tax return group's tentative AMT liability exceeds its regular tax liability. A determination that consolidated return group will actually be liable for CAMT in 2023 of course involves events and transactions that will occur throughout 2023.

Therefore, interested parties recommends that paragraph 13.b. of INT 22-02 be clarified to read as follows (additions underlined/deletions ~~strikethrough~~):

b. A statement regarding whether the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if they expect to be ~~subject to the~~ 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 they do not expect to be ~~subject to the~~ 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 they will be ~~subject to the~~ liable for CAMT in 2023. The third quarter 2022 financial statements do not include ~~the~~ 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 they expect to be ~~subject to the~~ liable for CAMT in 2023. The third quarter 2022 financial statements do not include an ~~estimate of the impacts~~ estimated impact of the CAMT, because a reasonable estimate cannot be made.

Thank you for considering our comments. Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell Rose Albrizio

C: Interested parties NAIC staff

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September 26, 2022

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RE: Interested Parties Request for Deferral of Recognition of Tax Accounting Effects of the Corporate Alternative Minimum Tax

Dear Mr. Bruggeman:

Interested parties respectfully request that the Statutory Accounting Principles Working Group (SAPWG) permit insurance companies to defer recognition of any tax accounting effects of the recently enacted Federal corporate alternative minimum tax (AMT) on statutory financial statements until no earlier than the due date for filing the quarterly statement for the first quarter of 2023. By that time, there may be more certainty as to which companies will be subject to the new tax, and the U.S. Treasury Department (Treasury) may have provided some indication of the direction it intends to take with guidance needed to implement the AMT. Such a deferral also would provide time for due deliberation of issues — such as those described below — relating to the proper income tax accounting of the AMT in the separate company financial statements filed by insurance companies. Accordingly, our requested deferral will protect against disparate interpretations of the law and the statutory accounting guidance by insurance companies and their auditors that could lead to substantial inconsistencies in how the tax is reflected on statutory financial statements.

Background

The recently enacted law commonly referred to as the "Inflation Reduction Act of 2022" includes an AMT effective in 2023 that is based on an applicable corporation's adjusted financial statement income (AFSI) set forth on its applicable financial statement (AFS). A corporation is an applicable corporation if its rolling average pre-tax AFSI over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities (based on greater than 50% ownership), the $1 billion threshold is determined on a controlled group basis, and the group's

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AFS is generally treated as the AFS for all separate taxpayers in the group.[1] Except under limited circumstances that may be the subject of future Treasury guidance, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

Even if a corporation is an applicable corporation, it is not automatically subject to an AMT liability. The corporation's tentative AMT liability is equal to 15% of its adjusted AFSI, and AMT is payable to the extent the tentative AMT liability exceeds regular corporate income tax. However, any AMT paid would be indefinitely available as a credit carryover that could reduce future regular tax in excess of AMT.

Uncertainty as to Applicable Corporation Status and Future Treasury Guidance

Significant uncertainty as to which groups with insurance company members will be applicable corporations, and which of these applicable corporations will owe the AMT, will likely continue until mid-2023 at the earliest. It is likely that a number of insurance groups, including both life and property and casualty insurers, will be considered applicable corporations. However, whether a corporation is an applicable corporation will not be definitively determinable until early 2023. This is because the new AMT is effective in 2023, and 2022 financial statements are needed to determine applicable corporation status. Even then, questions might exist about whether adjustments are necessary to AFSI to determine whether the $1 billion threshold is met. Accordingly, a deferral of recognition of the new AMT's effects on statutory financial statements would provide additional time to properly determine if an insurance company group is an applicable corporation.

Additionally, even if an insurance group is an applicable corporation, there is substantial uncertainty as to how the government will interpret the new law and further guidance from Treasury is needed before companies can calculate any potential tax owed. The AMT provisions not only broadly require Treasury to provide guidance to carry out the purposes of the AMT, but also include approximately 20 more specific instances in which Treasury is either directed to issue guidance to implement the new law or is granted authority to issue guidance or regulations clarifying the law. It is unlikely that Treasury will be able to provide much of this guidance until sometime in 2023.

One of the instances in which guidance from Treasury may alter application of the AMT is in determining the financial statement that is the AFS for purposes of determining whether the AMT applies. In the statute, the AFS is defined under a hierarchy that gives first precedence to GAAP statements, then to IFRS statements, and then to other financial statements — such as statutory financials filed with state insurance regulators. Accordingly, depending on their form of organization and ownership, insurance groups potentially subject to the AMT could base the tax on GAAP, on IFRS, or on statutory income. Furthermore, some companies with 3-year average income close to the $1 billion threshold will not be able to reliably determine if they are an

[1] For a "foreign-parented multinational group," the $1 billion threshold is determined on a worldwide basis and the threshold for U.S.-taxpaying members of the group is reduced to $100 million.

applicable corporation until Treasury indicates whether it will issue additional guidance on this topic.

Some of the other notable areas in which Treasury is directed to or authorized to issue guidance are:

- Adjustments to AFSI necessary to avoid duplication or omission
- When a corporation that was previously an applicable corporation should no longer be an applicable corporation
- The distributive share of partnership income that is allocable to a taxpayer's AFSI
- Treatment of current and deferred taxes of foreign countries and U.S. possessions for purposes of determining AFSI
- The portion of dividends received from corporations that are not included in a taxpayer's consolidated return that are included in an applicable corporation's AFSI
- Issues related to the tax law's life-nonlife consolidated return rules

In addition, Treasury will be asked to address the treatment of financial statement accounting issues specifically related to the insurance business. Concurrently with the writing of this letter, insurance company trade associations are preparing submissions alerting Treasury to material insurance accounting issues (e.g., GAAP accounting for embedded derivatives in modco and funds withheld reinsurance transactions) that will impact determination of the AMT and for which guidance will be necessary. Any such guidance also is unlikely to occur until well into 2023.

GAAP Guidance and Statutory Accounting Issues

Subsequent to enactment of the so-called Tax Cuts and Jobs Act (TCJA) on December 22, 2017, both SEC staff and Financial Accounting Standards Board (FASB) staff issued income tax accounting guidance on issues related to various TCJA provisions and their enactment very late in the year for calendar year reporting entities. Specifically, SEC Staff Accounting Bulletin No. 118 (SAB 118) addressed situations in which the accounting for certain income tax effects of TCJA were incomplete by the time financial statements were issued for the reporting period that included December 22, 2017. In general, SAB 118 provided for reporting of provisional amounts for certain income tax effects of TCJA where necessary information was not available, prepared, or analyzed in reasonable detail to determine a reasonable estimate for those effects. Additionally, SAB 118 provided that changes in subsequent reporting periods reflecting adjustments to such provisional amounts — up to one year from the date of TCJA's enactment - should be included in income from continuing operations. Further, SAB 118 required certain disclosures about the material financial reporting impacts of TCJA for which the tax accounting was incomplete.

Also, in January 2018, FASB staff issued Q&As on tax accounting for two tax provisions enacted by TCJA:

- FASB Staff Q&A - Topic 740, No. 4: Accounting for the Base Erosion Anti-Abuse Tax (BEAT) — which considered whether deferred tax assets and liabilities (DTAs and DTLs)

should be measured at the statutory tax rate of the regular tax system or the low BEAT tax rate if the taxpayer expects to be subject to BEAT.
    - In brief, relying on the AMT guidance in Topic 740, FASB staff concluded that the incremental effect of BEAT should be recognized in the year the BEAT is incurred, and that an entity would not need to evaluate the effect of potentially paying the BEAT in future years on the realizations of DTAs.

- FASB Staff Q&A - Topic 740, No. 5: Accounting for Global Intangible Low-Taxed Income (GILTI) — which considered whether deferred taxes should be recognized for temporary basis differences expected to reverse as GILTI in future years or whether the tax on GILTI should be included in tax expense in the year incurred.
    - Here, FASB staff concluded that either interpretation was acceptable as an accounting policy election.

Also in early 2018, SAPWG addressed the statutory income tax accounting issues relating to enactment of the TCJA and issued guidance in INT 18-03 that essentially paralleled SAB 118 and the FASB Staff Q&As.

At the present time, indications are that neither SEC nor FASB staff will provide additional guidance relating to the 2022 Act's effects on GAAP income tax accounting. First, the 2022 Act does not include the same type of substantial changes to the tax law (e.g., decrease in corporate tax rate, enactment of significant changes in taxation of international operations) as the TCJA did. Nor does the 2022 Act raise the same time pressures on financial reporting that the TCJA's enactment late in calendar year 2017 presented.

Furthermore, GAAP income tax accounting guidance in ASC 740 does not need to be revisited with respect to enactment of the new corporate AMT. While the prior-law U.S. AMT was repealed for post-2017 tax years, the GAAP guidance on accounting for the AMT was left intact to cover situations where an AMT applies in jurisdictions outside the U.S. In brief, the GAAP guidance in ASC 740-10-30-10/11 and ASC 740-10-55-15 and -31/32 provides that:

- Deferred taxes should be measured using the regular tax rate, not the AMT rate, even if the company anticipates being subject to the AMT in the foreseeable future.
- AMT should be recognized as a current period tax expense in the period incurred.
- A deferred tax asset should be recognized for any AMT credit carryforward, subject to a valuation allowance, if necessary, to reduce the net deferred tax asset to the amount that is more likely than not to be recognized.

Accordingly, the new AMT generally should not impact GAAP statements until 2023.

The new AMT differs in marked respects from the corporate AMT that was in effect prior to 2018, under which AMT income was based on a corporation's taxable income and AMT liability was potentially applicable to all corporations. Under the new AMT, potential applicability of the tax (the $1 billion average-AFSI threshold) and potential liability for the tax are both based on the consolidated income or loss as reported in the consolidated financial statements of the

consolidated financial reporting group. The AMT generally will not be based on any separate company financial statements of a member of the group.

As a result of this consolidated financial statement income approach to applicability of and determination of the AMT, substantive questions exist as to the proper income tax accounting for the AMT in the regulatory-basis separate company financial statements of an insurance company that is a member of an affiliated group subject to the tax. For many such groups, the potential liability for the AMT will be determined on a different basis of accounting (e.g., GAAP or IFRS) than is used for regulatory reporting purposes. Insurance companies generally do not issue their own separate company GAAP or IFRS financial statements, and separate insurance company GAAP or IFRS income may not even be available from internal records because GAAP/IFRS adjustments are generally determined on a line of business or an aggregate basis, rather than on a legal entity basis. Additionally, many intercompany tax sharing agreements provide for separate company tax allocations rather than allocation of consolidated tax liability. These and other such issues warranting consideration by and guidance from SAPWG underlie our request for delay.

Interested parties are concerned that, without a delay in statutory reporting for the AMT, insurers with varying forms of organization and/or ownership, as well as their different audit firms, may take different positions as to the treatment of the AMT in statutory financial statements. Without SAPWG guidance, inconsistent treatment is likely to result, as it did following enactment of the TCJA, even given the post-TCJA accounting guidance discussed above.

A delay in the recognition of the effects of the new AMT until at least the filing of first quarter 2023 statutory financial statements[2] would provide additional time to evaluate any AMT guidance from Treasury, or at least glean an understanding of the direction Treasury is likely to take with guidance. By that time, companies should have more information to help determine whether they will be applicable corporations under the new law. Additionally, the industry could submit more detailed discussions of the tax accounting issues for SAPWG's consideration. This will promote consistency in the amounts reported on quarterly and annual statements and avoid disparate interpretations of the new law by audit firms and insurance companies.

In conjunction with the delay, appropriate factual disclosures should still be made in Statutory Footnote 9 "Income Taxes". Suggested disclosure language for an insurance company included in a consolidated tax group is included as Attachment A. This would be in addition to the disclosure already required by paragraph 28 of SSAP No. 101.[3] The proposed disclosure would:

- Include a brief summary of the new AMT provisions
- State whether the group to which the insurance company reporting entity belongs anticipates that it will or will not be an applicable corporation for 2023 and therefore potentially subject to the AMT

[2] With appropriate disclosures in interim periods and leaving open the possibility of further deferral if circumstances have not been sufficiently clarified at that time.

[3] Paragraph 28 of SSAP No. 101 requires that a reporting entity included in a consolidated Federal income tax return must disclose a list of the members of the consolidated return group and the substance of the group's written tax sharing agreement.

  - If the group anticipates that it likely will not be an applicable corporation for 2023, state that no provision for AMT has been made in its tax accounts at the reporting date
  - In either case, note that guidance on application of the AMT will be forthcoming in 2023, which could alter the group's determination, and disclose any particularly relevant guidance that has already been provided
- If the group anticipates that it likely will be an applicable corporation for 2023:
  - State the accounting basis on which the group expects AFSI to be determined for 2023
  - Note that the group's 2023 tax payments will take account of potential AMT liability
  - States that no provision for AMT has been made in the reporting entity's tax accounts at the reporting date (based on the requested delay)

These disclosures, of course, could easily be adapted to take account of other circumstances, such as the filing of a separate tax return.

Thank you for considering our request. Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell Rose Albrizio

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ATTACHMENT A
Sample Disclosure re AMT for 3Q22 and 4Q22

In August 2022, the Inflation Reduction Act of 2022 (Act) was passed by the US Congress and signed into law by President Biden. The Act includes a new Federal alternative minimum tax (AMT), effective in 2023, that is based on the adjusted financial statement income (AFSI) set forth on the applicable financial statement (AFS) of an applicable corporation. A corporation is an applicable corporation if its rolling average pre-tax AFSI over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities, the $1 billion threshold is determined on a group basis, and the group's AFS is generally treated as the AFS for all separate taxpayers in the group. Except under limited circumstances, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

An applicable corporation is not automatically subject to an AMT liability. The corporation's tentative AMT liability is equal to 15% of its adjusted AFSI, and AMT is payable to the extent the tentative AMT liability exceeds regular corporate income tax. However, any AMT paid would be indefinitely available as a credit carryover that could reduce future regular tax in excess of AMT.

[If the group has determined that it likely will not be an applicable corporation for 2023, include the following language]:

The controlled group of corporations of which the Company is a member has determined that it likely will not be an applicable corporation in 2023. In making such determination, the group has made certain interpretations of, and assumptions regarding, the AMT provisions of the Act. The US Treasury Department is expected to issue guidance throughout 2023 that may differ from the group's interpretations and assumptions and that could alter the group's determination. *[Disclose here any particularly relevant guidance that already has been issued].* No provision for the AMT has been made in the Company's current or deferred tax accounts as of *[September 30, 2022/December 31, 2022].*

[If the group has determined that it likely will be an applicable corporation for 2023, include the following language]:

The controlled group of corporations of which the Company is a member has determined that it likely will be an applicable corporation in 2023 and that 2023 AFSI will be based on its *[GAAP/IFRS/statutory]* financial statements. In making such determination, the group has made certain interpretations of, and assumptions regarding, the AMT provisions of the Act. The US Treasury Department is expected to issue guidance throughout 2023 that may differ from the group's interpretations and assumptions and that could alter the group's determination. *[Disclose here any particularly relevant guidance that already has been issued].*

In accordance with its determination, the group will take potential 2023 AMT liability into account in making its Federal tax payments for the 2023 taxable year. 2023 Federal tax payments due before the filing of the group's 2023 Federal income tax return will be based on projections of financial statement and taxable income and will be subject to change throughout

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the year. Whether AMT is actually owed for 2023 will not be finally determined until 2024, when the group's 2023 financial statements are finalized and its 2023 tax return is filed.

In accordance with INT 22-XX, no provision for the AMT has been made in the Company's current or deferred tax accounts as of [*September 30, 2022/December 31, 2022]*.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax

INT 22-02 Dates Discussed

October 6, 2022; October 24, 2022

INT 22-02 References

Current:
SSAP No. 9—Subsequent Events
SSAP No. 101—Income Taxes

INT 22-02 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 non-authoritative high-level summary based on information at the time of initial INT discussion regarding the CAMT is as follows:

a. The CAMT is 15% of the corporation's "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit.

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

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

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

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e. To determine its U.S. federal income tax liability, a corporation will need to compute taxes under both systems—the regular tax system and the CAMT system. The CAMT is payable to the extent the tentative CAMT exceeds the regular corporate income tax. Any CAMT paid is available indefinitely as a credit carryover that could reduce future regular tax in future years if the regular tax liability is in excess of CAMT tax liability.

f. The Act directs the Treasury to issue regulations and other guidance relate to implementing the CAMT, so several issues are pending detailed clarifications including clarifying the definition of an applicable corporation, and providing guidance on the starting point for, and adjustments to, adjusted financial statement income, as well as the handling of separate company tax returns when required under current tax law that are unique to the insurance industry.

Interpretation Issues

2. This interpretation is focused on addressing third quarter 2022 transition accounting and reporting aspects of the new CAMT. While most insurers will not be subject to the CAMT, for those that know that they are subject, and those that could be subject to the CAMT, there are a variety of reporting uncertainties, particularly regarding reporting for third quarter 2022.

3. The CAMT is effective for the tax years on or after 2023.

4. Both statutory accounting principles and U.S. GAAP require the effects of tax changes on deferred taxes, including the valuation allowance (future realizability of existing DTAs) in the period in which the legislation is enacted (third quarter 2022). *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 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.

5. 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.

6. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II[1] 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 are filed (example, March 1), but before the audited financial statements are issued (example, June 1), reporting entities are generally required by their domestic state to amend their filed statutory financial statements to ensure that the statutory

[1] 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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financial statements and the audited financial statements are consistent. 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 2022 Financial Statements

7. During the period of enactment (third quarter 2022) reporting entities filing statutory financial statements would normally have to consider the applicability of the CAMT and if applicable, 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."

8. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for September 30, 2022, financial statements.

Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

9. 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.

10. For reporting entities that materially revise or establish calculations impacted by the CAMT subsequent to September 30, 2022 (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of the CAMT), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2022 financial reporting.

INT 22-02 Discussion

11. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Response: Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

12. Reporting entities that are aware they will be subject to the CAMT would normally reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for third quarter 2022. Because of the timing of the adoption of the Act and the considerable number of unknown variables for September 30, 2022, reporting, the Working Group has determined that a reasonable estimate is not determinable for third quarter 2022 interim financial statements for the calculations impacted by the CAMT.

13. Because reasonable estimates of calculations impacted by the CAMT are not determinable, reporting entities shall not recognize impacts related to CAMT for third quarter 2022 financial statements, but shall make the following disclosures regarding the CAMT and the Act:

a. The Act was enacted during the reporting period on August 16, 2022.

b. 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 2022 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 2022 financial statements do not include an estimated impact of the CAMT, because a reasonable estimate cannot be made.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

14. For third quarter 2022 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 financial statements are not required to reflect updated estimates subsequent to the third quarter filing date and prior to the filing 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.

15. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

INT 22-02 Status

16. The consensuses in this interpretation were adopted 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, 2022, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for third quarter 2022. Due to the short-term nature of the SSAP No. 9 exception, this interpretation will be automatically nullified on December 1, 2022, and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the *As of March 2023 Accounting Practices and Procedures Manual*.

17. Further discussion is planned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/sapwg/att1b2-int 22-02.docx

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Statutory Accounting Principles (E) Working Group
E-Vote
October 6, 2022

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Oct. 6, 2022. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); Rylynn Brown (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Melissa Greiner (PA); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Exposed Interpretations

The Working Group conducted an e-vote to consider exposure of two interpretations that were in response to the Inflation Reduction Act, which is effective for tax years 2023 and after. The Inflation Reduction Act has a corporate alternative minimum tax (CAMT). Under the existing statutory accounting guidance, an entity that knows it is subject to the new CAMT must consider the impact on the statutory valuation allowance and the admissibility of deferred tax assets in the period of enactment.

The interested parties provided a comment letter with industry requests regarding the Inflation Reduction Act (Attachment One-C1). The two interpretations that were considered for exposure were as follows:

a. *INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act* – Corporate Alternative Minimum Tax. This interpretation does not require financial reporting changes for third quarter 2022 because a reasonable estimate cannot be made. It requires disclosure and allows a subsequent event exception. INT 22-02 has a comment deadline of Oct. 14.

b. *INT 22-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* – This interpretation addresses fourth quarter 2022 and interim 2023 reporting. It requires reporting when reasonable estimates can be made. It provides some subsequent event exceptions regarding the CAMT to allow estimates to be updated as information becomes available. Companies subject to the CAMT are required to have their estimates recognized fully by year-end 2023. Disclosures are also provided. INT 22-03 has a comment deadline of Oct. 28.

Mr. Hudson made a motion, seconded by Ms. Walker, to expose INT 22-02 and INT 22-03. The motion passed unanimously.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/Att1C-SAPWGe-votemin10-6-22.docx

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September 26, 2022

Mr. Dale Bruggeman, Chairman
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RE: Interested Parties Request for Deferral of Recognition of Tax Accounting Effects of the Corporate Alternative Minimum Tax

Dear Mr. Bruggeman:

Interested parties respectfully request that the Statutory Accounting Principles Working Group (SAPWG) permit insurance companies to defer recognition of any tax accounting effects of the recently enacted Federal corporate alternative minimum tax (AMT) on statutory financial statements until no earlier than the due date for filing the quarterly statement for the first quarter of 2023. By that time, there may be more certainty as to which companies will be subject to the new tax, and the U.S. Treasury Department (Treasury) may have provided some indication of the direction it intends to take with guidance needed to implement the AMT. Such a deferral also would provide time for due deliberation of issues — such as those described below — relating to the proper income tax accounting of the AMT in the separate company financial statements filed by insurance companies. Accordingly, our requested deferral will protect against disparate interpretations of the law and the statutory accounting guidance by insurance companies and their auditors that could lead to substantial inconsistencies in how the tax is reflected on statutory financial statements.

Background

The recently enacted law commonly referred to as the "Inflation Reduction Act of 2022" includes an AMT effective in 2023 that is based on an applicable corporation's adjusted financial statement income (AFSI) set forth on its applicable financial statement (AFS). A corporation is an applicable corporation if its rolling average pre-tax AFSI over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities (based on greater than 50% ownership), the $1 billion threshold is determined on a controlled group basis, and the group's

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AFS is generally treated as the AFS for all separate taxpayers in the group.[1] Except under limited circumstances that may be the subject of future Treasury guidance, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

Even if a corporation is an applicable corporation, it is not automatically subject to an AMT liability. The corporation's tentative AMT liability is equal to 15% of its adjusted AFSI, and AMT is payable to the extent the tentative AMT liability exceeds regular corporate income tax. However, any AMT paid would be indefinitely available as a credit carryover that could reduce future regular tax in excess of AMT.

Uncertainty as to Applicable Corporation Status and Future Treasury Guidance

Significant uncertainty as to which groups with insurance company members will be applicable corporations, and which of these applicable corporations will owe the AMT, will likely continue until mid-2023 at the earliest. It is likely that a number of insurance groups, including both life and property and casualty insurers, will be considered applicable corporations. However, whether a corporation is an applicable corporation will not be definitively determinable until early 2023. This is because the new AMT is effective in 2023, and 2022 financial statements are needed to determine applicable corporation status. Even then, questions might exist about whether adjustments are necessary to AFSI to determine whether the $1 billion threshold is met. Accordingly, a deferral of recognition of the new AMT's effects on statutory financial statements would provide additional time to properly determine if an insurance company group is an applicable corporation.

Additionally, even if an insurance group is an applicable corporation, there is substantial uncertainty as to how the government will interpret the new law and further guidance from Treasury is needed before companies can calculate any potential tax owed. The AMT provisions not only broadly require Treasury to provide guidance to carry out the purposes of the AMT, but also include approximately 20 more specific instances in which Treasury is either directed to issue guidance to implement the new law or is granted authority to issue guidance or regulations clarifying the law. It is unlikely that Treasury will be able to provide much of this guidance until sometime in 2023.

One of the instances in which guidance from Treasury may alter application of the AMT is in determining the financial statement that is the AFS for purposes of determining whether the AMT applies. In the statute, the AFS is defined under a hierarchy that gives first precedence to GAAP statements, then to IFRS statements, and then to other financial statements — such as statutory financials filed with state insurance regulators. Accordingly, depending on their form of organization and ownership, insurance groups potentially subject to the AMT could base the tax on GAAP, on IFRS, or on statutory income. Furthermore, some companies with 3-year average income close to the $1 billion threshold will not be able to reliably determine if they are an applicable corporation until Treasury indicates whether it will issue additional guidance on this topic.

[1] For a "foreign-parented multinational group," the $1 billion threshold is determined on a worldwide basis and the threshold for U.S.-taxpaying members of the group is reduced to $100 million.

Some of the other notable areas in which Treasury is directed to or authorized to issue guidance are:

- Adjustments to AFSI necessary to avoid duplication or omission
- When a corporation that was previously an applicable corporation should no longer be an applicable corporation
- The distributive share of partnership income that is allocable to a taxpayer's AFSI
- Treatment of current and deferred taxes of foreign countries and U.S. possessions for purposes of determining AFSI
- The portion of dividends received from corporations that are not included in a taxpayer's consolidated return that are included in an applicable corporation's AFSI
- Issues related to the tax law's life-nonlife consolidated return rules

In addition, Treasury will be asked to address the treatment of financial statement accounting issues specifically related to the insurance business. Concurrently with the writing of this letter, insurance company trade associations are preparing submissions alerting Treasury to material insurance accounting issues (e.g., GAAP accounting for embedded derivatives in modco and funds withheld reinsurance transactions) that will impact determination of the AMT and for which guidance will be necessary. Any such guidance also is unlikely to occur until well into 2023.

GAAP Guidance and Statutory Accounting Issues

Subsequent to enactment of the so-called Tax Cuts and Jobs Act (TCJA) on December 22, 2017, both SEC staff and Financial Accounting Standards Board (FASB) staff issued income tax accounting guidance on issues related to various TCJA provisions and their enactment very late in the year for calendar year reporting entities. Specifically, SEC Staff Accounting Bulletin No. 118 (SAB 118) addressed situations in which the accounting for certain income tax effects of TCJA were incomplete by the time financial statements were issued for the reporting period that included December 22, 2017. In general, SAB 118 provided for reporting of provisional amounts for certain income tax effects of TCJA where necessary information was not available, prepared, or analyzed in reasonable detail to determine a reasonable estimate for those effects. Additionally, SAB 118 provided that changes in subsequent reporting periods reflecting adjustments to such provisional amounts — up to one year from the date of TCJA's enactment - should be included in income from continuing operations. Further, SAB 118 required certain disclosures about the material financial reporting impacts of TCJA for which the tax accounting was incomplete.

Also, in January 2018, FASB staff issued Q&As on tax accounting for two tax provisions enacted by TCJA:

- FASB Staff Q&A - Topic 740, No. 4: Accounting for the Base Erosion Anti-Abuse Tax (BEAT) — which considered whether deferred tax assets and liabilities (DTAs and DTLs) should be measured at the statutory tax rate of the regular tax system or the low BEAT tax rate if the taxpayer expects to be subject to BEAT.
    - In brief, relying on the AMT guidance in Topic 740, FASB staff concluded that the incremental effect of BEAT should be recognized in the year the BEAT is incurred,

and that an entity would not need to evaluate the effect of potentially paying the BEAT in future years on the realizations of DTAs.

- FASB Staff Q&A - Topic 740, No. 5: Accounting for Global Intangible Low-Taxed Income (GILTI) — which considered whether deferred taxes should be recognized for temporary basis differences expected to reverse as GILTI in future years or whether the tax on GILTI should be included in tax expense in the year incurred.
    - Here, FASB staff concluded that either interpretation was acceptable as an accounting policy election.

Also in early 2018, SAPWG addressed the statutory income tax accounting issues relating to enactment of the TCJA and issued guidance in INT 18-03 that essentially paralleled SAB 118 and the FASB Staff Q&As.

At the present time, indications are that neither SEC nor FASB staff will provide additional guidance relating to the 2022 Act's effects on GAAP income tax accounting. First, the 2022 Act does not include the same type of substantial changes to the tax law (e.g., decrease in corporate tax rate, enactment of significant changes in taxation of international operations) as the TCJA did. Nor does the 2022 Act raise the same time pressures on financial reporting that the TCJA's enactment late in calendar year 2017 presented.

Furthermore, GAAP income tax accounting guidance in ASC 740 does not need to be revisited with respect to enactment of the new corporate AMT. While the prior-law U.S. AMT was repealed for post-2017 tax years, the GAAP guidance on accounting for the AMT was left intact to cover situations where an AMT applies in jurisdictions outside the U.S. In brief, the GAAP guidance in ASC 740-10-30-10/11 and ASC 740-10-55-15 and -31/32 provides that:

- Deferred taxes should be measured using the regular tax rate, not the AMT rate, even if the company anticipates being subject to the AMT in the foreseeable future.
- AMT should be recognized as a current period tax expense in the period incurred.
- A deferred tax asset should be recognized for any AMT credit carryforward, subject to a valuation allowance, if necessary, to reduce the net deferred tax asset to the amount that is more likely than not to be recognized.

Accordingly, the new AMT generally should not impact GAAP statements until 2023.

The new AMT differs in marked respects from the corporate AMT that was in effect prior to 2018, under which AMT income was based on a corporation's taxable income and AMT liability was potentially applicable to all corporations. Under the new AMT, potential applicability of the tax (the $1 billion average-AFSI threshold) and potential liability for the tax are both based on the consolidated income or loss as reported in the consolidated financial statements of the consolidated financial reporting group. The AMT generally will not be based on any separate company financial statements of a member of the group.

As a result of this consolidated financial statement income approach to applicability of and determination of the AMT, substantive questions exist as to the proper income tax accounting for the AMT in the regulatory-basis separate company financial statements of an insurance company that is a member of an affiliated group subject to the tax. For many such groups, the potential

liability for the AMT will be determined on a different basis of accounting (e.g., GAAP or IFRS) than is used for regulatory reporting purposes. Insurance companies generally do not issue their own separate company GAAP or IFRS financial statements, and separate insurance company GAAP or IFRS income may not even be available from internal records because GAAP/IFRS adjustments are generally determined on a line of business or an aggregate basis, rather than on a legal entity basis. Additionally, many intercompany tax sharing agreements provide for separate company tax allocations rather than allocation of consolidated tax liability. These and other such issues warranting consideration by and guidance from SAPWG underlie our request for delay.

Interested parties are concerned that, without a delay in statutory reporting for the AMT, insurers with varying forms of organization and/or ownership, as well as their different audit firms, may take different positions as to the treatment of the AMT in statutory financial statements. Without SAPWG guidance, inconsistent treatment is likely to result, as it did following enactment of the TCJA, even given the post-TCJA accounting guidance discussed above.

A delay in the recognition of the effects of the new AMT until at least the filing of first quarter 2023 statutory financial statements[2] would provide additional time to evaluate any AMT guidance from Treasury, or at least glean an understanding of the direction Treasury is likely to take with guidance. By that time, companies should have more information to help determine whether they will be applicable corporations under the new law. Additionally, the industry could submit more detailed discussions of the tax accounting issues for SAPWG's consideration. This will promote consistency in the amounts reported on quarterly and annual statements and avoid disparate interpretations of the new law by audit firms and insurance companies.

In conjunction with the delay, appropriate factual disclosures should still be made in Statutory Footnote 9 "Income Taxes". Suggested disclosure language for an insurance company included in a consolidated tax group is included as Attachment A. This would be in addition to the disclosure already required by paragraph 28 of SSAP No. 101.[3] The proposed disclosure would:

- Include a brief summary of the new AMT provisions
- State whether the group to which the insurance company reporting entity belongs anticipates that it will or will not be an applicable corporation for 2023 and therefore potentially subject to the AMT
    - If the group anticipates that it likely will not be an applicable corporation for 2023, state that no provision for AMT has been made in its tax accounts at the reporting date
    - In either case, note that guidance on application of the AMT will be forthcoming in 2023, which could alter the group's determination, and disclose any particularly relevant guidance that has already been provided
- If the group anticipates that it likely will be an applicable corporation for 2023:
    - State the accounting basis on which the group expects AFSI to be determined for 2023

[2] With appropriate disclosures in interim periods and leaving open the possibility of further deferral if circumstances have not been sufficiently clarified at that time.

[3] Paragraph 28 of SSAP No. 101 requires that a reporting entity included in a consolidated Federal income tax return must disclose a list of the members of the consolidated return group and the substance of the group's written tax sharing agreement.

- Note that the group's 2023 tax payments will take account of potential AMT liability
- States that no provision for AMT has been made in the reporting entity's tax accounts at the reporting date (based on the requested delay)

These disclosures, of course, could easily be adapted to take account of other circumstances, such as the filing of a separate tax return.

Thank you for considering our request. Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell Rose Albrizio

ATTACHMENT A
Sample Disclosure re AMT for 3Q22 and 4Q22

In August 2022, the Inflation Reduction Act of 2022 (Act) was passed by the US Congress and signed into law by President Biden. The Act includes a new Federal alternative minimum tax (AMT), effective in 2023, that is based on the adjusted financial statement income (AFSI) set forth on the applicable financial statement (AFS) of an applicable corporation. A corporation is an applicable corporation if its rolling average pre-tax AFSI over three prior years (starting with 2020-2022) is greater than $1 billion. For a group of related entities, the $1 billion threshold is determined on a group basis, and the group's AFS is generally treated as the AFS for all separate taxpayers in the group. Except under limited circumstances, once a corporation is an applicable corporation, it is an applicable corporation in all future years.

An applicable corporation is not automatically subject to an AMT liability. The corporation's tentative AMT liability is equal to 15% of its adjusted AFSI, and AMT is payable to the extent the tentative AMT liability exceeds regular corporate income tax. However, any AMT paid would be indefinitely available as a credit carryover that could reduce future regular tax in excess of AMT.

[If the group has determined that it likely will not be an applicable corporation for 2023, include the following language]:

The controlled group of corporations of which the Company is a member has determined that it likely will not be an applicable corporation in 2023. In making such determination, the group has made certain interpretations of, and assumptions regarding, the AMT provisions of the Act. The US Treasury Department is expected to issue guidance throughout 2023 that may differ from the group's interpretations and assumptions and that could alter the group's determination. *[Disclose here any particularly relevant guidance that already has been issued].* No provision for the AMT has been made in the Company's current or deferred tax accounts as of *[September 30, 2022/December 31, 2022].*

[If the group has determined that it likely will be an applicable corporation for 2023, include the following language]:

The controlled group of corporations of which the Company is a member has determined that it likely will be an applicable corporation in 2023 and that 2023 AFSI will be based on its *[GAAP/IFRS/statutory]* financial statements. In making such determination, the group has made certain interpretations of, and assumptions regarding, the AMT provisions of the Act. The US Treasury Department is expected to issue guidance throughout 2023 that may differ from the group's interpretations and assumptions and that could alter the group's determination. *[Disclose here any particularly relevant guidance that already has been issued].*

In accordance with its determination, the group will take potential 2023 AMT liability into account in making its Federal tax payments for the 2023 taxable year. 2023 Federal tax payments due before the filing of the group's 2023 Federal income tax return will be based on projections of financial statement and taxable income and will be subject to change throughout

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the year. Whether AMT is actually owed for 2023 will not be finally determined until 2024, when the group's 2023 financial statements are finalized and its 2023 tax return is filed.

In accordance with INT 22-XX, no provision for the AMT has been made in the Company's current or deferred tax accounts as of [*September 30, 2022/December 31, 2022]*.

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October 7, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
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Kansas City, MO 64106-2197

RE: Items Exposed for Comment by the Statutory Accounting Principles Working Group on August 10, 2022, with Comments due October 7th

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) during its meeting on August 10th in Portland.

We offer the following comments:

Reporting Lines/Descriptions Proposal: Issuer Credit Obligations and Asset Backed Securities

The Working Group exposed the following 2 items which propose reporting changes to improve transparency and granularity as part of the Principles-Based Bond Definition Project. The first document includes proposed reporting lines and descriptions for bonds. The second document includes a new proposed Schedule D-1 with new sections, columns, and reporting instructions to separate and capture information specific to issuer creditor obligations (Schedule D – Part 1 – Section 1) and asset-backed securities (Schedule D – Part 1 – Section 2). A variety of schedule and instruction changes are proposed for each schedule.

Attached is a marked-up version for each of the above items exposed that includes substantive comments that begin with 'IP Comments:' next to the item being addressed. The attachment also includes editorial revisions as appropriate. Also attached is a clean version that reflects all of our

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comments and revisions.

The following are the key items highlighted in our comments:

- If ABS investments will no longer be allowed to be reported on Schedule DA – Part 1 (Short-Term Investments) and Schedule E – Part 2 (Cash Equivalents), should consideration be given to modifying SSAP No. 2R—*Cash, Cash Equivalents, Drafts, and Short-Term Investments*?
- In several instances, we are recommending that the column data referencing 'Acquisition' data be changed to 'Origination' to provide consistency of the data and match the instructions.
- We recommend removing the 'Current Overcollateralization Percentage (ABS)' field as it is industry's understanding that the assessment of whether the reporting entity benefits from substantive credit enhancement through subordination and/or overcollateralization is done at the date of acquisition of the investment based on the characteristics of the investment at origination.
- We are unsure as to what is being requested in the 'PIK Interest Due and Accrued' column.

Interested parties understand that the new Schedule D – Part 1 – Section 1 aligns with SSAP No. 26R and Schedule D – Part 1 – Section 2 aligns with SSAP No. 43R. To assist in this alignment, would it make sense to rename SSAP No. 26R 'Bonds – Issuer Credit Obligations' and SSAP No. 43R 'Bonds – Asset-Backed Securities'?

Our comments and suggested changes to the proposed reporting changes reflect our understanding of the concurrently exposed changes to SSAP No. 26R and SSAP No. 43R to bring the accounting and reporting into sync as part of the Principles-Based Bond Definition Project. We believe there will be an opportunity to continue to work with insurance regulators and NAIC staff on further changes as new feedback is received on these important issues.

Ref #2019-21: Proposed Bond Definition

Pursuant to the direction from the Working Group in October 2020, a small group of regulators and industry have been meeting regularly to draft a bond definition for consideration. The intent of this project is to clarify what should be considered a bond (whether captured in SSAP No. 26R—Bonds or SSAP No. 43R—Loan-Backed and Structured Securities) and reported on Schedule D-1: Long-Term Bonds: This exposure is specific to the proposed bond definition included in the exposed Form A, along with the glossary (page 5) and appendices (pages 6-12), but comments on future developments (such as reporting changes, accounting and reporting guidance for items that do not qualify as bonds, transition guidance, etc.) may also be submitted to assist in the development of these items. This exposure document reflects the direction of the Working Group from the July 18, 2022, call in which comments received after the March 2022 exposure were discussed. This exposure is accompanied by a proposed issue paper that details the discussions in developing the principles-based bond definition as well as proposed statutory accounting revisions to SSAP No. 26R and SSAP No. 43R. Proposed reporting changes were exposed July 18, 2022.

Interested parties will submit comments under a separate comment letter at a later date.

Ref #2021-25: Leasehold Improvements After Lease Termination

The Working Group exposed this agenda item, incorporating proposed revisions after considering comments from interested parties shown highlighted in italics below. The changes provide an explicit exception to companies that provide direct healthcare. It is limited to situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate.

SSAP No. 19:

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term, as defined in SSAP No. 22R. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity *lessee. Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in SSAP No. 73*. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

SSAP No. 73:

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity *lessee but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary*

> *for the functionality of specific health care delivery assets[1] to be excluded from the purchase cost of the real estate. Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement*. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.
>
> [1] The application of this exception is limited to leasehold improvements necessary for the functionality of health care delivery assets that qualified for admittance under SSAP No. 73.

Interested parties continue to agree that, in most cases, unamortized lessee owned leasehold improvements should be immediately expensed if the lease is terminated. However, in the situation where the reporting entity purchases a property that it was previously leasing, immediate expensing may not be appropriate in all circumstances as leasing and purchasing of assets is a complex business activity and takes many forms and structures.

General Concerns

The NAIC appears to have based the accounting conclusions on the premise that in all circumstances the purchase price of the leased asset includes the *lessee* purchased and owned leasehold improvements. However, interested parties (who engage in these transactions directly) continue to emphasize that they have not seen this in practice. These transactions, when material, have been audited by external auditors and State Departments of Insurance and no double counting of assets has been identified. It would be helpful to interested parties if the NAIC could share examples where they are seeing double counting of assets in these transactions by reporting entities.

Additionally, the NAIC has noted concerns of entities being able to admit leasehold improvements that were previously non-admitted under SSAP No 19. However, we note there are several instances where an asset can be non-admitted in one period, and subsequently admitted in another upon conforming to the requirements of certain SSAP's (e.g., certain affiliate receivables that were non-admitted due to lack of written agreement as to due date pursuant to SSAP No 25, or certain healthcare receivables that do not immediately conform to the requirements under SSAP No 84, among others). Moving from leasing to owning the underlying asset that the leasehold improvements are attached to changes the overall economics (i.e., the leasehold improvement can now be utilized in a liquidation event given the utility it provides with the building, whereas in a lease situation, given the limited control over the leased facility, the leasehold improvement may not be useful in a liquidation event on a standalone basis and non-admission would be appropriate).

Healthcare Delivery Assets Exception

While interested parties appreciate the exception for leasehold improvements that are accounted for in the scope of SSAP No 73 for health care delivery assets, interested parties note that the requirement that contracts include explicit provisions about the exclusion of the leasehold improvements in a purchase situation is not practical and will be onerous particularly for entities

that have a high volume of lease activity. Additionally, it is not clear why there would be a difference in accounting treatment between sectors of the insurance industry when the overall economics of leasing is generally the same. This difference adds an unusual layer of complexity.

Recommendation

For the reasons noted above and to have guidance that more faithfully represents what is occurring in situations where the underlying leased real estate is purchased, interested parties recommend the following language be considered in both SSAP No 19 and SSAP No 73:

SSAP No. 19:

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term, as defined in SSAP No. 22R. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. ~~Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in SSAP No. 73.~~ If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*. In situations where the reporting entity lessee can demonstrate through appraisals or other means that the lessee owned leasehold improvements are not included in the purchase price of the acquired leased real estate, the unamortized leasehold improvements shall be added to the cost basis of the acquired real estate.

SSAP No. 73:

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. ~~but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for~~

~~the functionality of specific health care delivery assets[2] to be excluded from the purchase cost of the real estate. Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement.~~ If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*. In situations where the reporting entity lessee can demonstrate through appraisals or other means that the lessee owned leasehold improvements are not included in the purchase price of the acquired leased real estate, the unamortized leasehold improvements shall be added to the cost basis of the acquired real estate.

Other Matters

Interested parties want to highlight that there is an editorial modification needed to SSAP No 19, paragraph 9. It references the legacy guidance and needs to be updated to reflect how the lease term is defined in SSAP No 22R. Accordingly, we recommend the following:

SSAP No. 19, paragraph 9:

9. The acquisition cost of depreciable assets, net of salvage, shall be depreciated against net income over the estimated useful lives of the assets in a systematic and rational manner. The acquisition cost of a leasehold improvement shall be amortized against net income over the shorter of its estimated useful life or the ~~original~~ lease term as defined in SSAP 22R~~excluding options or renewal periods~~. For leasehold improvements capitalized subsequent to inception of the lease, the cost shall be amortized over the shorter of its estimated useful life or the remaining ~~original~~ lease term ~~excluding options or renewal periods~~. Amounts capitalized for leasehold improvements in periods subsequent to the original lease term (i.e., during renewal periods), are amortized utilizing the shorter of the estimated useful life of the asset or the remaining ~~term of the renewal period~~ lease term.

Ref 2022-01: Conceptual Framework – Updates

The Working Group adopted, as final, the exposed revisions to the Preamble and *SSAP No. 4—Assets and Nonadmitted Assets.* The revisions incorporate 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 Concepts Statement No. 8*, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements,* which updates the definition of an asset. In addition, the Working Group adopted *Issue Paper 166—Definition of Assets*, which documents the revisions to SSAP No. 4.

Additionally, the Working Group re-exposed the proposed revisions and draft issue paper related to the definition change of a liability in *SSAP No. 5R—Liabilities, Contingencies and Impairment*

of Assets. This exposure intends to provide additional time for industry to review the changes in accordance with statutory accounting statements.

Interested parties suggest the following language be added to both the liability (which was re-exposed) and asset definition

> The guidance in this statement shall only be applicable to the extent there is not contradictory guidance regarding liabilities addressed in other existing statements.

This will ensure that there will not be any conflicts between the new definition and specific guidance in the SSAP's.

Ref #2022-09: Fair Value Hedging – Portfolio Layer Method

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed revisions to SSAP No. 86 to incorporate guidance from *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method* and certain guidance from *ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* to incorporate portfolio layer method hedges and partial term hedges for recognized assets. In addition, the Working Group directed NAIC staff to document the extent of the revisions in an issue paper.

Interested parties support the proposed changes.

Ref #2022-10: Troubled Debt Restructuring and Vintage Disclosures

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 36—Troubled Debt Restructuring* to reject ASU 2022-02 for statutory accounting. The revisions update the relevant literature section to detail consideration of U.S. GAAP as the statutory accounting guidance in SSAP No. 36 will now reflect adoption of superseded U.S. GAAP concepts.

Interested parties have no comments on this item.

Ref #2022-11: Collateral for Loans

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

Interested parties understand the need to align SSAP No. 20 and SSAP No. 21 guidance and agree with the exposed change. We recommend further clarity for one particular collateral type: an equity investment in a joint venture, partnership, or LLC ("equity investment in an LLC"), which would be accounted for under SSAP No. 48 if it were owned directly.

SSAP No. 48 investments qualify as admitted assets when acquired; however, investors are ultimately required to obtain a GAAP audit, subject to a reporting lag on a consistent annual

basis in order for the investments to continue to qualify as admitted assets. Interested Parties believe the GAAP audit requirement is primarily driven by the requirement to apply equity method accounting ("EMA") and to value directly held equity investments based on the reporting entity's share of underlying GAAP equity is not applied to collateral loans in SSAP No. 21. SSAP No. 21 specifies that a fair value assessment is required to determine that sufficient collateral exists to support admittance of a collateral loan. In the rare case where the collateral itself is owned outright by the insurer, due to default on the collateral loan and foreclosure on the loan, it is primarily important that the collateral has sufficient fair value such that if it were liquidated by the insurer, it would support the initial investment in the collateral loan. Interested parties note also that the same fair value assessment is already required to support SSAP No. 21, paragraph 4a, which defines impairment rules for collateral loans, using the fair value of collateral as an input to the impairment assessment.

In short, interested parties believe that a fair value assessment is the most relevant valuation information applicable to equity-type collateral. On the other hand, audited statements are the most relevant valuation information for directly held equity-type investments but are not necessarily useful for collateral assets.

To provide additional clarity and consistency with directly acquired SSAP No. 48 investments, we would suggest additional footnote language, as follows:

> In cases where an equity investment in a joint venture, partnership or LLC is pledged as collateral in a collateral loan, an adequate fair value assessment (in compliance with SSAP No. 100), is required to support an admitted asset for the purpose of collateral sufficiency. In the event that the loan is foreclosed, ownership of the SSAP No. 48 investment would initially be recognized as an admitted asset, but a GAAP audit must ultimately be obtained on a consistent annual basis to continue to support valuation and admittance of the SSAP No. 48 investment, consistent with requirements for directly acquired investments in such assets.

Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement

The Working Group exposed the intent to nullify Interpretation 03-02*: Modification to an Existing Intercompany Pooling Arrangement* (INT 03-02), because of conflicts between INT 03-02 and *SSAP No. 25—Affiliates and Other Related Parties* guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result in unrecognized gains (dividends) or losses through the use of statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements.

Included in the discussion in INT 03-02 is the following:

> Further, since modifications to intercompany pooling agreements typically involve the transfer of net liabilities incurred since the inception of the existing pooling agreement (i.e., prior to the effective date of the new agreement), the retroactive reinsurance

accounting guidance in paragraphs 33-39 of SSAP No. 62R is applicable. Paragraph 33 states that this special accounting treatment is warranted "due to the potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results…" However, paragraph 36.d. specifically applies to intercompany reinsurance arrangements, and amendments to intercompany reinsurance agreements, since the reinsurance agreement is among companies 100% owned by a common parent.

INT 03-02 notes that the "statutory accounting intent is to avoid surplus gains for the insurance group as a result of implementing a modification to an intercompany pooling arrangement." As a result, INT 03-02 concludes that the appropriate valuation basis for assets and liabilities transferred among affiliates as part of the modification of an intercompany pooling arrangement is statutory book value. With respect to the intent of paragraph 36.d of SSAP No. 62R, INT 03-02 specifically states: "The presumption of this intent was that there would be no surplus gains to the ceding entity resulting from amendments or modifications to these types of reinsurance agreements."

We have concerns regarding the proposal to nullify the INT and offer the following comments:

- The discussion in the proposal to nullify INT 03-02 addresses whether intercompany pooling transactions are economic or non-economic transactions. Interested parties note that, with regard to the loss reserves that are moved among entities as part of a change in intercompany pooling, the transferor(s) still has continuing involvement in the reserves (through participation in the pooling arrangement) resulting in a non-economic transaction that is currently recorded as such. Consistent with the movement of the loss reserves, the movement of bonds related to a change in an intercompany pooling arrangement is also treated as a non-economic transaction under the INT.

    - We also note that the transfer of loss reserves at statutory book values in a modification of an intercompany pooling arrangement is consistent with the guidance in SSAP No. 68 regarding statutory mergers.

- Modifications to intercompany pooling arrangements are typically effective retroactive to the beginning of the year. Therefore, the statutory book values of the liabilities at the beginning of the year are used in the transfer of underwriting and claim assets and liabilities. The use of market value for the transfer of bonds in the same transaction would create an inconsistency with the use of historical cost on the transfer of underwriting and claim assets and liabilities and would also create the opportunity for recognizing a gain in surplus, just the opposite of what the INT intended to prevent. Currently, many companies will net the amount of underwriting and claim assets and liabilities with the amount of supporting assets to minimize the movement of invested assets.
- GAAP requires that transfers among entities under common control be reflected at historical cost. The proposed nullification of INT 03-02 would result in accounting that is less conservative than GAAP for bonds with fair values in excess of amortized cost. GAAP treats the transfer of assets and liabilities between entities under common control

as non-economic transactions. This same concept is contained in the guidance for intercompany or statutory mergers in SSAP No. 68. While the guidance in SSAP No. 25 is focused on legal entity reporting, the guidance in INT 03-02 is focused on the accounting for the group comprising an intercompany pooling arrangement.

- Intercompany pooling arrangements have the characteristics of a single entity, and in many ways are treated as such. Intercompany pools qualify for combined reporting, upon approval from the domiciliary regulator, for purposes of complying with the NAIC Model Audit Rule and an audit opinion may be obtained on the pool rather than individual legal entities. Additionally, intercompany pools are rated as a group by external rating agencies, the actuarial opinions are prepared on a group basis, and internal controls and governance is usually evaluated on a group rather than individual legal entity basis.

- The generation of internal gains/losses on the transfer of bonds used to settle changes in intercompany pooling arrangements, in the context of a combined group operating as a single entity, would be contrary to the concept of an economic transaction with an independent third party.

    - Since property-casualty companies do not maintain dedicated bond portfolios that are matched to particular property-casualty insurance products, nullification of the INT creates the opportunity to move gross investment assets and cherry-pick the assets used in the transaction to create a gain in surplus.

- If bonds are transferred at market value in order to settle amounts due from/to affiliates as a result of a modification of an intercompany pooling arrangement, any realized investment gains resulting from the transfer would have to be deferred at the common parent reporting entity level until such time as the security either matures or is sold to an outside party by recording a deferred gain and an unrealized loss at every common parent level of reporting within the intercompany pool. For an intercompany pool which files combined audited statutory basis financial statements, realized gains would be eliminated in the presentation of the financial statements of the intercompany pool. This would require the common parent reporting entities to reverse all gain/loss transactions resulting from the transfer of bonds at market value within the group and establish deferred gain liabilities.

- As previously noted, the exception to retroactive reinsurance accounting in SSAP No. 62R paragraph 36.d specifically applies to intercompany reinsurance arrangements: "The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement)… Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person *provided there is no gain in surplus as a result of the transaction*." Under the proposal to nullify the INT, legal entity intercompany pool participants which are not common parent entities will likely recognize a gain upon the transfer of bonds at market value (as payment consideration) in

the modification of an intercompany pooling arrangement. A reasonable interpretation of paragraph 36.d of SSAP No. 62R would be that the totality of the intercompany pooling modification transaction should be taken into account when evaluating whether the intercompany transaction results in a surplus gain. As a result, the modification of the intercompany pooling arrangement would result in a gain in surplus and would not qualify for prospective reinsurance accounting. We do not believe this is the intent of the Working Group, nor is it desired by interested parties.

- The majority of bond investments owned by property-casualty insurers are generally held until maturity and are usually comprised of bonds that are rated NAIC 1 or 2. The use of market value for bonds still held within the combined intercompany pool would be inconsistent with the statutory accounting valuation guidance for such bonds.

Interested parties recommend that the Working Group retain INT 03-02. We believe that there are valid reasons for the inconsistency noted by NAIC staff between INT 03-02 and SSAP No. 25 given the unique nature of intercompany reinsurance pooling agreements as noted above. Interested parties also believe that the risk that a company can manipulate economic results by transferring bonds at book value is mitigated by the regulatory scrutiny over modifications to intercompany reinsurance pooling agreements (including the transfer of assets and liabilities that comprise the modification transaction), as changes to such agreements are subject to prior regulatory approval.

Ref #2022-13: Related Party – Footnote Updates

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 25 and SSAP No. 97 to incorporate language to exempt foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction from the look-through provisions included in SSAP No. 25 and SSAP No. 97.

Interested parties have no comments 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

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Ref #2022-09

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

Issue: ASU 2022-01 – Fair Value Hedging – Portfolio Layer Method

Check (applicable entity):

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

Description of Issue: In August 2017, the FASB issued *ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. Under that ASU, the FASB added guidance to incorporate a "last-of-layer" method to make portfolio fair value hedge accounting more accessible for specific assets. Under the last-of-layer approach, for a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments, entities were allowed to hedge a stated amount of the asset or assets in the closed portfolio that is anticipated to be outstanding for the designated hedged period. If the requirements for the last-of-layer method were met, prepayment risk is not incorporated into the measurement of the hedged item.

With the issuance of the last-of-layer guidance in ASU 2017-12, a number of questions were received. After considering those questions, *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method* was issued to address. This ASU expanded the original guidance and provided additional specifications and guidance as follows:

- Expands the last-of-layer method that permitted only one hedged layer to allow multiple hedged layers of a single closed portfolio. This resulted in a name change from last-of-layer to "portfolio layer method."

- Expands the scope to include nonprepayable financial assets.

- Specifies that eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant notional swaps, or spot or forward-starting amortizing-notional swaps and that the number of hedged layers (that is single or multiple) corresponds with the number of hedges designated.

- Provides additional guidance on the accounting for and disclosure of hedge basis adjustments that are applicable to the portfolio layer method whether a single hedged layer or multiple hedged layers are designated.

- Specifies how hedge basis adjustments should be considered when determining credit losses (impairment) for the assets included in the closed portfolio.

The U.S. GAAP concepts for last-of-layer / portfolio layer method hedging within ASU 2017-12 and ASU 2022-01 are new concepts for statutory accounting. Although there is a general assessment that determination of effective hedges shall be consistent between SAP and U.S. GAAP, incorporating guidance to facilitate the portfolio layer method hedge approach for statutory accounting is expected to necessitate new concept revisions to *SSAP No. 86—Derivatives*.

Initial staff assessments on the U.S. GAAP guidance considered potential issues with how hedge basis adjustments are reflected, as U.S. GAAP prevents basis adjustments directly to assets hedged in a portfolio. However, after

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discussing with industry, and analyzing how the differences in measurement / recognition between U.S. GAAP and SAP impact this assessment, the basis adjustment impact for portfolio layer method hedges will only occur at the time of dedesignation. This is because SAP generally uses an amortized cost approach for effective hedges (if the hedged item is valued at amortized cost), and the derivative mirrors that measurement method. Under U.S. GAAP, where they both use a fair value method, basis adjustments occur frequently to reflect the change in fair value. With the SAP measurement approach, fair value hedge basis adjustments only occur at hedge termination or at dedesignation. As such, this is not a key SAP impact.

As detailed in the recommended action, industry has proposed to also capture the partial term hedging concepts from U.S. GAAP as part of the revisions proposed from this agenda item. One of the key concerns for partial term hedges was the potential for interim adjustments to hedged items (as the derivative term would no longer commonly match the hedged item term). Industry has proposed to limit the application of the partial term guidance only to the hedge of recognized assets (and not liabilities). This is a different application scope for partial term hedges from U.S. GAAP but mirrors the U.S. GAAP guidance for the portfolio layer method and will limit the potential for hedge basis adjustments to result with a financial statement presentation that a liability has been reduced when the actual liability has not been reduced. Although the existing guidance within SSAP No. 86 can result with this impact, it is limited as most derivatives mirror the term of the hedged item. Although NAIC staff still recommends a review of the existing guidance in SSAP No. 86 on how basis adjustments are reflected, by limiting the partial term approach to hedges of recognized assets, it permits the partial term hedge guidance to be incorporated before the broader discussion. From discussions with industry, the current application of the partial term hedge approach is limited to recognized assets, so this modification satisfies the current need and prevents significant concerns on how the guidance could impact the presentation of liabilities. Discussion of the partial term hedge approach was detailed in agenda item 2021-20, but key aspects are summarized below:

> Partial Term Hedging:
> This provision allows reporting entities to enter into fair value hedges of interest rate risk for only a portion of the term of the hedged financial instrument. Prior to the ASU, these sorts of arrangements were not successful in being identified as highly effective due to offsetting changes in the fair value as a result of the difference in timing between the hedged item's principal repayment and the maturity date of the hedging derivative. Under ASU 2017-12, an entity may measure the change in the fair value of the hedged item attributable to changes in the benchmark interest rate by "using an assumed term that begins when the first hedged cash flow begins to accrue and ends when the last hedged cash flow is due and payable." Also, the hedged item's assumed maturity will be the date on which the last hedged cash flow is due and payable, therefore a principal payment will be assumed to occur at the end of the specified partial term.
>
> The example provided under U.S. GAAP involves outstanding fixed rate debt. So, if an entity was to issue $100 million of five-year, noncallable, fixed-rate debt, the entity could designate a two-year, receive-fixed, pay variable, $100 million notional interest rate swap as a fair value hedge of the interest rate risk for the first two years of the debt's term. When calculating the change in the fair value of the debt attributable to changes in interest rate risk, the entity may assume that 1) the term of the hedged debt is two years, and 2) repayment of the outstanding debt occurs at the end of the second year. The ASU also permits use of the shortcut method to these partial-term fair value hedges of interest rate risk.

Key elements pertaining to portfolio layer method hedging under U.S. GAAP:

- For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers if the following criteria are met: (*Note – The FASB was asked to consider expanding the scope to include*

liabilities (specifically, insurance liabilities), and the FASB elected not to expand the portfolio layer method to include hedges of liabilities.)

- As part of the initial hedge documentation, an analysis is completed and documented to support the entity's expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.
- For purposes of its analysis, the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged.

- The entity applies the partial-term hedging guidance to the assets or beneficial interests used to support the entity's expectation. An asset that matures on a hedged layer's assumed maturity date meets this requirement.

- After a closed portfolio is established, an entity may designate new hedging relationships associated with the closed portfolio without dedesignating any existing hedging relationships associated with the closed portfolio if the criteria are met for those newly designated hedging relationships.

- For one or more existing hedged layer or layers that are designated under the portfolio layer method, the gain or loss (that is, the change in fair value) on the hedged item attributable to the hedged risk shall not adjust the carrying value of the individual beneficial interest or individual assets in or removed from the closed portfolio. Instead, that amount shall be maintained on a closed portfolio basis and recognized currently in earnings.

- If the hedged item is a hedged layer designated in a portfolio layer method hedge on a closed portfolio and the closed portfolio includes only available-for-sale debt securities, the entire gain or loss (that is, the change in fair value) on the hedged item attributable to the hedged risk shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument. If the closed portfolio includes available-for-sale debt securities and assets that are not available-for-sale debt securities, an entity shall determine the portion of the change in fair value on the hedged item attributable to the hedged risk associated with the available-for-sale debt securities using a systematic and rational method. That amount shall be recognized in earnings rather than in other comprehensive income. An entity shall not adjust the carrying amount of the individual available-for-sale debt securities included in the closed portfolio.

- For each closed portfolio with one or more hedging relationships designated and accounted for under the portfolio layer method, an entity shall perform and document at each effectiveness assessment date an analysis that supports the entity's expectation that the hedged layer or layers in aggregate is still anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio using a method consistent with the method used to perform the analysis at initial hedge documentation.

- An adjustment that is maintained on a closed portfolio basis in a portfolio layer method hedge in accordance shall be amortized to earnings. Amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The entity shall fully amortize that adjustment by the hedged item's assumed maturity date.

- An asset or liability that has been designated as being hedged remains subject to the applicable requirements for assessing impairment or credit losses for that type of asset or for recognizing an increased obligation for that type of liability. A portfolio layer method basis adjustment that is maintained on a closed portfolio basis for an existing hedge shall not be considered when assessing the individual assets or individual beneficial interest included in the closed portfolio for impairment or credit losses or when assessing a portfolio of assets for impairment or credit losses. An entity may not apply this guidance by analogy to other components of amortized cost basis. Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment or credit loss requirements to the hedged asset or liability.

- For a fair value hedge of interest rate risk in which the hedged item is designated for a partial term, an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term that begins when the first hedged cash flow begins to accrue and ends at the end of the designated hedge period. The assumed issuance of the hedged item occurs on the date that the first hedged cash flow begins to accrue. The assumed maturity of the hedged item occurs at the end of the designated hedge period. Additionally, an entity may have one or more separately designated partial-term hedging relationships outstanding at the same time for the same debt instrument (for example, 2 outstanding hedging relationships for consecutive interest cash flows in Years 1–3 and consecutive interest cash flows in Years 5–7 of a 10-year debt instrument).

- An entity may elect to discontinue (or partially discontinue) hedge accounting prospectively for all or a portion of the hedged layer for one or more hedging relationships associated with the closed portfolio at any time if a breach has not occurred and a breach is not anticipated. If multiple hedged layers are associated with the closed portfolio, the entity may voluntarily elect to dedesignate (or partially dedesignate) any hedges associated with that closed portfolio.

- For one or more hedging relationships designated under the portfolio layer method, an entity shall discontinue (or partially discontinue) hedge accounting in the following circumstances:

    - If the entity cannot support on a subsequent testing date that the hedged layer or layers are anticipated to be outstanding for the designated hedge period (that is, a breach is anticipated), it shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer anticipated to be outstanding for the designated hedge period.

    - If on a subsequent testing date the outstanding amount of the closed portfolio of financial assets or one or more beneficial interests is less than the hedged layer or layers (that is, a breach has occurred), the entity shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer outstanding.

- In the event of either an anticipated breach or a breach that has occurred, if multiple hedged layers are associated with a closed portfolio, an entity shall determine which hedge or hedges to discontinue (or partially discontinue) in accordance with an accounting policy election. That accounting policy election shall specify a systematic and rational approach to determining which hedge or hedges to discontinue (or partially discontinue). An entity shall establish its accounting policy no later than when it first anticipates a breach or when a breach has occurred (whichever comes first). After an entity establishes its accounting policy, it shall consistently apply its accounting policy to all portfolio layer method breaches (anticipated and occurred).

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- If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. An entity shall amortize those amounts over a period that is consistent with the amortization of other discounts or premiums associated with the respective assets.

- For a portfolio layer method hedging relationship that is discontinued because a breach has occurred, as of the discontinuation date an entity shall:

    - Determine the portion of the basis adjustment associated with the amount of the hedged layer that exceeds the closed portfolio (that is, the portion of the basis adjustment associated with the breach) using a systematic and rational method and immediately recognize that amount in interest income

    - Disclose the information specified for the breach.

- A closed portfolio may simultaneously have a layer or layers that have been breached and a layer or layers that it anticipates will be breached. In that case, an entity shall apply the guidance in this paragraph for the breach or breaches that have occurred and the guidance for the anticipated breach or breaches.

- New disclosures that include:
    - Amortized cost basis of closed portfolios of financial assets or beneficial interests
    - Amount that represents the hedged layers
    - Basis adjustments associated with the hedged layers
    - Hedge basis adjustment recognized in current-period interest income because of a breach.
    - Circumstances that led to a breach.

Existing Authoritative Literature:

SSAP No. 86—Derivatives

Establishes statutory accounting guidance for derivative instruments and hedging, income generation and replication (synthetic asset) transactions.

Guidance for portfolio hedges is limited to fair value hedges as follows:

> 26. Fair value hedges qualify for hedge accounting if all of the following criteria are met:
>
> d. The hedged item is specifically identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment. The hedged item is a single asset or liability (or a specific portion thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof);
>
> e. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk; and

Under existing guidance, hedges identified as 'portfolio' hedges that did not qualify within the limited parameters in paragraph 26 did not qualify as hedging and were not permitted "hedge accounting" treatment in the statutory

financial statements. Without hedge accounting, the hedging instruments are required to be reported at fair value, with fluctuations in fair value gains and losses recognized through surplus.

> 22. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value 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):

- Agenda item 2018-30: SSAP No. 86 – Hedge Effectiveness Documentation considered the revised hedge effectiveness documentation provisions incorporated within ASU 2017-12, Derivatives and hedging. The revisions from this agenda item were adopted Nov. 15, 2018, and were effective Jan. 1, 2019, with early adoption permitted. U.S. GAAP filers could only early adopt if they also early-adopted ASU 2017-12.

- Agenda item 2021-20: Effective Derivatives – ASU 2017-12 is considering other aspects pending from ASU 2017-12, primarily hedge effectiveness assessments, inclusion of guidance for excluded components and the measurement of excluded components.

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 has been working with industry representatives on ASU 2022-01 for portfolio hedges, as well as on the U.S. guidance for partial term derivatives issued in ASU 2017-12. With these efforts, industry has provided NAIC staff suggested edits to incorporate key aspects of the U.S. GAAP guidance for portfolio hedges and partial-term hedges into SSAP No. 86. NAIC staff recommends that the Working Group classify this agenda item as a New SAP Concept and expose the proposed edits for comment. It is also recommended that the Working Group direct NAIC staff to prepare one issue paper with all recent derivative revisions.

Summary of Revisions Proposed in this Agenda Item – Portfolio Layer Method and Partial Term:

- SSAP No. 86: Revisions are proposed to paragraph 26 (fair value hedges) to detail criteria for portfolio and partial-term hedges. A small disclosure edit is proposed to paragraph 62 and guidance for reporting when the hedge is discontinued is proposed for inclusion in Exhibit C.

  Revisions have also been proposed to identify the adoption of *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method* and to adopt with modification the guidance for partial-term hedges from ASU 2017-12. For the current proposal, the partial term hedge guidance is limited to hedged assets (not liabilities.) This is different from U.S. GAAP, but further statutory discussion is needed on basis adjustments when hedging liabilities,

especially under partial term. It has been suggested that the Working Group move forward with incorporating the guidance for hedged assets at this time, as that addresses the current industry need, and consider guidance for hedged liabilities subsequently. (It was noted that industry is not aware of situations of partial-term liability hedges. Furthermore, the adjustment for hedged liabilities is a broader issue in SSAP No. 86, so the revisions would be more expansive.) Portfolio hedges are limited to recognized assets under U.S. GAAP, so proposed guidance for SAP for those hedges is consistent. (Industry has identified that the FASB may consider expanding the scope of portfolio hedges to liabilities. If this occurs, consideration will then occur for statutory accounting.)

- Exhibit A – Assessment of Hedge Effectiveness: Limited revisions to paragraphs 17-18 to mirror updated U.S. GAAP guidance and a new section (beginning with paragraph 46) for specific hedge assessment guidance on the portfolio layer method.

Staff Review Completed by: Julie Gann - NAIC Staff, April 2022

Proposed Edits to SSAP No. 86:

Fair Value Hedges (Note- subparagraphs 26a-c are not affected and are omitted for brevity)

26. Fair value hedges qualify for hedge accounting if all of the following criteria are met:

d. The hedged item is specifically identified as either all, ~~or~~ a specific portion, or the partial term of a recognized asset, or all or a specific portion of ~~or~~ a recognized liability or of an unrecognized firm commitment. The hedged item is a single asset or liability (or a specific portion or partial term thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof) or a closed portfolio of assets (pursuant to paragraph 26f and Exhibit A, paragraph 46) where assumed layer or layers is anticipated to be outstanding (or a specific portion thereof)[1]. For a partial term hedge of one or more consecutive selected contractual cash flows where the hedged item begins when the first hedge cash flow begins to accrue and ends at the end of the designation hedge period, the assumed maturity of the hedged item occurs at the end of the designated hedge period; *(ASC 815-25-35-13B Partial Term Hedging.)*

e. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk; and

f. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the "portfolio layer method" (detailed in Exhibit A). *(ASC 815-20-25-12A Portfolio Layer Method)*

~~f.~~g. If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is:

[1] For clarity, partial-term hedges and portfolio hedges addressed in paragraph 26.f.are limited to the situations in which the hedged item(s) is a recognized asset or a closed portfolio of financial assets. These hedging accounting methods are not permitted to hedge liabilities.

i. The risk of changes in the overall fair value of the entire hedged item;

ii. The risk of changes in its fair value attributable to changes in benchmark interest rate;

iii. The risk of changes in its fair value attributable to changes in the related foreign currency exchange rates; or

iv. The risk of changes in its fair value attributable to both changes in the obligor's creditworthiness and changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge (referred to as credit risk).

If the risk designated as being hedged is not the risk in paragraph 26.f.i., two or more of the other risks (benchmark interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

The benchmark interest rate being hedged in a hedge of interest rate risk must be specifically identified as part of the designation and documentation at the inception of the hedging relationship. In calculating the change in the hedged item's fair value attributable to changes in the benchmark interest rate, the estimated coupon cash flows used in calculating fair value shall ~~must~~ be based on either~~all of~~ the full contractual cash flows~~ of the entire hedged item~~ or the benchmark rate component of the contractual coupon cash flows of the hedged item determined at hedge inception. An entity may designate a fair value hedge of interest rate risk in which the hedged item is a prepayment instrument. The entity may consider only how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity (for example, an entity may consider only how change in the benchmark interest rate affect an obligor's decision to call a debt instrument when it has the right to do so.) The entity need not consider other factors that would affect this decision (for example, credit risk) when assessing hedge effectiveness. *(ASU 815-25-35-13 & 815-20-25-6B)*~~Excluding some of the hedged item's contractual cash flows (for example, the portion of the interest coupon in excess of the benchmark interest rate) from the calculation is not permitted.~~[2] An entity may not simply designate prepayment risk as the risk being hedged for a financial asset. However, it can designate the option component of a prepayable instrument as the hedged item in a fair value hedge of the entity's exposure to changes in the fair value of that "prepayment" option, perhaps thereby achieving the objective of its desire to hedge prepayment risk. The effect of an embedded derivative of the same risk class must be considered in designating a hedge of an individual risk. For example, the effect of an embedded prepayment option must be considered in designating a hedge of benchmark interest rate risk.

Disclosure Requirements

62. Reporting entities shall disclose the following for all derivative contracts used:

a. General disclosures:

vii. The net gain or loss recognized in unrealized gains or losses during the perioding period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach. *(ASC 815-10-50-5C.)*

~~[2] The first sentence of paragraph 26.d. that specifically permits the hedged item to be identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment is not affected by the provisions in this subparagraph.~~

Staff Note: The shaded section reflects revised guidance adopted with agenda item 2021-20.

Relevant Literature

64. This statement adopts the framework established by FAS 133, *FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133* (FAS 137) and *FASB Statement No. 138, Accounting* for *Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133* (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of *FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. (The adoption from FAS 149 on the assessment of hedge effectiveness is impacted by the adoption with modification of guidance from ASU 2017-12 as detailed in paragraph 65b, with the guidance from ASU 2017-12 superseding the prior adoption to the extent applicable.) All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5*: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No.45 and Clarification of the Effective Date of FASB Statement No. 161 (*FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects *FSP FIN 39-1, Amendments of FASB Interpretation No. 39*, and *ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach*.

65. This statement adopts, with modification, certain revisions to ASC 815-20 included in ASU 2017-12. Remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

a. Revisions effective January 1, 2019 with early adoption permitted, are limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness.

b. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. This adoption reflects statutory modifications to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in the statement. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adoption of the referenced ASC paragraphs only extends to revisions incorporated through ASU 2017-12; therefore, any subsequent U.S. GAAP edits would require statutory accounting consideration before considered adopted.

c. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for the portfolio layer method detailed in ASU 2022-01, criteria to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity date in 815-20-25-6B, adding option in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate based on the benchmark rate components of the contractual cash flows detailed in FASB ASC 815-25-35-13, and the partial-term hedging method detailed in FASB ASC 815-25-35-13B. The adoption of the partial term hedging method reflects statutory modifications that limits its use only when the hedged item is a recognized asset. This is different than U.S. GAAP, which permits the partial term method for hedged liabilities. The statutory limitation is established to prevent interim basis adjustments to hedged liabilities that could present a reduction of reported liabilities on the financial statements when the actual liability has not been reduced. Reconsideration of this statutory limitation may occur after a broader project to consider how derivative basis adjustments to hedged liabilities shall be reflected in the financial statements.

Effective Date and Transition

74.~~73~~ This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used.

a. Revisions adopted to paragraph 64 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.)

b. Revisions adopted in paragraph 16 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.)

c. Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 65) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.

d. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define "derivative premium," require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2021.

e. Revisions adopted August 2022 that adopt with modification the criteria for initial and subsequent hedge effectiveness detailed in the FASB ASC paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12 and that incorporate statutory accounting revisions for the accounting and reporting of excluded components are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively for all new and existing hedges.

Entities shall detail the adoption of this guidance as a change in accounting principle pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors*.

f. Revisions adopted December 13, 2022 that adopt U.S. GAAP guidance for the portfolio layer method, U.S. GAAP guidance to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity, U.S. GAAP guidance adding option in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate based on the benchmark rate component of the contractual coupon cash flows, that and adopt with modification U.S. GAAP guidance for partial term hedging are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively to qualifying new hedges.

Proposed Edits to Exhibit C – Interest Rate Hedging

2d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise—The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. (ASU 815-25-40-9)

iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.

iv. Upon the redesignation of a derivative from a currently effective hedging relationship-

(a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.

(b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.

(c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii) above.

Exhibit A – Assessment of Effectiveness

17. All of the following conditions apply to both fair value hedges and cash flow hedges: *(815-20-25-104)*

e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items ~~occur on the date in which the last hedged cash flow is due and payable~~ ends at the end of the designated hedge period, in accordance with paragraph 815-25-35-13B, with the following qualifications:

i. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).

ii. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:

18. All of the following incremental conditions apply to fair value hedges only: *(815-20-25-105 & 815-25-35-13B)*

a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items ends at the end of the designated hedge period ~~occur on the date in which the last hedged cash flow is due and payable~~ ~~in accordance with paragraph 815-25-35-13B~~.

Portfolio Layer Method (Note – New paragraphs at the end of Exhibit A.)

46. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the "portfolio layer method.") *(ASU 815-20-25-12A)*

a. As part of the initial hedge documentation, an analysis is completed and documented to support the entity's expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.

b. For purposes of its analysis in paragraph 46.a., the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged; and

c. The entity applies the partial-term hedging guidance to the assets or beneficial interest used to support the entity's expectation in paragraph 46.a. An asset that matures on a hedged layer's assumed maturity date meets this requirement.

47. After a closed portfolio is established in accordance with paragraph 46, and entity may designate new hedging relationships associated with the closed portfolio without dedesignating any existing hedging relationships

associated with the closed portfolio if the criteria of paragraph 46 are met for those newly designated hedging relationships. *(ASU 815-20-25-12B)*

48. For the portfolio layer method if both of the following conditions exist, the quantitative test described for similar assets (shared risk exposure) may be performed qualitatively on a hedge-by-hedge basis and only at hedge inception:

a. The hedged item is a hedged layer in a portfolio layer hedge and designated in accordance with paragraph 26.f. of SSAP No. 86.

b. An entity measures the change in fair value of the hedged item based on the benchmark rate component of the contractual coupon cash flows.

Using the benchmark rate component of the contractual coupon cash flows when all assets have the same assumed maturity date and prepayment risk does not affect the measurement of the hedged item results in all hedged items having the same benchmark rate component coupon cash flows. *(ASU 815-20-55-14A)*

49. For one or more hedging relationships designated under the portfolio layer method, an entity shall discontinue (or partially discontinue) hedge accounting in the following circumstances: *(ASU 815-25-40-8)*

a. If the entity cannot support on a subsequent testing date that the hedged layer or layers are anticipated to be outstanding for the designated hedge (that is, a breach is anticipated), it shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer anticipated to be outstanding for the designated hedge period.

b. If on a subsequent testing date the outstanding amount of the closed portfolio of financial assets or one or more beneficial interests is less than the hedged layer or layers (that is, a breach has occurred), the entity shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer outstanding.

50. In the event of either an anticipated breach (as described in paragraph 49.a.) or a breach that has occurred (as described in paragraph 49.b.) for portfolio layer method, if multiple hedged layers are associated with a closed portfolio, an entity shall determine which hedge or hedges to discontinue (or partially discontinue) in accordance with an accounting policy election. That accounting policy election shall specify a systematic and rational approach to determining which hedge or hedges to discontinue (or partially discontinue). An entity shall establish its accounting policy no later than when it first anticipates a breach or when a breach has occurred (whichever comes first). After an entity establishes its accounting policy, it shall consistently apply its accounting policy to all portfolio layer method breaches (anticipated and occurred). *(ASU 815-25-40-8A)*

In the issue paper, the U.S. GAAP references not pulled into Exhibit will also be updated as follows:

Consideration of Prepayment Risk Using the ~~Last-of-Layer~~ Portfolio Layer Method

815-20-25-118A In a fair value hedge of interest rate risk designated under the portfolio layer ~~last-of-layer~~ method in accordance with paragraph 815-20-25-12A, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item attributable to interest rate risk.

Status:
On December 13, 2022, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to *SSAP No. 86—Derivatives*. The revisions adopt with modification derivative guidance from *ASU 2017-12, Derivatives and Hedging* and *ASU 2022-01, Fair Value Hedging – Portfolio Layer* to include guidance for the portfolio layer method and partial-term hedges. These revisions are effective Jan. 1, 2023, with early adoption permitted.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/AttE-22-09 - ASU 2022-01 - Portfolio Hedges.docx

Ref #2022-10

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

Issue: ASU 2022-02 – Troubled Debt Restructurings and Vintage Disclosures

Check (applicable entity):

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

Description of Issue: In April 2022, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) *2022-02: Troubled Debt Restructurings and Vintage Disclosures* to eliminate prior U.S. GAAP guidance for troubled debt restructurings (TDRs) by creditors and instead require an entity to evaluate whether the modification represents a new loan or a continuation of an existing loan. The elimination of the separate TDR recognition and measurement guidance was supported for U.S. GAAP as losses are captured in the allowance for credit losses, pursuant to *ASU 2016-13: Measurement of Credit Losses on Financial Instruments*. With ASU 2022-02, expanded U.S. GAAP disclosures have been incorporated for modifications provided to debtors experiencing financial difficulty. Also, the ASU revises the ASU 2016-13 vintage gross write-off disclosures for public business entities. The effective date of ASU 2022-02 is Jan. 1, 2023, for entities that have adopted ASU 2016-13. For entities that have yet to adopt ASU 2016-13 (also known as the 'current expected credit loss' - CECL standard), the effective date of ASU 2022-02 will occur concurrently when an entity adopts ASU 2016-13.

Previously issued U.S. GAAP guidance involving TDRs by creditors was adopted with modification in *SSAP No. 36—Troubled Debt Restructuring*. This guidance was originally issued in *FAS 15, Accounting for Debtors and Creditors for Troubled Debt Restructurings* and then captured in the *FASB Accounting Standards Codification (ASC) 310-40: Receivables – Troubled Debt Restructuring by Creditors.* This ASC guidance has been predominantly superseded with the issuance of ASU 2022-02. Under the existing statutory accounting guidance, if the fair value of the modified loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a new cost basis is established at the fair value, with the difference recorded as a realized loss in the statement of operations.

Under ASU 2016-13 (also known as the 'current expected credit loss' - CECL standard) assets are reported at the net amount expected to be collected. For assets held at amortized cost, a valuation allowance reflecting expected credit losses is established and is deducted from the amortized cost basis to present the net carrying amount expected to be collected. For assets held at fair value, there is still an allowance for credit losses, which permits reversals of credit losses previously recorded to be reflected in net income. (For assets held at fair value, the CECL model does not change measurement method, but changes the process for recognizing fluctuations in fair value as a result of credit losses.)

Although consideration of ASU 2016-13 is still pending statutory accounting review, from initial assessments and industry outreach, a full adoption of the CECL standard is not likely to be supported. This is because 1) insurers more commonly hold assets at amortized cost under SAP and at fair value (as available for sale) under U.S. GAAP – so the CECL model would significantly impact the measurement method under SAP, but not under U.S. GAAP, and 2) the asset-valuation reserve (AVR), a statutory accounting guidance applicable to life and fraternal insurers, establishes a reserve to offset potential credit-related investment losses on most investment categories. With ASU 2016-13 applicable to small public and non-public U.S. GAAP filers as of Jan. 1, 2023, NAIC staff are currently soliciting input from industry on key CECL impacts to assess for statutory accounting purposes. Once that

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information is received, a further review will occur on ASU 2016-13 to determine the extent that CECL concepts should be reflected within statutory accounting principles.

Under new U.S. GAAP guidance in ASU 2022-02, when the terms of the loan have been revised, creditors would determine whether the changes to the loan are more than minor and if the terms are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing / restructuring a loan. If these criteria are met, then the restructured loan would be accounted for as a new loan. If a new loan, any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. If the criteria are not met, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. With this approach, the investment in the new loan consists of the net remaining investment in the original loan, any additional funds advanced to the borrower, any fees received, and direct loan origination costs associated with the refinancing or restructuring. It's important to highlight that this U.S. GAAP guidance does not address any loss for the restructured loan as recognition of losses would be captured in the allowance for credit losses pursuant to ASU 2016-13.

With ASU 2022-02, expanded disclosures on commitments and modified loans have been incorporated. Although some of the general concepts within the following U.S. GAAP disclosures are captured in SSAP No. 36, paragraph 23, the following U.S. GAAP disclosures are more specific that what was previously incorporated:

1. Disclose if the creditor has a commitment to lend additional funds to debtors experiencing financial difficulty for which the creditor has modified the terms of the receivables in the form of principal forgiveness, an interest rate reduction, and other-than-insignificant payment delay, or a term extension in the current reporting period (ASU 310-10-50-36). (Note – This is similar to a prior GAAP disclosure for TDRs and reflected in concept within SSAP No. 36, paragraph 23.b.)

2. In addition to disclosures about the type and magnitude of certain modifications of receivables made to debtors experiencing financial difficulty (summarized in paragraphs 3-5 below), the financial effect of those modifications and the degree of success of the modification in mitigating potential credit losses, an entity shall consider providing information that helps financial statement users understand significant changes in the type of magnitude of modifications, including those modifications that, for example, were caused by a major credit event, even if the modifications would not require the disclosures detailed below.) (ASU 310-10-50-38)

3. For each period in which a statement of income is presented, and entity shall disclose the following information related to modifications of receivables that are in the form of principal forgiveness, an interest rate reduction, an other-than insignificant payment delay, or a term extension (or a combination thereof) made to debtors experiencing financial difficulty during the reporting period. (ASU 310-10-50-42)

    a. By class of financing receivable, qualitative and quantitative information about:

        i. The types of modifications utilized by an entity, including the total period-end amortized cost basis of the modified receivables and the percentage of modifications of receivables made to debtors experiencing financial difficulty relative to the total period-end amortized cost basis of receivables in the class of financing receivable.

        ii. The financial effect of the modification by type of modification, which shall provide information about the changes to the contractual terms as a result of the modification and shall include the incremental effect of principal forgiveness on the amortized cost basis of

the modified receivables, as applicable, or the reduction in weighted-average interest rates (versus a range) for interest rate reductions.

iii. Receivable performance in the 12 months after a modification of a receivable made to a debtor experiencing financial difficulty.

b. By portfolio segment, qualitative information about how those modifications and the debtors' subsequent performance are factored into determining the allowance for credit losses.

4. Receivables made be modified in more than one manner. An entity that modifies the same receivable in more than one manner shall provide disclosures sufficient for users to understand the different types of combinations of modifications provided to borrowers. For example, a receivable may be modified to provide both principal forgiveness and an interest rate reduction. In that case, an entity shall disclose the period-end amortized cost basis of that receivable in a separate category that reflects that a combination of mortification types has been granted. If another receivable was modified to provide both an interest rate reduction and a term extension, the period-end amortized cost basis of that receivable shall be presented in a different category. Multiple separate combinations categories may be necessary if significant. The same receivable's period-end amortized cost basis shall not be presented in multiple categories. (310-10-50-43)

5. For each period in which a statement of income is presented, an entity shall disclose the following information about financing receivables that had a payment default during the period and had been modified in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) within the previous 12 months preceding the payment default when the debtor was experiencing financial difficulty at the time of the modification. (310-10-50-44)

a. By class of financing receivable, qualitative and quantitative information about those defaulted financing receivables, including the following:

i. The type of contractual change the modification provided.

ii. The amount of financing receivables that defaulted, including the period-end amortized cost basis for financing receivables that defaulted.

b. By portfolio segment, qualitative information about how those defaults are factored into determining the allowance for credit losses.

Per the ASU, the disclosures in paragraphs 3, 4 and 5 shall be provided regardless of whether a modification of a receivable to a debtor experiencing financial difficulty results in a new loan. (ASU 310-10-50-41)

In addition to the TDR for creditors guidance, ASU 2022-02 also incorporates and revises "vintage" disclosures for gross write-offs for public business entities involving financing receivables and net investment in leases. These disclosures were originally captured as part of the CECL guidance in ASU 2016-13 for all entities, and the revisions modify and restrict the disclosures to public business entities:

- When disclosing credit quality indicators of financing receivables and net investment in leases, a public business entity shall present the amortized cost basis within each credit quality indicator by year of origination (that is, vintage year). For purchased financing receivables and net investment in leases, an entity shall use the initial date of issuance to determine the year of origination, not the date of acquisition. For origination years before the fifth annual period, a public business entity may present the amortized cost

basis of financing receivables and net investments in leases in the aggregate. For interim-period disclosures, the current year-to-date originations in the current reporting period are considered to the current-period originations. (326-20-50-6)

- A public business entity shall present the gross write-offs recorded in the current period, on a current year-to-date basis, for financing receivables and net investments in leases by origination year. For origination years before the fifth annual period, a public business entity may present the gross write-offs in the current period for financing receivables and net investments in leases in aggregate. The requirement to present the amortized cost basis within each credit quality indicator by year of origination is not required for an entity that is not a public business entity. (326-20-50-6A)

Existing Authoritative Literature:

SSAP No. 36—Troubled Debt Restructuring

A troubled debt restructuring is defined as a debt restructuring whereby the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise grant. Guidance in SSAP No. 36, adopted from U.S. GAAP for creditors, details the following:

- Determining whether a creditor has granted a concession
- Determining whether a debtor is experiencing financial difficulties
- Determining whether a restructuring results in a delay in payment that is insignificant
- Accounting by creditors
- Disclosure for creditors.

Key excerpts from the guidance in SSAP No. 36:

Accounting by Creditors

17. A creditor shall account for a troubled debt restructuring according to the type of the restructuring (receipt of assets in full satisfaction, modification of terms, combination of types). Generally, troubled debt restructuring involving the transfer of assets shall be accounted for at the fair value of the assets received. Troubled debt restructuring involving modification of terms shall be accounted for at fair value (as determined by acceptable appraisal methodologies) in accordance with *SSAP No. 100R—Fair Value*. If the restructured loan is collateral dependent, fair value shall be the fair value of the collateral. If the restructured loan is not collateral dependent, fair value shall be determined in accordance with SSAP No. 100R. If the determined fair value of the loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a new cost basis shall be established at the fair value with the difference being recorded as a realized loss in the statement of operations. After the troubled debt restructuring, a creditor shall account for the assets consistent with the statutory guidance for such assets.

18. A creditor shall account for assets, including foreclosed property and equity interests in corporations, joint ventures, or partnerships, received in satisfaction of the loan at their fair value (as determined by acceptable appraisal methodologies) at the time of restructuring or at the book value of the loan if lower. If the fair value is less than the book value, the required writedown shall be recognized as a realized capital loss. The creditor shall reclassify the asset from loans to the appropriate asset account, such as real estate or other invested assets, at the time that the creditor obtains clear title to the asset except for mortgage loans which shall follow the guidance in paragraph 18 of SSAP No. 37. After the troubled debt restructuring, a creditor shall account for the assets received in satisfaction of the loan consistent with the statutory guidance for similar assets.

19. Any fees received in connection with a modification of terms of a troubled debt restructuring shall be applied as a reduction of the recorded investment in the loan. All costs associated with the restructuring, including direct loan origination costs, shall be charged to expense as incurred.

Disclosure by Creditors

23. A creditor shall disclose in the financial statements the information captured in paragraphs 23.a., 23.b. and 23.c. about troubled debt restructuring as of the date of each balance sheet presented. Disclosures captured from paragraphs 23.d. and 23.e. are required in the statutory audited financial statements only:

a. As of the date of each statement of financial position presented, the recorded investment in the loans for which impairment has been recognized in accordance with this statement and the related realized capital loss. (For mortgage loans, the disclosures in SSAP No. 37 shall also be completed.)

b. The amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructuring

c. The creditor's income recognition policy for interest income on an impaired loan

d. For troubled debt restructurings that occurred during the annual reporting period, aggregated by type of instrument, qualitative and quantitative information on (1) how the items were modified and (2) the financial effects of the modifications

e. If restructured within the previous 12 months and there has been a payment default during that period, disclose qualitative and quantitative information about the defaulted instruments, aggregated by type of instrument, including: (1) type of instruments that defaulted and (2) the amount of recorded investments for which default occurred

24. Refer to the Preamble for further discussion regarding disclosure requirements.

25. This statement is not intended to modify the requirement for life and health insurers to complete the annual statement exhibit disclosing long-term mortgage loans in good standing with restructured terms.

Relevant Literature

26. This statement adopts with modification *FASB Statement No. 15*, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* (FAS 15) to specify that creditors shall reclassify assets obtained in a troubled debt restructuring from loans to the appropriate asset account at the time the creditor obtains clear title to the asset, except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed and with modification to require that gains and losses from extinguishment of debt be reported as capital gains or losses, and charged to operations. In August 2012, this statement was revised to adopt paragraphs 310-40-15-13 through 310-40-15-18 and 310-40-15-20 of the FASB Codification incorporated through *FASB ASU 2011-02, A Creditors Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. Also in August 2012, this statement adopted with modification the disclosure requirements included in paragraphs 310-10-50-33 through 310-10-50-34 of the FASB Codification originally incorporated from *ASU 2010-20, Receivables (Topic 310), Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, deferred by *ASU 2011-01, Receivables (Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* and reinstated through ASU 2011-02. These disclosure requirements have been modified to be applicable for all troubled debt restructurings within the scope of SSAP No. 36, rather than limited to troubled debt restructurings of "financing receivables." The revisions adopted in August 2012 from ASU 2011-02 and ASU 2010-20 are effective January 1, 2013, with early application permitted.

27. This statement adopts paragraphs 9, 22, and 25 of *FASB Statement No. 114*, *Accounting by Creditors for Impairment of a Loan* (FAS 114). Paragraphs 6.d., 13 and 21 of FAS 114 are rejected. *FASB Statement No. 118*, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* is adopted as it relates to troubled debt restructuring.

28. This statement adopts *FASB Technical Bulletin 81-6, Applicability of Statement 15 to Debtors in Bankruptcy Situations* and *FASB Technical Bulletin 80-2, Classification of Debt Restructuring by Debtors and Creditors*. It also adopts *FASB Emerging Issue Task Force No. 87-18, Use of Zero Coupon Bonds in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 87-19, Substituted Debtors in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 89-15*, *Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties* consistent with the modifications to FAS 15 discussed in this statement, *FASB Emerging Issues Task Force No. 96-22, Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans* and *FASB EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is Within the Scope of FASB Statement No. 15.*

29. Although *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91) was rejected in *SSAP No. 26R—Bonds*, this statement is consistent with paragraph 14 of *FAS No. 91.*

30. This statement rejects *FASB Emerging Issues Task Force No. 94-8, Accounting for Conversion of a Loan into a Security in a Troubled Debt Restructuring* and *FASB Technical Bulletin 94-1*, *Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*.

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

In 2020, in response to the COVID pandemic, the Statutory Accounting Principles (E) Working Group issued two interpretations providing limited time exceptions for troubled debt restructurings. INT 20-07, believed most widely used, provided limited-time practical expedients in determining whether restructured payments are considered insignificant. Both interpretations automatically expired on Jan. 2, 2022.

- INT 20-03: Troubled Debt Restructurings Due to COVID-19
- INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19

In 2016, with the issuance of ASU 2016-13, the Working Group began discussions on the CECL standard for statutory accounting. Although a number of preliminary discussions occurred, discussions halted as the effective date of U.S. GAAP standard (as well as other standards) was delayed in response to the COVID-19 pandemic. ASU 2016-13 is now effective January 2023 for smaller reporting public entities and nonpublic companies. When discussions were ongoing, a comment letter received from interested parties dated July 9, 2018, recommended that the NAIC retain the existing credit impairment guidance in statutory accounting principles. The discussion on ASU 2016-13 for statutory accounting is expected to resume in 2022.

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 recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the intent to retain existing guidance in *SSAP No. 36—Troubled Debt Restructuring*

along with revisions to the relevant literature section to identify the rejection of ASU 2022-02 and detail the GAAP/SAP differences for the accounting of troubled debt restructurings for creditors. Note that paragraph 26 addresses ASU 2022-02 and paragraphs 27-29 detail the historical differences that were previously in paragraphs 26-30 in a more reader friendly format including moving old effective date language from the relevant literature section to the effective date paragraph. With this exposure, comments are requested on whether the expanded U.S. GAAP disclosures for modifications should be considered for statutory accounting.

NAIC staff recommends that the CECL disclosures, including the revisions for "vintage gross write-offs' for public business entities be considered as part of the review of ASU 2016-13 for expected credit losses. However, NAIC staff requests comments on this recommendation and whether the disclosures should be considered for statutory accounting in advance of reviewing ASU 2016-13 for statutory accounting.

Staff Review Completed by: Julie Gann - NAIC Staff, April 2022

Proposed Revisions to SSAP No. 36:

Relevant Literature

26. This statement rejects *ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures* and the U.S. GAAP guidance within the Accounting Standards Codification for troubled debt restructurings for creditors. This ASU is rejected as the U.S. GAAP guidance for troubled debt restructuring by creditors has been significantly modified to eliminate the separate recognition of losses from restructurings as losses are captured within the allowance for credit losses valuation account established pursuant to *ASU 2016-13, Financial Instruments – Credit Losses*. As statutory accounting has not adopted ASU 2016-13, the prior troubled debt restructuring adopted from U.S GAAP in effect prior to ASU 2016-13 and ASU 2022-02 has been retained. With the rejection of ASU 2022-02, reporting entities shall continue to apply the prior concepts within SSAP No. 36 when assessing and classifying modifications as troubled debt restructurings. These retained concepts do not permit entities to consider troubled debt restructurings as new loans and therefore do not permit immediate recognition of unamortized fees, costs, or prepayment penalties as interest income at the time of restructuring. Additionally, fees received by a reporting entity from a restructuring shall continue to reduce the recorded investment and all costs incurred by a reporting entity with the restructuring shall continue to be charged to expense as incurred.

27. Although the statutory accounting guidance for troubled debt restructurings for creditors no longer reflects authoritative guidance from U.S. GAAP, the guidance in SSAP No. 36 reflects the following superseded U.S. GAAP guidance as follows:

a. Adopted with modification *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings* (FAS 15) to specify that creditors shall reclassify assets obtained in a troubled debt restructuring from loans to the appropriate asset account at the time the creditor obtains clear title to the asset, except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed and with modification to require that gains and losses from extinguishment of debt be reported as capital gains or losses, and charged to operations.

b. Adopted paragraphs 310-40-15-13 through 310-40-15-18 and 310-40-15-20 of the FASB Codification incorporated through *FASB ASU 2011-02, A Creditors Determination of Whether a Restructuring Is a Troubled Debt Restructuring*

c. Adopted with modification the disclosure requirements included in paragraphs 310-10-50-33 through 310-10-50-34 of the FASB Codification originally incorporated from *ASU 2010-20, Receivables (Topic 310), Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, deferred by *ASU 2011-01, Receivables*

(Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 and reinstated through ASU 2011-02. These disclosure requirements were modified to be applicable for all troubled debt restructurings within the scope of SSAP No. 36, rather than limited to troubled debt restructurings of "financing receivables."

d. Adopted paragraphs 9, 22, and 25 of *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan* (FAS 114). Adopted *FASB Statement No. 118, Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* as it relates to troubled debt restructuring.

e. Adopts *FASB Technical Bulletin 81-6, Applicability of Statement 15 to Debtors in Bankruptcy Situations* and *FASB Technical Bulletin 80-2, Classification of Debt Restructuring by Debtors and Creditors*, *FASB Emerging Issue Task Force No. 87-18, Use of Zero Coupon Bonds in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 87-19, Substituted Debtors in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 89-15, Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties* consistent with the modifications to FAS 15, *FASB Emerging Issues Task Force No. 96-22, Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans* and *FASB EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is Within the Scope of FASB Statement No. 15.*

f. This statement is consistent with paragraph 14 of *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91), but FAS 91 was rejected in *SSAP No. 26R*

28. For historical reference purposes, the following superseded U.S. GAAP guidance was previously rejected within this statement:

a. Paragraph 6.d, 13 and 21 of FAS 114.

b. *FASB Emerging Issues Task Force No. 94-8, Accounting for Conversion of a Loan into a Security in a Troubled Debt Restructuring* and *FASB Technical Bulletin 94-1, Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*.

~~26. This statement adopts with modification *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings* (FAS 15) to specify that creditors shall reclassify assets obtained in a troubled debt restructuring from loans to the appropriate asset account at the time the creditor obtains clear title to the asset, except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed and with modification to require that gains and losses from extinguishment of debt be reported as capital gains or losses, and charged to operations. In August 2012, this statement was revised to adopt paragraphs 310-40-15-13 through 310-40-15-18 and 310-40-15-20 of the FASB Codification incorporated through *FASB ASU 2011-02, A Creditors Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. Also in August 2012, this statement adopted with modification the disclosure requirements included in paragraphs 310-10-50-33 through 310-10-50-34 of the FASB Codification originally incorporated from *ASU 2010-20, Receivables (Topic 310), Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, deferred by *ASU 2011-01, Receivables (Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* and reinstated through ASU 2011-02. These disclosure requirements have been modified to be applicable for all troubled debt restructurings within the scope of SSAP No. 36, rather than limited to troubled debt restructurings of "financing receivables." The revisions adopted in August 2012 from ASU 2011-02 and ASU 2010-20 are effective January 1, 2013, with early application permitted.~~

~~27. This statement adopts paragraphs 9, 22, and 25 of *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan* (FAS 114). Paragraphs 6.d., 13 and 21 of FAS 114 are rejected. *FASB Statement No. 118, Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* is adopted as it relates to troubled debt restructuring.~~

~~28. This statement adopts *FASB Technical Bulletin 81-6, Applicability of Statement 15 to Debtors in Bankruptcy Situations* and *FASB Technical Bulletin 80-2, Classification of Debt Restructuring by Debtors and Creditors*. It also adopts *FASB Emerging Issue Task Force No. 87-18, Use of Zero Coupon Bonds in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 87-19, Substituted Debtors in a Troubled Debt Restructuring*, *FASB Emerging Issue Task Force No. 89-15, Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties* consistent with the modifications to FAS 15 discussed in this statement, *FASB Emerging Issues Task Force No. 96-22, Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans* and *FASB EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is Within the Scope of FASB Statement No. 15.*~~

~~29. Although *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91) was rejected in *SSAP No. 26R—Bonds*, this statement is consistent with paragraph 14 of *FAS No. 91.*~~

~~30. This statement rejects *FASB Emerging Issues Task Force No. 94-8, Accounting for Conversion of a Loan into a Security in a Troubled Debt Restructuring* and *FASB Technical Bulletin 94-1, Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring.*~~

Effective Date and Transition

~~31.~~29. ~~31.~~ This statement is effective for years beginning January 1, 2001. The provisions of this statement shall be applied to all troubled debt restructurings entered into on or after January 1, 2001. The adoption of FASB EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15 was incorporated from INT 03-12 and effective December 7, 2003. The revisions adopted in August 2012 from ASU 2011-02 and ASU 2010-20 are effective January 1, 2013, with early application permitted.

Comments Requested – Is additional disclosure information desired on troubled debt restructurings?

As detailed in the summary of new GAAP guidance, disclosures are expanded to allocate TDRs by type of modification – such as principal forgiveness, interest rate reduction, other-than-insignificant payment delay or term extension. Also under the new U.S. GAAP guidance, TDR disclosures are aggregated based on type of modification, and if more than one modification occurs, then a new category is reported to aggregate info for all contracts that have similar modifications. (So, modifications that encompass both principal forgiveness and interest rate reductions would be aggregated in a separate category, and modifications that include interest rate reductions and term extensions would be aggregated in a separate category.)

Below are the current disclosures and data-template for statutory financials. As shown, the data captured is limited.

Disclosure by Creditors

23. A creditor shall disclose in the financial statements the information captured in paragraphs 23.a., 23.b. and 23.c. about troubled debt restructuring as of the date of each balance sheet presented. Disclosures captured from paragraphs 23.d. and 23.e. are required in the statutory audited financial statements only:

a. As of the date of each statement of financial position presented, the recorded investment in the loans for which impairment has been recognized in accordance with this statement and the related realized capital loss. (For mortgage loans, the disclosures in SSAP No. 37 shall also be completed.)

b. The amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructuring

c. The creditor's income recognition policy for interest income on an impaired loan

d. For troubled debt restructurings that occurred during the annual reporting period, aggregated by type of instrument, qualitative and quantitative information on (1) how the items were modified and (2) the financial effects of the modifications

e. If restructured within the previous 12 months and there has been a payment default during that period, disclose qualitative and quantitative information about the defaulted instruments, aggregated by type of instrument, including: (1) type of instruments that defaulted and (2) the amount of recorded investments for which default occurred

Note 5B. Debt Restructuring

		Current Year	Prior Year
(1)	The total recorded investment in restructured loans, as of year-end	$ _____	_____
(2)	The realized capital losses related to these loans	$ _____	_____
(3)	Total contractual commitments to extend credit to debtors owing receivables whose terms have been modified in troubled debt restructurings	$ _____	_____

Status:
On December 13, 2022, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to *SSAP No. 36—Troubled Debt Restructuring*. The revisions reject *ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures* and identifies that retained guidance reflects superseded U.S. GAAP.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/AttF-22-10 - ASU 2022-02 - TDR CECL.docx

Ref #2022-13

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

Issue: Related Parties – Footnote Updates

Check (applicable entity):

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

Description of Issue: At its May 24, 2022, meeting, the Statutory Accounting Principles (E) Working Group adopted agenda item 2021-21 – Related Party Reporting. That agenda item encompassed two main goals:

1. Clarified the reporting of affiliate transactions within existing reporting lines in the investment schedules, while remaining consistent with the definition of an "affiliate" pursuant to the *Insurance Holding Company System Regulatory Act* (Model #440), *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

2. Incorporated new reporting requirements for investment transactions with related parties. This agenda item added a new column to annual statement reporting schedules: B – Mortgage Loans, D – Long-Term Bonds, DB – Derivatives, BA – Other Long-Term Invested Assets, DA – Short-Term Investments, E2 – Cash Equivalents, and DL – Securities Lending Collateral Assets where the reporting entity must select a code that best describes the related party relationship within the investment.

When agenda item 2021-21 was exposed for the final time on April 4, 2022, a footnote was added to SSAP No. 25, paragraph 9 that states "Consistent with SSAP No. 97, footnote 1, investments in an exchange traded fund (ETF) or a mutual fund (as defined by the SEC) does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF or mutual fund unless ownership of the ETF actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs and mutual funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws." Among the comments received from interested parties after the April 4 exposure was a suggestion to extend the exemption to foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction, which are within the scope of *SSAP No. 30R—Unaffiliated Common Stock*.

As part of the adoption of agenda item 2021-21 at the May 24 meeting, NAIC staff were directed by the Working Group to make revisions to include foreign open-end funds SSAP No. 25 and SSAP No. 97 in the footnotes.

Existing Authoritative Literature:

SSAP No. 25—Affiliates and Other Related Parties (paragraph and footnote originally adopted on the May 24, 2022, Working Group call.)

> 9. For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited

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partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company[FN], indirect control shall be presumed to exist unless the presumption of control can be overcome as detailed in paragraph 7. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a "related party" distinction or disclosure requirements for material transactions pursuant to SSAP No. 25.

FN—Consistent with SSAP No. 97, footnote 1, investments in an exchange traded fund (ETF) or a mutual fund (as defined by the SEC) does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF or mutual fund unless ownership of the ETF actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs and mutual funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws.

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

5. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity[FN].

FN—Investments in an exchange traded fund (ETF) or a mutual fund (as defined by the SEC) does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF or mutual fund unless ownership of the ETF actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs and mutual funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws. ETFs and mutual funds held by a reporting entity shall be reported as common stock, unless the ETF qualifies for bond or preferred stock treatment per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Reporting entities are not required to verify that SCAs (subject to SSAP No. 97) are represented in the portfolio of securities held in ETFs or mutual funds or to adjust the value of SCAs as a result of investments in ETFs or mutual funds.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): In March 2021, the Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 25 pursuant to agenda item 2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities. Additionally, a new reporting Schedule Y, Part 3 was adopted by the Blanks (E) Working Group in proposal 2020-37BWG, with an initial effective date of Dec. 31, 2021, to capture information on all entities with ownership greater than 10%, the ultimate controlling parties of those owners and other entities that the ultimate controlling party controls.

The adopted revisions to SSAP No. 25 from agenda item 2019-34 are summarized as follows:

- Clarify the identification of related parties and ensure that any related party identified under U.S. GAAP or SEC reporting requirements would be considered a related party under statutory accounting principles.

- Clarify that non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation.

- Clarify the impact of a disclaimer of control or disclaimer of affiliate under SAP. As detailed, such disclaimers impact holding company group allocation and reporting as an SCA under SSAP No. 97, but do not eliminate the classification as a "related party" and the disclosure of material transactions as required under SSAP No. 25.

- Rejected several U.S. GAAP standards addressing variable interest entities.

On May 24, 2022, the Working Group adopted agenda item 2021-21 – Related Party Reporting, which encompassed two main goals:

- Clarified the reporting of affiliate transactions within existing reporting lines in the investment schedules, while remaining consistent with the definition of an "affiliate" pursuant to Model #440, SSAP No. 25 and SSAP No. 97.

- Incorporated new reporting requirements for investment transactions with related parties. This agenda item added a new column to annual statement reporting schedules: B – Mortgage Loans, D – Long-Term Bonds, DB – Derivatives, BA – Other Long-Term Invested Assets, DA – Short-Term Investments, E2 – Cash Equivalents, and DL – Securities Lending Collateral Assets where the reporting entity must select a code that best describes the related party relationship within the investment.

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 SSAP No. 25 and SSAP No. 97 to incorporate language to exempt foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction from the look-through provisions included in SSAP No. 25.

Proposed edits to SSAP No. 25:

9. For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company[FN], indirect control shall be presumed to exist unless the presumption of control can be overcome as detailed in paragraph 7. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a "related party" distinction or disclosure requirements for material transactions pursuant to SSAP No. 25.

FN—Consistent with SSAP No. 97, footnote 1, investments in an exchange traded fund (ETF), ~~or~~ a mutual fund (as defined by the SEC) or a foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF, ~~or~~ mutual fund or foreign open-end investment fund unless ownership of the ~~ETF~~fund

actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs, ~~and~~ mutual funds and foreign open-end investment funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws or the applicable foreign jurisdictions laws.

Proposed edits to SSAP No. 97:

5. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity[FN].

FN—Investments in an exchange traded fund (ETF), ~~or~~ a mutual fund (as defined by the SEC) or a foreign open-end investment fund governed and authorized in accordance with regulations established by the applicable foreign jurisdiction does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF, ~~or~~ mutual fund or foreign open-end investment fund unless ownership of the fund~~ETF~~ actually results in "control" with the power to direct or cause the direction of management of an underlying company. ETFs, ~~and~~ mutual funds and foreign open-end investment funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws or the applicable foreign jurisdictions laws. ETFs, ~~and~~ mutual funds and foreign open-end investment funds held by a reporting entity shall be reported as common stock, unless the fund~~ETF~~ qualifies for bond or preferred stock treatment per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Reporting entities are not required to verify that SCAs (subject to SSAP No. 97) are represented in the portfolio of securities held in ETFs, ~~or~~ mutual funds or foreign open-end investment funds or to adjust the value of SCAs as a result of investments in ETFs, ~~or~~ mutual funds or foreign open-end investment funds.

Staff Review Completed by: Jake Stultz – NAIC Staff, July 2022

Status:
On August 10, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 25 and SSAP No. 97 to incorporate language to exempt foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction from the look-through provisions included in SSAP No. 25 and SSAP No. 97.

On December 13, 2022, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP No. 25 and SSAP No. 97. The revisions identify foreign open-end investment funds as a fund in which ownership percentage is not deemed to reflect control unless the entity actually controls with the power to direct management of the underlying company.

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Ref #2021-25

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

Issue: Leasehold Improvements After Lease Termination

Check (applicable entity):

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

Description of Issue:
During 2019, the Working Group adopted substantive revisions to *SSAP No. 22—Leases*, which created SSAP No. 22R. The updated guidance rejected financing lease treatment that was adopted in U.S. GAAP but incorporated language from ASC Topic 842, which kept SSAP No. 22R as consistent as possible with the principal concepts in the U.S. GAAP standard. The Working Group has addressed several additional FASB Accounting Standard Updates (ASU) since the initial adoption of Topic 842 and NAIC staff have received numerous inquiries from SAP reporting entities since the adoption of the substantive revisions to SSAP No. 22R.

NAIC staff received a question about the treatment of leasehold improvements in situations where a leased property is purchased by the lessee during the lease term and noted that there is no explicit guidance for these situations in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* nor *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*. In these scenarios, it was identified that the reporting entity had acquired the property that was initially subject to a lease; however regardless of the scenario, amortization of leasehold improvements is only permitted over the shorter of the estimated useful life of the improvement or the lease term (as defined in SSAP No. 22R). In a normal lease termination, one where the lessee does not acquire said property, any remaining leasehold improvements shall be immediately expensed. This agenda item has been drafted to clarify this guidance, to eliminate future questions and ensure consistent application.

Existing Authoritative Literature:
Guidance for property improvements and integral equipment is included in *SSAP No. 40R—Real Estate Investments*.

SSAP No. 40R (underlines added for emphasis):

> 18. Recognition of profit on sales of real estate investments shall be accounted for in accordance with FASB Statement No. 66, Accounting for Sales of Real Estate (FAS 66), except as modified in paragraph 20 of this statement, FASB Emerging Issues Task Force No. 87-9, Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds, FASB Emerging Issues Task Force No. 87-29, Exchange of Real Estate Involving Boot, FASB Interpretation No. 43, Real Estate Sales an interpretation of FASB Statement No. 66 (FIN 43) and FASB Emerging Issues Task Force No. 00-13, Determining Whether Equipment is "Integral Equipment" Subject to FASB Statements No. 66 and No. 98(INT 06-13). <u>This statement applies to all sales of real estate including real estate with property improvements or integral equipment. The terms "property improvements" and "integral equipment" refer to any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant costs, such as an office building.</u> Additionally, this guidance applies to all transfers of financial assets that are in substance real estate.
>
> 31. <u>This statement adopts FASB Interpretation No. 43, Real Estate Sales, an Interpretation of FASB Statement No. 66 (FIN 43), which clarifies that the phrase "all real estate sales" includes sales of real estate with property improvements or integral equipment that cannot be removed and used separately from the</u>

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> real estate without incurring significant costs. This statement adopts FASB Emerging Issues Task Force No. 84-17, Profit Recognition on Sales of Real Estate with Graduated Payment Mortgages or Insured Mortgages, FASB Emerging Issues Task Force No. 89-13, Accounting for the Cost of Asbestos Removal, FASB Emerging Issues Task Force No. 89-14, Valuation of Repossessed Real Estate, FASB Emerging Issues Task Force No. 90-8, Capitalization of Costs to Treat Environmental Contamination, FASB Emerging Issues Task Force No. 95-23, The Treatment of Certain Site Restoration/Environmental Exit Costs When Testing a Long-Lived Asset for Impairment, FASB Emerging Issues Task Force 97-11: Accounting for Internal Costs Relating to Real Estate Property Acquisitions, FASB Emerging Issues Task Force No. 98-8: Accounting for Transfers of Investments That Are in Substance Real Estate and FASB Emerging Issues Task Force No. 00-13, Determining Whether Equipment is "Integral Equipment" Subject to FASB Statements No. 66 and No. 98, which clarifies the term "integral equipment" as used in this statement.

Leasehold improvements are discussed in SSAP No. 19 and in SSAP No. 73.

SSAP No. 19:

> 5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term as defined in SSAP No. 22R. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired.

SSAP No. 73:

> 9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): The Working Group adopted substantive revisions in agenda item 2016-02 to SSAP No. 22 to incorporate language from *ASU 2016-02, Leases (Topic 842)*, which retained the treatment of leases as operating leases by the lessor but incorporated some of the new language and guidance from ASU 2016-02.

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

Convergence with International Financial Reporting Standards (IFRS):
The intent of Topic 842 is to make U.S. GAAP lease treatment more closely resemble that of IFRS lease treatment in *IFRS 16—Leases*.

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 19 and SSAP No. 73 to ensure that the guidance for the leasehold improvements matched the treatment provided in *SSAP No. 40R—Real Estate Investments.* These edits will clarify that amortization of leasehold improvements will immediately end when a lease is terminated and will require that any remaining, unamortized leasehold improvement balance be immediately expensed. This will include scenarios where the lease terminates naturally or when the lessee

purchases a property it was leasing. It is presumed that the purchase of a property from a third party would include the leasehold improvements as part of the full purchase price.

SSAP No. 19:

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term, as defined in SSAP No. 22R. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessor. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

SSAP No. 73:

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessor. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments.*

Staff Review Completed by Jake Stultz, September 2021

Status:
On December 11, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 19 and SSAP No. 73 to ensure that the guidance for the leasehold improvements matches the treatment provided in SSAP No. 40. These edits clarify that amortization of leasehold improvements will immediately end when a lease is terminated and will require that any remaining, unamortized leasehold improvement balance be immediately expensed. This will include scenarios where the lease terminates naturally or when the lessee purchases a property it was leasing.

On April 4, 2022, the Statutory Accounting Principles (E) Working Group reviewed comments on prior exposed revisions which intended to clarify that in any scenario in which a lease terminates early, all remaining leasehold improvements shall be immediately expensed. The Working Group directed NAIC staff to continue to work with interested parties to refine the guidance for subsequent consideration.

On August 10, 2022, the Statutory Accounting Principles (E) Working Group exposed this agenda item, incorporating proposed revisions after considering comments from interested parties shown highlighted in gray below. The changes provide an explicit exception to companies that provide direct healthcare. It is limited to situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate.

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SSAP No. 19:

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term, as defined in SSAP No. 22R. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in SSAP No. 73. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

SSAP No. 73:

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets[1] to be excluded from the purchase cost of the real estate. Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

On December 13, 2022, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, which clarify that amortization of leasehold improvements shall immediately end when a lease is terminated and requires that any remaining, unamortized leasehold improvement balance be immediately expensed, with a limited, specific exclusion in SSAP No. 73 that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded in some cases from the purchase cost of the real estate. In addition to the exposed language, illustrated above, the Working Group adopted a minor revision to SSAP No. 19, paragraph 9, as illustrated below, to make this paragraph consistent with changes that were made on prior lease agenda items.

SSAP No. 19:

9. The acquisition cost of depreciable assets, net of salvage, shall be depreciated against net income over the estimated useful lives of the assets in a systematic and rational manner. The acquisition cost of a

[1] The application of this exception is limited to leasehold improvements necessary for the functionality of health care delivery assets that qualified for admittance under SSAP No. 73.

leasehold improvement shall be amortized against net income over the shorter of its estimated useful life or the ~~original~~ lease term as defined in SSAP No. 22R ~~excluding options or renewal periods~~. For leasehold improvements capitalized subsequent to inception of the lease, the cost shall be amortized over the shorter of its estimated useful life or the remaining ~~original~~ lease term ~~excluding options or renewal periods~~. Amounts capitalized for leasehold improvements in periods subsequent to the original lease term (i.e., during renewal periods), are amortized utilizing the shorter of the estimated useful life of the asset or the remaining lease term ~~of the renewal period~~.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/AttH-21-25 - Lease Improvements Termination.docx

Interpretation of the
Statutory Accounting Principles (E) Working Group

INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax

INT 22-02 Dates Discussed

October 6, 2022; October 24, 2022, November 16, 2022; December 13, 2022

INT 22-02 References

Current:
SSAP No. 9—Subsequent Events
SSAP No. 101—Income Taxes

INT 22-02 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 non-authoritative high-level summary based on information at the time of initial INT discussion regarding the CAMT is as follows:

   a. The CAMT is 15% of the corporation's "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit.

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

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

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

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e. 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 regular corporate income tax. Any CAMT paid is available indefinitely as a credit carryover that could reduce future regular tax in future years if the regular tax liability is in excess of CAMT tax liability.

f. The Act directs the Treasury to issue regulations and other guidance relate to implementing the CAMT, so several issues are pending detailed clarifications including clarifying the definition of an applicable corporation, and providing guidance on the starting point for, and adjustments to, adjusted financial statement income, as well as the handling of separate company tax returns when required under current tax law that are unique to the insurance industry.

Interpretation Issues

2. This interpretation is focused on addressing third quarter 2022 transition accounting and reporting aspects of the new CAMT. While most insurers will not be subject to the CAMT, for those that know that they are subject, and those that could be subject to the CAMT, there are a variety of reporting uncertainties, particularly regarding reporting for third quarter 2022.

3. The CAMT is effective for the tax years on or after 2023.

4. Both statutory accounting principles and U.S. GAAP require the effects of tax changes on deferred taxes, including the valuation allowance (future realizability of existing DTAs) in the period in which the legislation is enacted (third quarter 2022). *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 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.

5. 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.

6. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II[1] 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 are filed (example, March 1), but before the audited financial statements are issued (example, June 1), reporting entities are generally required

[1] 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.

by their domestic state to amend their filed statutory financial statements to ensure that the statutory financial statements and the audited financial statements are consistent. 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 2022 Financial Statements

7. During the period of enactment (third quarter 2022) reporting entities filing statutory financial statements would normally have to consider the applicability of the CAMT and if applicable, 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."

8. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for September 30, 2022, financial statements.

Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

9. 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.

10. For reporting entities that materially revise or establish calculations impacted by the CAMT subsequent to September 30, 2022 (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of the CAMT), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2022 financial reporting.

INT 22-02 Discussion

11. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Response: Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

12. Reporting entities that are aware they will be subject to the CAMT would normally reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for third quarter 2022. Because of the timing of the adoption of the Act and the considerable number of unknown variables for September 30, 2022, reporting, the Working Group has determined that a reasonable estimate is not determinable for third quarter 2022 interim financial statements for the calculations impacted by the CAMT.

13. Because reasonable estimates of calculations impacted by the CAMT are not determinable, reporting entities shall not recognize impacts related to CAMT for third quarter 2022 financial statements, but shall make the following disclosures regarding the CAMT and the Act:

a. The Act was enacted during the reporting period on August 16, 2022.

b. 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:

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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 2022 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 2022 financial statements do not include an estimated impact of the CAMT, because a reasonable estimate cannot be made.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

14. For third quarter 2022 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 financial statements are not required to reflect updated estimates subsequent to the third quarter filing date and prior to the filing 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.

15. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

INT 22-02 Status

16. The consensuses in this interpretation were adopted on October 24, 2022, 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, 2022, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for third quarter 2022.

17. On December 13, 2022, the Working Group adopted a consensus to extend this interpretation for December 31, 2022, and first quarter 2023 statutory financial statements. For application as of year-end 2022 and first quarter 2023:

a. Consistent with paragraphs 12 and 13, the Working Group has concluded that a reasonable estimate is not determinable for December 31, 2022, and March 31, 2023, therefore impacts related to the CAMT in the year-end 2022 and March 31, 2023, financial statements are not required.

b. The reporting entity shall include disclosures in paragraph 13 in the year-end 2022 and March 31, 2023, financial statements. In addition, the reporting entity shall disclose the following:

i. If, based on information regarding the projected adjusted financial statement income for 2023, the entity or the controlled group of corporations of which the reporting entity is a member has determined if it is an "applicable corporation" to

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determine if CAMT exceeds the regular federal income tax payable. That is, disclose if the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if average "adjusted financial statement income" is above the thresholds for 2023 tax year that they expect to be required to perform the CAMT calculations. This disclosure is about being applicable corporation, not if the entity is required to pay.

c. Consistent with paragraph 14, CAMT updated estimates or other calculations affected by the Act determined subsequent to filing the December 31, 2022, and March 31, 2023, financial statements shall not be recognized as Type I subsequent events.

d. For year-end 2022 financial statements, the subsequent event exception is expanded to encompass events that occur prior to the issuance of statutory financial statements as well as events that occur before the date the audited financial statements are issued, or available to be issued. This provision intends to prevent reporting entities from having to amend statutory financial statements from material Type I subsequent events as a result of updated information / estimates received after the reporting date of year-end 2022 statutory financial statements pertaining to the accounting for the enactment of the Act.

18. With the extension, this interpretation will be automatically nullified on June 15, 2023.

19. No. further discussion is planned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/sapwg/atti-int 22-02-dec 13 adoption.docx

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Dale Bruggeman, Statutory Accounting Principles (E) Working Group Chair
Kevin Clark, Statutory Accounting Principles (E) Working Group Vice Chair

From: NAIC SAPWG Staff

CC: NAIC Support Staff: Todd Sells/ Tim Nauheimer

Date: November 21, 2022

Re: Update on SAPWG Items Included in the List of MWG Considerations

At the Summer National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) received a referral from the Macroprudential (E) Working Group (MWG) of the Financial Stability (E) Task Force (FSTF). This referral, as part of an activities-based framework developed by MWG which provides a list of thirteen regulatory considerations initially developed for private equity (PE) owned insurers, which can be relevant to any ownership type and/or corporate structure. The MWG and FSTF adopted a final plan for addressing each of the thirteen considerations, including referrals to other NAIC committee groups.

Within the thirteen regulatory considerations, several items were directed at SAPWG, and some were directed at other groups but have characteristics that needed to be addressed by SAPWG. Where relevant, SAPWG agenda items have their Ref # noted. Blanks (E) Working Group (BWG) agenda items have also been noted and have BWG following the reference number to distinguish the groups.

A. <u>The following actions have been taken by the SAPWG to address the referrals:</u>

1. **Issue – Pension Risk Transfers (PRT)—**with the trend of life insurers' increased pension risk transfer (PRT) business, regulators are reviewing such business with the more complex investments.

   - *Ref #2020-37: Separate Account – Product Identifiers* and *Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure* which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements was adopted by the SAPWG May 2021.

   - Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021.

   Comment – The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented most entities are still broadly grouping PRT activity in the disclosures.

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2. **Issue - The lack of identification of related party-originated investments** (including structured securities). These investments may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. **MWG also noted broader considerations around affiliated asset managers and disclaimer of affiliation.**

   - Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a "related party" and the disclosure of material transactions. Additionally, revisions reject several U.S. GAAP variable interest entities standards.

     This agenda item also resulted in the creation of a new Schedule Y part 3. Part 3 – Ultimate Controlling Party and Listing of Other U.S. Insurance Groups or Entities Under That Ultimate Controlling Party's Control A new Schedule Y, Pt 3, was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Adopted March 2021)

   - Ref #2021-21 included revisions that clarified guidance and developed a blanks proposal which provided new investment schedule reporting codes to identify investments that involve related parties. (Adopted May 2022).

   - Ref #2020-37 BWG adopted March 2021 added new Schedule Y part 3

   - Ref #2021-22 BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures are the use of code indicators to identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)

B. The following topic may be better addressed by another group:

1. **Issue - Surplus Notes and appropriate interest rates given their special regulatory treatment, including whether floating rates are appropriate.**

   No action has been taken by the SAPWG on the appropriate interest rates for surplus notes, however we note that the terms of surplus notes are subject to regulatory approval and the fair and reasonable standards of the *Insurance Holding Company System Regulatory Act* (Model #440). If additional criteria are determined to be needed for the interest rates of surplus notes, this guidance might be better in the financial analysis or examiner handbooks as this involves regulator review rather than the accounting provisions.

C. The following referral topics are ongoing:

1. **Issue - Related party investment identification**

- Note -The results of the year-end 2022 investment schedule related party reporting codes from proposal 2021-21 (2021-22 BWG) will be available to be reviewed after the March 2023 filings.

- Ref #2022-15 affiliated investment reporting is recommended for exposure at the 2022 Fall National Meeting. It adds clarifying guidance on reporting of affiliated investments.

2. **Issue - Enhanced reporting of bond definitions in SSAP No. 26R, 43R and reporting. As part of a project known as the bond project the** SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to use principles to determine what reflects a qualifying bond and to identify different types of investments more clearly. For example, D1 may include issuer credits and traditional ABS, while a sub-schedule of D1 could be used for additional disclosures for equity-based issues, balloon payment issues, etc. Rewrites of schedule D are expected to be effective in 2025, the bond project is making progress towards its accounting and reporting goals.

   The Ref# 2019-21 is the primary Form A; however the project has several documents. Including data capture of Payment in Kind interest being discussed (Ref #2022-17 Interest income disclosure update) for exposure at the 2022 Fall National Meeting.

The SAPWG will continue to respond as issues identified related to the MWG referral are identified. Please contact NAIC staff for assistance.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/AttJ-Macro Referral Update.docx

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Fall 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—*Segment Reporting (Topic 280)—Improvements to Reportable Segment Disclosures*	December 20, 2022
Proposed Accounting Standards Update—*Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*	December 27, 2022
Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 2:* The Reporting Entity	January 16, 2023
Proposed Statement of Financial Accounting Concepts No. 8—*Conceptual Framework for Financial Reporting—Chapter 5:* Recognition and Derecognition	February 21, 2023

Proposed Accounting Standards Update—*Segment Reporting (Topic 280)—Improvements to Reportable Segment Disclosures*

Information from FASB Exposure Draft:

Investors, lenders, creditors, and other allocators of capital (collectively "investors") have observed that segment information is critically important in understanding a public entity's different business activities. That information enables investors to better understand an entity's overall performance and assists in assessing potential future cash flows.

Feedback on the Post-Implementation Review (PIR) Report on FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, which was issued in 2012, indicated overall support from stakeholders for the management approach to segment reporting. That report stated that investors are generally satisfied with the segment note disclosures. A minority of investor survey respondents, approximately one-third, indicated that they are somewhat dissatisfied. Those investors were interested in exploring ways to require additional disclosures about segment information by public entities. Practitioner and academic survey respondents were interested in exploring additional guidance for determining and aggregating segments.

The Board is issuing this proposed Update to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. Investors have observed that although information about a segment's revenue and measure of profit or

loss is disclosed in an entity's financial statements, there generally is limited information disclosed about a segment's expenses.

The amendments in this proposed Update respond to requests from investors for additional information about a public entity's reportable segments to understand the expense categories and amounts that are included within segment profit or loss.

Staff Review and Commentary:

Comment deadline is December 20, 2022

Proposed Accounting Standards Update—*Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*

Information from FASB Exposure Draft:

The amendments in this proposed Update address the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The objectives of the proposed amendments are to (1) provide decision-useful information to investors and other allocators of capital (collectively, investors) in a joint venture's financial statements and (2) reduce diversity in practice.

Generally accepted accounting principles (GAAP) do not provide specific authoritative guidance on how a joint venture, at its formation, should recognize and initially measure assets contributed and liabilities assumed (including the assets and liabilities of businesses contributed). Rather, GAAP explicitly provides that transactions between a corporate joint venture and its owners are outside the scope of Topic 845, Nonmonetary Transactions, and that the formation of a joint venture is outside the scope of Topic 805, Business Combinations. In the absence of specific guidance, practice has been influenced by various sources, including speeches given by the U.S. Securities and Exchange Commission (SEC) staff. As a result, there is diversity in practice in how a joint venture accounts for the contributions it receives upon formation—while some joint ventures initially measure their net assets at fair value at the formation date, other joint ventures account for their net assets at the venturers' carrying amounts.

To reduce diversity in practice and provide decision-useful information to a joint venture's investors, the Board decided to require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, would recognize and initially measure its assets and liabilities at fair value (with certain exceptions that are consistent with the business combinations guidance).

The amendments in this proposed Update do not amend the definition of a joint venture (or a corporate joint venture), the accounting by an equity method investor for its investment in a joint venture, or the accounting by a joint venture for contributions received after its formation.

Staff Review and Commentary:
Comment deadline is December 27, 2022

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

The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information. In late

2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work on their frameworks on a joint basis.

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

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

Staff Review and Commentary:

Comment deadline is January 16, 2023

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

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

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

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

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

Staff Review and Commentary:

Comment deadline is February 21, 2023

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.* Additionally, NAIC staff do not believe a response on the invitation to comment is warranted at this time.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2022FallNM/Minutes/SAPWG/AttK-Review of GAAP Exposures.docx

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Draft: 12/1/22

Blanks (E) Working Group
Virtual Meeting
November 17, 2022

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 17, 2022. The following Working Group members participated: Pat Gosselin, Chair (NH); Kim Hudson, Vice Chair (CA); Kevin Richard (AK); Michael Shanahan (CT); N. Kevin Brown (DC); Tom Hudson (DE); Carolyn Morgan (FL); Daniel Mathis (IA); Roy Eft (IN); Jason Tippett (MI); Debbie Doggett (MO); Lindsay Crawford (NE); John Sirovetz (NJ); Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Melissa Greiner (PA); Shawn Frederick and Jamie Walker (TX); Jake Garn (UT); Steve Drutz (WA); Adrian Jaramillo (WI); and Michael Crum (WV).

1. Adopted its June 8 and May 25 Minutes

Gosselin referenced the Blanks (E) Working Group's June 8 and May 25 minutes.

Snow made a motion, seconded by Crawford, to adopt the Working Group's June 8 and May 25 minutes (*see NAIC Proceedings – Summer 2022, Accounting Practices and Procedures (E) Task Force, Attachments Two-A and Two-B*). The motion passed unanimously.

2. Adopted Items Previously Exposed

   a. Agenda Item 2022-12BWG – Effective Dec. 31, 2023

Drutz stated that this proposal combines the Health Analysis of Operations by Lines of Business Supplement page and the Health Care Receivable Supplement pages, Exhibits 3 and 3A, into one supplement filing set for health blank pages filed as a supplement by life/fraternal companies. There were no modifications suggested by interested parties. This proposal creates a single filing set as the health supplement section in the life blank, similar to the life supplement section in the health blank.

Drutz made a motion, seconded by Hudson, to adopt the proposal (Attachment Two-A). The motion passed unanimously.

   b. Agenda Item 2022-19BWG – Effective Dec. 31, 2023

Walker stated that this proposal is a replacement for the original proposal 2021-18WG related to modifying the life insurance state page to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. It adds definitions for life and annuity products to the lines of business definitions in the health blank appendix. She stated that the current proposal is a result of a collaborative effort between state insurance regulators and industry, which identified data elements that could be eliminated and allowed the Working Group to reformat the information to fit the data on two pages instead of three. Interested parties asked for additional time to pull data into the new format, specifically for the claims settled and policy counts. This option was included for annual 2023. However, for annual 2024, the change would be fully implemented. There were technical modifications made as a result of interested party comments.

Walker made a motion, seconded by Eft, to adopt the modifications to the proposal. The motion passed unanimously. Walker made a motion, seconded by Greiner to adopt the modified proposal (Attachment Two-B). The motion passed unanimously.

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3. Exposed New Items

a. Agenda Item 2022-14BWG

Hudson stated that this proposal affects the life/fraternal blank and instructions. It modifies Exhibit 1, Parts 1 and 2, and Exhibit 8, Parts 1 and 2, in the annual and Exhibit 1 in the quarterly to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. The purpose of this proposal is to make the lines of business reported on Exhibit 1 and Exhibit 8 consistent with the lines of business being reported on the Analysis of Operations by Lines of Business pages.

Hearing no objection, Hudson stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

b. Agenda Item 2022-15BWG

Doggett stated that this proposal affects the life/fraternal and property/casualty (P/C) instructions. It revises the language of Schedule H, Part 5, to remove the 5% of premiums filing exemption. Before Schedule H was updated for annual 2022 to bring uniformity in the accident and health lines of business, the P/C instructions for Schedule H, Part 5, had the less than 5% filing exemption, and the life/fraternal instructions did not. The removal of the 5% exemption would require both P/C and life/fraternal filers to file Schedule H, Part 5.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

c. Agenda Item 2022-16BWG

Drutz stated that this proposal affects life/fraternal, P/C, and health blanks and instructions to remove the uniform Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit's Expense Allocation Report. The purpose of this proposal is to remove parts of the Supplemental Health Care Exhibit that are no longer used regularly as part of a review of the annual statement for duplication or items not regularly used by state insurance regulators.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

d. Agenda Item 2022-17BWG

Bruggeman stated that this proposal affects the Notes and, therefore, all four statement types for the annual and quarterly filings. The Schedule DB change captures the fair value of excluded components and identifies the fair value excluded components reflected in the book/adjusted carrying value (BACV) for the hedging instrument and the change in fair value reported as an unrealized gain(loss). A disclosure has been added to Note 8 – Derivative Instruments requiring information on the aggregate excluded components by category. This proposal reflects changes to *SSAP No. 86— Derivatives* adopted by the Statutory Accounting Principles (E) Working Group in agenda item #2021-20.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

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e. Agenda Item 2022-18BWG

Gosselin stated that this proposal affects the life/fraternal and separate accounts filings. This is an instructional correction on the handling of exchange traded funds (ETFs) and/or SVO identified funds within the interest maintenance reserve (IMR) and the asset valuation reserve (AVR). The classification of bond mutual funds is no longer used in statement reporting within the *Accounting Practices and Procedures Manual* (AP&P Manual) nor within the *Purposes and Procedures Manual of the NAIC's Investment Analysis Office* (P&P Manual). However, the IMR/AVR instructions have not been updated to reflect the new terminology.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

f. Agenda Item 2022-20BWG

Mary Caswell (NAIC) stated that this proposal affects the health blank and the life supplement to the health blank. It modifies the instructions and blanks for the health exhibits that reference vision and dental lines of business to be consistent with all other statement types. In the annual health blank, it will impact the Analysis of Operations by Lines of Business and the underwriting and investment exhibits 1, 2, 2A, 2B and 2D. For the annual life (Health Supplement) it will impact the Analysis of Operations by Lines of Business, and for the quarterly health it will impact the quarterly Underwriting and Investment Exhibit.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 75-day public comment period ending Feb. 1, 2023.

4. Adopted the Editorial Listing

Hudson made a motion, seconded by Drutz, to adopt the editorial listing (Attachment Two-C). The motion passed unanimously.

5. Approved Language Added to the Proposal Form to Address Duplication of Reporting

Gosselin stated that the revised blanks proposal form is included in the meeting materials. The tracked changes show the added language to address concerns that any duplication of reporting has been considered and explained.

Hearing no objection to adding the additional language, Gosselin instructed NAIC staff to make the changes as presented (Attachment Two-D).

6. Reviewed its 2023 Proposed Charges

Gosselin stated that the Working Group's 2023 proposed charges posted as additional meeting materials were adopted by the Financial Condition (E) Committee during its Nov. 15 meeting (*see NAIC Proceedings – Fall 2022, Financial Condition (E) Committee, Attachment One-B*). The revisions to the 2022 charges include new language to address duplication in reporting, and a new charge was assigned to address the elimination of data no longer needed through the proposal process. She stated that no action by the Working Group was needed as the charges were assigned from the Financial Condition (E) Committee.

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7. Received a Memorandum from the Statutory Accounting Principles (E) Working Group

Bruggeman stated that this memorandum details disclosures required as part of *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternate Minimum Tax* adopted by the Statutory Accounting Principles (E) Working Group during its Oct. 24 meeting. These disclosures are required in the statutory financial statements without further action from the Blanks (E) Working Group. Bruggeman requested that this memorandum be posted to the Blanks (E) Working Group web page to assist insurers in identifying and completing the disclosures. He stated that the Statutory Accounting Principles (E) Working Group is considering extending this through the first quarter of 2023 with an additional disclosure for year-end. This extension is anticipated to be considered for adoption at the Fall National Meeting. An updated memorandum will be submitted to the Blanks (E) Working Group if a change or extension is adopted.

Bruggeman made a motion, seconded by Hudson, to receive the memorandum (Attachment Two-E). The motion passed unanimously.

8. Reviewed State Filing Checklists

Gosselin stated that one of the Working Group charges is to monitor the state filing checklists to maintain the current filing requirements.

Doggett made a motion, seconded by Shanahan, to approve the state filing checklists (Attachment Two-F). The motion passed unanimously.

Having no further business, the Blanks (E) Working Group adjourned.

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 04/26/2022	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2022-12BWG
		Year 2023
		Changes to Existing Reporting [X]
TELEPHONE:		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X]
		Modifies Required Disclosure [ ]
NAME:		**DISPOSITION**
TITLE:	Steve Drutz	[ ] Rejected For Public Comment
		[ ] Referred To Another NAIC Group
AFFILIATION:	Chief Financial Analyst	[ ] Received For Public Comment
		[X] Adopted Date 11/17/2022
ADDRESS:	WA Office of the Insurance Commissioner	[ ] Rejected Date
		[ ] Deferred Date
		[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[ ] Property/Casualty	[ ] Protected Cell	[ ] Other
[ ] Health	[ ] Health (Life Supplement)	

Anticipated Effective Date: Annual 2023

IDENTIFICATION OF ITEM(S) TO CHANGE

Combine the Health AnOps Supplement page and the Health Care Receivable Supplement pages (Exhibits 3 and 3A) in to one supplement filing set for Health Blank pages filed as a supplement by Life\Fraternal companies.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to create a single filing set for Health Blank pages filed as a supplement by Life\Fraternal companies similar to the Life Supplement in the filed by Health companies.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 7/18/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE\FRATERNAL

HEALTH SUPPLEMENT

The Health Supplement shall be completed by those companies reporting accident and health business.

This supplement is required to be filed no later than March 1.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

Complete the supplement if the reporting entity has health lines of business to be reported in Columns 2 through 13. Reporting entities that only have non-health lines of business should not complete the supplement.

Riders/Endorsements/Floaters:

> If a rider, endorsement or floater acts like a separate policy with separate premium, deductible and limit, then it is to be recorded on the same line of business as if it were a stand-alone policy regardless of whether it is referred to as a rider, endorsement or floater. If there is no additional premium, separate deductible or limit, the rider, endorsement or floater should be reported on the same line of business as the base policy.

Column 1 – Total

Column 1 (Line 19 plus Line 20) minus Column 14 (Line 19 plus Line 20) should equal Analysis of Operations by Lines of Business – Accident and Health Column 1, sum of Lines 21 through 24.

Line 24 – Net Underwriting Gain or (Loss)

Column 1 minus Column 14 should equal Analysis of Operations by Lines of Business – Summary Column 6, Line 29

Detail of Write-ins Aggregated at Line 5 for Other Health Care Related Revenues

Include: Revenue from sources not covered in the other revenue accounts.

Detail of Write-ins at Line 6 for Other Non-Health Revenues

Include: Revenue from life and property/casualty business (non-premium amounts).

Gains losses on fixed assets.

Details of Write-ins Aggregated at Line 13 for Other Hospital and Medical

Include: Other hospital and medical expenses not covered in the other claims accounts.

EXHIBIT 3 – HEALTH CARE RECEIVABLES

Individually list the greater of any account balances greater than $10,000 or those that are 10% of gross health care receivables. Use Lines 0100001 through 0699996, as needed. Report gross amounts for insured plans although these amounts may be offset against corresponding liabilities on the balance sheet. Report the aggregate of amounts not individually listed on Lines 0199998 through 0699998. The subtotal and grand total amounts should be reported on the following lines:

Category	Line Number
Pharmaceutical Rebate Receivables	0199999
Claim Overpayment Receivables	0299999
Loans and Advances to Providers	0399999
Capitation Arrangement Receivables	0499999
Risk sharing Receivables	0599999
Other Health Care Receivables	0699999
Gross Health Care Receivables	0799999

Column 7 – Admitted

Total line should equal the inset amount on Line 24 of the Asset Page.

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES

The purpose of this exhibit is to analyze health care receivables collected and accrued for the current year compared to the prior year.

This exhibit is based on the gross health care receivable, not just the admitted portion.

Report the total asset (health care receivable) in this exhibit not just the admitted portion. Amounts are gross of reinsurance.

Refer to *SSAP No. 84—Health Care and Government Insured Plan Receivables* for accounting guidance. (See reporting guidance at https://content.naic.org/cmte_e_app_blanks.htm.

Columns 1 and 2:

Enter separately in Columns 1 and 2, Lines 1 through 6, all amounts collected or offset during the year accrued prior to the current year and accrued during the current year. Record only those amounts actually collected including offsets, that meet the offset conditions of *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.

Line 3 includes amounts charged against those gross health care receivables, such as loans or advances to non-related party hospitals, established as prepaid assets that are not expensed until the related claims have been received from the provider as the claims have not been paid as of the statement date.

All amounts collected, including offsets, related to prior year receivables accrued should be reported in Column 1. All amounts collected, including offsets, related to current year receivables accrued should be reported in Column 2.

Columns 3 and 4:

Enter separately in Columns 3 and 4 the gross health care receivables accrual amount between those accrued prior to the current year and those accrued during the year. All amounts accrued related to prior year receivables accrued should be reported in Column 3. All amounts accrued related to current year receivables accrued should be reported in Column 4.

For each of Lines 1 through 7, the sum of Columns 3 through 4 should agree to Exhibit 3 Health Care Receivables, sum of Columns 6 and 7, for each type of health care receivable and in total.

Column 5:

Enter the sum of Columns 1 and 3. This is the amount collected or offset during the current year on health care receivables that were accrued prior to the current year, plus amounts still accrued at the end of the current year, related to the health care receivable accrued at the end of the prior year.

Column 6:

Column 6 reports the amounts of prior year-end accounting accrual for gross health care receivables.

The comparison between Columns 5 and 6 is to the total receivables, not just the portion that is an admitted asset.

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HEALTH CARE RECEIVABLES SUPPLEMENT

The Health Care Receivables Supplement shall be completed by those companies reporting accident and health business.

This supplement is required to be filed no later than March 1.

EXHIBIT 3 – HEALTH CARE RECEIVABLES

Individually list the greater of any account balances greater than $10,000 or those that are 10% of gross health care receivables. Use Lines 0100001 through 0699996, as needed. Report gross amounts for insured plans although these amounts may be offset against corresponding liabilities on the balance sheet. Report the aggregate of amounts not individually listed on Lines 0199998 through 0699998. The subtotal and grand total amounts should be reported on the following lines:

Category	Line Number
Pharmaceutical Rebate Receivables	0199999
Claim Overpayment Receivables	0299999
Loans and Advances to Providers	0399999
Capitation Arrangement Receivables	0499999
Risk-sharing Receivables	0599999
Other Health Care Receivables	0699999
Gross Health Care Receivables	0799999

Column 7 Admitted

Total line should equal the inset amount on Line 24 of the Asset Page.

~~EXHIBIT 3A—ANALYSIS OF HEALTH CARE RECEIVABLES~~

~~The purpose of this exhibit is to analyze health care receivables collected and accrued for the current year compared to the prior year.~~

~~This exhibit is based on the gross health care receivable, not just the admitted portion.~~

~~Report the total asset (health care receivable) in this exhibit not just the admitted portion. Amounts are gross of reinsurance.~~

~~Refer to *SSAP No. 84—Health Care and Government Insured Plan Receivables* for accounting guidance. (See reporting guidance at https://content.naic.org/cmte_e_app_blanks.htm.~~

~~Columns 1 and 2:~~

~~Enter separately in Columns 1 and 2, Lines 1 through 6, all amounts collected or offset during the year accrued prior to the current year and accrued during the current year. Record only those amounts actually collected including offsets, that meet the offset conditions of *SSAP No. 64—Offsetting and Netting of Assets and Liabilities*.~~

~~Line 3 includes amounts charged against those gross health care receivables, such as loans or advances to non-related party hospitals, established as prepaid assets that are not expensed until the related claims have been received from the provider as the claims have not been paid as of the statement date.~~

~~All amounts collected, including offsets, related to prior year receivables accrued should be reported in Column 1. All amounts collected, including offsets, related to current year receivables accrued should be reported in Column 2.~~

~~Columns 3 and 4:~~

~~Enter separately in Columns 3 and 4 the gross health care receivables accrual amount between those accrued prior to the current year and those accrued during the year. All amounts accrued related to prior year receivables accrued should be reported in Column 3. All amounts accrued related to current year receivables accrued should be reported in Column 4.~~

~~For each of Lines 1 through 7, the sum of Columns 3 through 4 should agree to Exhibit 3 Health Care Receivables, sum of Columns 6 and 7, for each type of health care receivable and in total.~~

~~Column 5:~~

~~Enter the sum of Columns 1 and 3. This is the amount collected or offset during the current year on health care receivables that were accrued prior to the current year, plus amounts still accrued at the end of the current year, related to the health care receivable accrued at the end of the prior year.~~

~~Column 6:~~

~~Column 6 reports the amounts of prior year-end accounting accrual for gross health care receivables.~~

~~The comparison between Columns 5 and 6 is to the total receivables, not just the portion that is an admitted asset.~~

ANNUAL STATEMENT BLANK – LIFE\FRATERNAL

.....
Affix Bar Code Above

HEALTH SUPPLEMENTS

For the Year Ended December 31, 2022
(To Be Filed By March 1)

Of The..... Insurance Company

Address (City, State and Zip Code).....

NAIC Group Code..... NAIC Company Code ..... Employer's ID Number .....

~~HEALTH SUPPLEMENT~~

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10	11	12	13	14
		2	3											
	Total	Individual	Group	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Credit A&H	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Net premium income														
2. Change in unearned premium reserves and reserve for rate credit														
3. Fee-for-service (net of $..... medical expenses)														XXX
4. Risk revenue														XXX
5. Aggregate write-ins for other health care related revenues														XXX
6. Aggregate write-ins for other non-health care related revenues		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
7. Total revenues (Lines 1 to 6)														
8. Hospital/medical benefits														XXX
9. Other professional services														XXX
10. Outside referrals														XXX
11. Emergency room and out-of-area														XXX
12. Prescription drugs														XXX
13. Aggregate write-ins for other hospital and medical														XXX
14. Incentive pool, withhold adjustments and bonus amounts														XXX
15. Subtotal (Lines 8 to 14)														XXX
16. Net reinsurance recoveries														XXX
17. Total hospital and medical (Lines 15 minus 16)														XXX
18. Non-health claims (net)		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses including $..... cost containment expenses														
20. General administrative expenses														
21. Increase in reserves for accident and health contracts														XXX
22. Increase in reserves for life contracts		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)														
24. Net underwriting gain or (loss) (Line 7 minus Line 23)														
DETAILS OF WRITE-INS														
0501.														XXX
0502.														XXX
0503.														XXX
0598. Summary of remaining write-ins for Line 5 from overflow page														XXX
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)														XXX
0601.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
1301.														XXX
1302.														XXX
1303.														XXX
1398. Summary of remaining write-ins for Line 13 from overflow page														XXX
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)														XXX

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EXHIBIT 3 – HEALTH CARE RECEIVABLES

1 Name of Debtor	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
0799999 Gross health care receivables						

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EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected or Offset During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables from Prior Years (Cols. 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)						

Note that the accrued amounts in Columns 3, 4 and 6 are the total health care receivables, not just the admitted portion.

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HEALTH CARE RECEIVABLES SUPPLEMENT

For the Year Ended December 31, 20___
(To Be Filed by March 1)

Of The ..... Insurance Company
Address (City, State, Zip Code) .....
NAIC Group Code ..... NAIC Company Code ..... Employer's ID Number .....

EXHIBIT 3 – HEALTH CARE RECEIVABLES

1 Name of Debtor	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
0799999 – Gross health care receivables						

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HEALTH CARE RECEIVABLES SUPPLEMENT

EXHIBIT 3A—ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected or Offset During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables from Prior Years (Cols. 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)						

Note that the accrued amounts in Columns 3, 4 and 6 are the total health care receivables, not just the admitted portion.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/bwg/att2a-2022-12bwg.docx

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 09/06/2022	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2022-19BWG MOD
TELEPHONE:		Year 2023/2024
EMAIL ADDRESS:		Changes to Existing Reporting [X]
ON BEHALF OF:		New Reporting Requirement [ ]
NAME:	Jamie Walker	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE:	Deputy Commissioner	No Impact [X]
AFFILIATION:	Texas Department of Insurance	Modifies Required Disclosure [ ]
ADDRESS:		**DISPOSITION**
		[ ] Rejected For Public Comment
		[ ] Referred To Another NAIC Group
		[ ] Received For Public Comment
		[X] Adopted Date 11/17/2022
		[ ] Rejected Date
		[ ] Deferred Date
		[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[ ] Property/Casualty	[ ] Protected Cell	[ ] Other
[ ] Health	[X] Health (Life Supplement)	

Anticipated Effective Date: Annual 2023/Annual 2024 ***See 2023 Reporting Note on Page 2***

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Adds definitions for life and annuity products to the lines of business definitions in the health appendix.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to make the lines of business reported on the Life Insurance (State Page) consistent with the lines of business being reported on the Analysis of Operations by Lines of Business pages.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments: This proposal is the replacement for 2021-18BWG

** **This section must be completed on all forms.** **Revised 7/18/2022**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

Life Insurance (STATE PAGE)

****

For 2023 Reporting Only

For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.

All rows are required to be reported for Columns 13 and 22. For Column 22, it will be necessary to input amounts directly for 2023 reporting as there will be no formula as indicated in the instructions until 2024 reporting.

Note: Rows 11, 19, 26, 33, and 46 are total lines for the different Lines of Business and should be treated as a formula and not overridden to input data.

Footnote (a) will still be required even if the company chooses to report in the "Other" lines for 2023 reporting.

Separate Accounts: Report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. A new footnote (f) has been added to provide summarized data for separate accounts products (fixed and variable combined). Begininning in Annual 2024, footnote (f) will be removed and the separate account products will need to be reported in their respective Lines of Business.

****

A schedule should be prepared and submitted to the state of domicile for each jurisdiction in which the company has written direct business, has direct losses paid or direct losses incurred. To other states in which the company is licensed it should submit only a schedule for that state.

Direct premiums by state may be estimated by formula on the basis of countrywide ratios for the respective lines of business except where adjustments are required to recognize special situations.

Company's participation in the FEGLI and SGLI policies is shown in this exhibit as direct business.

This exhibit should be shown excluding reinsurance assumed. Reinsurance ceded should not be deducted.

Fraternal entities should leave blank any data elements not applicable such as group and credit.

For definitions of lines of business, see the appendix of the Life/Fraternal Annual Statement Instructions.

~~Column 2 Credit Life (Group and Individual)~~

~~Include: Business not exceeding 120 months duration.~~

~~**This column is not applicable to Fraternal Benefit Societies.**~~

~~Column 5 Total~~

~~Line 1 Direct Premiums for Life Contracts Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded and~~

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~~Line 2 Direct Annuity Considerations for Life Contracts Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded~~

~~Should equal Schedule T, Columns 2 and 3, by State.~~

~~Line 3 Deposit-type Contract Funds~~

~~Report all deposits, and other amounts received for contracts without any mortality and morbidity risk and not reported on Line 1, Line 2 or Line 4. The amounts reported should be consistent with those reported on Schedule T, Column 7.~~

~~Line 2 Annuity Considerations~~

~~Should equal Schedule T, Column 3 by State.~~

~~Line 3 Deposit-type Contracts Funds~~

~~Report all deposits and other amounts received for contracts without any mortality and morbidity risk and not reported on Line 1, Line 2 or Line 4. The amounts reported should be consistent with those reported on Schedule T, Column 7.~~

~~Line 4 Other Considerations~~

~~Include: Unallocated annuity considerations and other unallocated deposits that incorporate any mortality or morbidity risk and are not reported on Line 1, Line 2 or Line 3. The amounts reported should be consistent with those reported on Schedule T, Column 5. See the instructions to the Life, Health and Annuity Guaranty Association Assessable Premium Exhibit for allocated and unallocated annuities. Report allocated annuities in Line 2.~~

~~Line 6 Life Insurance Direct Dividends to Policyholders/Refunds to Members Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded and~~
~~Line 7 Annuity Direct Dividends to Policyholders/Refunds to Members Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded~~

~~Report dividends to policyholders/refunds to members paid or left on deposit, dividends applied to policyholders/refunds to members to pay premiums or considerations or applied to provide paid up additions or annuities. Also report dividends to policyholders/refunds to members used to shorten the endowment or premium paying period.~~

~~Line 13 Aggregate Write-ins for Miscellaneous Direct Claims and Benefits Paid~~

~~Enter the total of the write ins listed in schedule Detail of Write ins Aggregated at Line 13 for Miscellaneous Direct Claims and Benefits Paid.~~

~~Lines 24 to 26 Accident and Health Insurance~~

~~Report health premiums collected during the year, excluding reinsurance accepted and without deduction of reinsurance ceded.~~

~~Report on Line 24.1 those premiums, dividends and losses allocable to the Federal Employees Health Benefits Program premiums that are exempted from state taxes or other fees by Section 8909(f)(1) of Title 5 of the United States Code.~~

~~For Line 24.2, include business not exceeding 120 months' duration.~~

~~For Line 25, the development of data into various health policy categories should be done by inventory of the policy records.~~

~~Line 24.4 Medicare Title XVIII Exempt from State Taxes or Fees~~

~~Report Medicare Title XVIII premiums that are exempted from state taxes or other fees by Section 1854(g) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This includes but is not limited to premiums written under a Medicare Advantage product, a Medicare PPO product, or a stand-alone Medicare part D product.~~

~~Details of Write-ins Aggregated on Line 13 for Miscellaneous Direct Claims and Benefits Paid~~

~~List separately each category of direct claims and benefits paid for which there is no pre-printed line on the state page.~~

Column 1 – Premiums and Annuities Considerations

Line 11 plus Line 19 should equal Schedule T, Column 2, by State.
Line 26 plus Line 33 should equal Schedule T, Column 3, by State.
Line 46 should equal Schedule T, Column 4, by State.

Column 2 – Other Considerations

Include: Unallocated annuity considerations and other unallocated deposits that incorporate any mortality or morbidity risk and are not reported on Column 1, The amounts reported should be consistent with those reported on Schedule T, Column 5. See the instructions to the Life, Health & Annuity Guaranty Association Assessable Premium Exhibit for allocated and unallocated annuities. Report allocated annuities on Column 1.

Line 47 should equal Schedule T, Column 5, by State.
Line 47 (Column1 plus Column 2) should equal Schedule T, Column 6, by State.

Dividends to Policyholders/Refunds to Members

Column 3 – Paid in Cash or Left on Deposit
Column 4 – Applied to Pay Renewal Premiums
Column 5 – Applied to Provide Paid-Up Additions or Shorten the Endowment or Premium-Paying Period } and
Column 6 – Other

Report dividends to policyholders/refunds to members paid or left on deposit, dividends applied to policyholders/refunds to members to pay premiums or considerations or applied to provide paid-up additions or annuities. Also report dividends to policyholders/refunds to members used to shorten the endowment or premium paying period.

Claims and Benefits Paid

Column 8 – Death and Annuity Benefits
Column 9 – Matured Endowments } and
Column 10 – Surrender Values and Withdrawals for Life Contracts

These columns are only applicable to life and annuity contracts (Lines 1 through 33)

Column 11 – All Other Benefits

Report claims benefits paid for accident and health contracts (Lines 34 through 46) in this column.

Death Benefits and Matured Endowments Incurred

This section is only applicable to life and annuity contracts (Lines 1 through 33).

Column 13 – Incurred During Current Year

*** For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.***

Column 14 – Totals Paid – Pols\Certs
Column 15 – Totals Paid – Amount

Provide the amount for claims paid and the number of policies\certificates for the claims paid.

Column 16 – Reduction by Compromise – Pols\Certs
Column 17 – Reduction by Compromise – Amount

Provide the amount for claims reduced by compromise and the number of policies\certificates for the claims reduced by compromise.

Column 18 – Amount Rejected – Pols\Certs
Column 19 – Amount Rejected – Amount

Provide the amount for claims rejected and the number of policies\certificates for the claims rejected.

Column 20 – Total Settled During Current Year - Pols\Certs (Col 14+16+18)

Provide the total number of policies\certificates for claims settled during the current year.

Column 21 – Total Settled During Current Year - Amount (Col 15+17+19)

Column 22 – Unpaid December 31, Current Year

Should equal Column 22 (prior year) plus Column 13 minus Column 21.
Note: Prior Year data for this formula will not be available until 2024 reporting.

Policy Exhibit

*** For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.***

Column 24 – Issued During Year – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

Column 26 – Other Changes to in Force – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

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Column 27 – In Force December 31, Current Year – Number of Pols\Certs

Should equal Column 27 (prior year) plus Column 23 plus Column 25
Note: Prior Year data for this formula will not be available until 2024 reporting.

Column 28 – In Force December 31, Current Year – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

Should equal Column 28 (prior year) plus Column 24 plus Column 26
Note: Prior Year data for this formula will not be available until 2024 reporting.

Footnote c: Total considerations amount should equal Schedule T, Column 7, by State.

For Health Business: Complete the information in Footnote d ~~below the Accident and Health block~~ regarding number of persons covered under PPO managed care products and number of persons covered under indemnity only products. Include in PPO business health insurance products that provide access to a higher level of benefits whenever participating provider networks are used.

ANNUAL STATEMENT INSTRUCTIONS – HEALTH (LIFE SUPPLEMENT)

LIFE SUPPLEMENT
TO THE HEALTH ANNUAL STATEMENT

NOTE: Only companies licensed as Life, Accident & Health insurers should complete the schedules included in the Life Supplement to the Health Annual Statement.

Detail Eliminated to Conserve Space

Life Insurance (STATE PAGE)

****

For 2023 Reporting Only

For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.

All rows are required to be reported for Columns 13 and 22. For Column 22, it will be necessary to input amounts directly for 2023 reporting as there will be no formula as indicated in the instructions until 2024 reporting.

Note: Rows 11, 19, 26, 33, and 46 are total lines for the different Lines of Business and should be treated as a formula and not overridden to input data.

Footnote (a) will still be required even if the company chooses to report in the "Other" lines for 2023 reporting.

Separate Accounts: These are not applicable to health insurance entities and new footnote (f) is not required for Annual 2023. Beginning in Annual 2024, footnote (f) will be removed.

****

To be filed on or before March 1. Only companies licensed as Life, Accident & Health insurers should complete this schedule.

A schedule should be prepared and submitted to the state of domicile for each jurisdiction in which the company has written direct business, has direct losses paid or direct losses incurred. To other states in which the company is licensed it should submit only a schedule for that state.

Direct premiums by state may be estimated by formula on the basis of countrywide ratios for the respective lines of business except where adjustments are required to recognize special situations.

Company's participation in the FEGLI and SGLI policies is shown in this exhibit as direct business.

This exhibit should be shown excluding reinsurance assumed. Reinsurance ceded should not be deducted.

For definitions of lines of business, see the appendix of the~~se~~ Health Annual Statement I~~i~~nstructions.

~~Column 2 Credit Life (Group and Individual)~~

~~Include: Business not exceeding 120 months duration.~~

~~Column 5 Total~~

~~Line 1 Direct Premiums for Life Contracts Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded and~~
~~Line 2 Direct Annuity Considerations for Life Contracts Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded~~

~~The amounts reported should be consistent with those reported on Schedule T, Column7.~~

~~Line 3 Deposit-type Contracts Fund~~

~~Report all deposits and other amounts received for contracts without any mortality and morbidity risk and not reported on Line 1, Line 2 or Line 4. The amounts reported should be consistent with those reported on Schedule T, Column10.~~

~~Line 4 Other Considerations~~

~~Include: Unallocated annuity considerations and other unallocated deposits which incorporate any mortality or morbidity risk and are not reported on Line 1, Line 2 or Line 3. See the instructions to the Life, Health and Annuity Guaranty Association Assessable Premium Exhibit for allocated and unallocated annuities. Report allocated annuities in Line 2.~~

~~Line 6 Life Insurance Direct Dividends to Policyholders Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded and~~
~~Line 7 Annuity Direct Dividends to Policyholders Excluding Reinsurance Assumed and Without Deduction of Reinsurance Ceded~~

~~Report dividends paid or left on deposit, dividends applied to pay premiums or considerations, or applied to provide paid-up additions or annuities. Also report dividends used to shorten the endowment or premium paying period.~~

~~Line 13 Aggregate Write-ins for Miscellaneous Direct Claims and Benefits Paid~~

~~Enter the total of the write-ins listed in schedule Detail of Write-ins Aggregated at Line 13 for Miscellaneous Direct Claims and Benefits Paid.~~

~~Lines 24 to 26 Accident and Health Insurance~~

~~Report health premiums collected during the year, excluding reinsurance accepted and without deduction of reinsurance ceded.~~

~~Report on Line 24.1 those premiums, dividends and losses allocable to the Federal Employees Health Benefits Plan premiums that are exempted from state taxes or other fees by Section 8909(f)(1) of Title 5 of the United States Code.~~

~~For Line 24.2, include business not exceeding 120 months' duration.~~

~~For Line 25, the development of data into various health policy categories should be done by inventory of the policy records.~~

~~Details of Write-ins Aggregated on Line 13 for Miscellaneous Direct Claims and Benefits Paid~~

~~List separately each category of direct claims and benefits paid for which there is no pre-printed line on the state page.~~

Column 1 – Premiums and Annuities Considerations

Line 46 should equal Schedule T, Columns 2 thru 6, by State.

Column 2 – Other Considerations

Include: Unallocated annuity considerations and other unallocated deposits that incorporate any mortality or morbidity risk and are not reported on Column 1, The amounts reported should be consistent with those reported on Schedule T, Column 10. See the instructions to the Life, Health & Annuity Guaranty Association Assessable Premium Exhibit for allocated and unallocated annuities. Report allocated annuities on Column 1.

Column 1 plus Column 2 for Line 11 plus Line 19 plus Line 26 plus Line 33 should equal Schedule T, Column 7, by State.

Column 1 plus Column 2 for Line 47 should equal Schedule T, Columns 2 thru 7, by State.

Dividends to Policyholders/Refunds to Members

Column 3 – Paid in Cash or Left on Deposit
Column 4 – Applied to Pay Renewal Premiums
Column 5 – Applied to Provide Paid-Up Additions or Shorten the Endowment or Premium-Paying Period and
Column 6 – Other

Report dividends to policyholders/refunds to members paid or left on deposit, dividends applied to policyholders/refunds to members to pay premiums or considerations or applied to provide paid-up additions or annuities. Also report dividends to policyholders/refunds to members used to shorten the endowment or premium paying period.

Claims and Benefits Paid

Column 8 – Death and Annuity Benefits
Column 9 – Matured Endowments and
Column 10 – Surrender Values and Withdrawals for Life Contracts

These columns are only applicable to life and annuity contracts (Lines 1 through 33)

Column 11 – All Other Benefits

Report claims benefits paid for accident and health contracts (Lines 34 through 46) in this column.

Death Benefits and Matured Endowments Incurred

This section is only applicable to life and annuity contracts (Lines 1 through 33).

Column 13 – Incurred During Current Year

*** For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.***

Column 14 – Totals Paid – Pols\Certs
Column 15 – Totals Paid – Amount

Provide the amount for claims paid and the number of policies\certificates for the claims paid.

Column 16 – Reduction by Compromise – Pols\Certs
Column 17 – Reduction by Compromise – Amount

Provide the amount for claims reduced by compromise and the number of policies\certificates for the claims reduced by compromise.

Column 18 – Amount Rejected – Pols\Certs
Column 19 – Amount Rejected – Amount

Provide the amount for claims rejected and the number of policies\certificates for the claims rejected.

Column 20 – Total Settled During Current Year - Pols\Certs (Col 14+16+18)

Provide the total number of policies\certificates for claims settled during the current year.

Column 21 – Total Settled During Current Year - Amount (Col 15+17+19)

Column 22 – Unpaid December. 31, Current Year

Should equal Column 22 (prior year) plus Column 13 minus Column 20.
Note: Prior Year data for this formula will not be available until 2024 reporting.

Policy Exhibit

*** For 2023, the reporting entity can choose to break out Columns 14 through 21 and Columns 23 through 28 by Lines of Business for each group (Individual Life, Group Life, Individual Annuities, Group Annuities, and Accident and Health) OR report in the "Other" line for each group if the reporting entity chooses not to break out the lines of business for 2023 reporting. For 2024 reporting, all columns will need to be broken out by Lines of Business.***

Column 24 – Issued During Year – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

Column 26 – Other Changes to in Force – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

Column 27 – In Force December 31, Current Year – Number of Pols\Certs

Should equal Column 27 (prior year) plus Column 23 plus Column 25
Note: Prior Year data for this formula will not be available until 2024 reporting.

Column 28 – In Force December 31, Current Year – Amount

For Individual Life and Group Life lines of business, use the Amount of Insurance amount
For Individual Annuities and Group Annuities lines of business, use the Account Balance amount
For Accident and Health lines of business, use the Premiums in Force amount

Should equal Column 28 (prior year) plus Column 24 plus Column 26
Note: Prior Year data for this formula will not be available until 2024 reporting.

Footnote c: Total considerations amount should equal Schedule T, Column 10, by State.

For Health Business: – Complete the information in Footnote d~~below the Accident and Health block~~ regarding number of persons covered under PPO managed care products and number of persons covered under indemnity only products. Include in PPO business health insurance products that provide access to higher level of benefits whenever participating provider networks are used.

ANNUAL STATEMENT INSTRUCTIONS – HEALTH (Appendix)

DEFINITIONS OF LINES OF BUSINESS – ACCIDENT AND HEALTH

Riders/Endorsements/Floaters:

If a rider, endorsement or floater acts like a separate policy with separate premium, deductible and limit, then it is to be recorded on the same line of business as if it were a stand-alone policy regardless of whether it is referred to as a rider, endorsement or floater. If there is no additional premium, separate deductible or limit, the rider, endorsement or floater should be reported on the same line of business as the base policy.

Other (Specify):

Coverage provided by entities that do not fall within any of the other categories, including stop loss, disability and long-term care. Indemnity plans where the insured person is reimbursed for covered expenses would fall within this area.

DEFINITIONS OF LINES OF BUSINESS – LIFE

Credit life insurance:

Insurance on a debtor or debtors, pursuant to or in connection with a specific loan or other credit transaction, to provide for satisfaction of a debt, in whole or in part, upon the death of an insured debtor.

Indexed life insurance:

Any universal life insurance policy where the interest credits are linked to an external referent.

Industrial life insurance:

Insurance under which premiums are paid monthly or more often, the face amount of the policy does not exceed a stated amount, and the words "industrial policy" are printed in prominent type on the face of the policy. Also called "debit" insurance.

Interest-sensitive whole life contract:

If the gross premiums are fixed and required to be paid, it would be treated like whole life; if gross premiums are flexible and not required to be paid, it would be treated like universal life.

Group life contract:

Insurance on the lives of a group of persons under a single master contract.

Life insurance:

The primary purpose is to provide financial assistance to a beneficiary at the insured's death.

Net cash surrender value:

The maximum amount payable to the policyowner upon surrender.

Ordinary life insurance:

Contract between the company and the policy owner (often the insured). Many variations of ordinary life coverages are available to a purchaser of insurance, including participating, limited-payment periods, combinations of coverages, and decreasing (or increasing) death benefits.

Policy value:

The amount to which separately identified interest credits and mortality, expense or other charges are made under a universal life insurance policy.

Preneed:

"Preneed funeral contract or prearrangement" means an agreement by or for an individual before that individual's death relating to the purchase or provision of specific funeral or cemetery merchandise or services. For reporting purposes, also included in this category are final expense plans that may cover medical bills in addition to funeral expenses.

Secondary Guarantee:

A "secondary guarantee" means a conditional guarantee that a policy will remain in force for either:

a. More than five years (the secondary guarantee period).

b. Five years or less (the secondary guarantee period) if the specified premium for the secondary guarantee period is less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables defined in VM-20 Section 3.C and VM-M and the valuation interest rates defined in this Section, or if the initial surrender charge is less than 100% of the first year annualized specified premium for the secondary guaranteed period, even if its fund value is exhausted.

Term life contract:

Provides insurance over a specified period of time. If the insured dies during this term, the face amount of the policy will be paid to the beneficiary.

Universal life contract:

Includes those contracts that have terms that are not fixed and guaranteed relative to premium amounts, expense assessments or benefits accruing to the policyholder. These contracts generally provide for death benefits and nonforfeiture values and may be issued on a fixed premium basis or on a flexible premium basis where the premiums are paid at the insured's discretion.

Fixed premium universal life insurance policy:

A universal life insurance policy other than a flexible premium universal life insurance policy.

Flexible premium universal life insurance policy:

A universal life insurance policy that permits the policyowner to vary, independently of each other, the amount or timing of one or more premium payments or the amount of insurance.

Variable Universal Life:

Life insurance that provides a face amount that is adjustable to the certificate/policy holder and may allow the certificate/policy holder to vary the modal premium that is paid or may skip a payment so long as the certificate/policy value is sufficient to keep the certificate/policy in force, and under which separately identified interest credits (other than in connection with dividend accumulation, premium deposit funds or other supplementary accounts) and mortality and expense charges are made to individual certificates or policies while providing minimum guaranteed values.

Universal life insurance policy:

A life insurance policy where separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

Variable life contract:

A policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts established and maintained by the insurer as to the policy.

Whole life contract:

Provides a fixed amount of insurance coverage over the life of the insured and the related benefits are normally payable only upon the insured's death.

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DEFINITIONS OF LINES OF BUSINESS – ANNUITIES

Annuity contract:

An arrangement whereby an annuitant is guaranteed to receive a series of stipulated amounts commencing either immediately or at some future date.

Contingent Deferred Annuity (CDA):

An annuity contract that establishes a life insurer's obligation to make periodic payments for the annuitant's lifetime at the time designated investments, which are not owned or held by the insurer, are depleted to a contractually defined amount due to contractually permitted withdrawals, market performance, fees and/or other charges. A CDA is an insurance product that provides protection against underperforming and downward performing markets in the form of an income guarantee on outside investment accounts owned by an insured. The income guarantee is provided through the collection of ongoing fees from within these outside investment accounts. The insured must agree to certain portfolio restrictions and must first deplete their outside investment account assets at the CDA guaranteed income amount and rate according to the contract and prior to the insurer's assumption of this amount. A CDA is considered a living benefit added to an investment account.

Fixed annuity:

A fixed annuity is a policy or contract that has a specified crediting rate periodically and unilaterally adjusted by the company not below minimum contract rate.

Guaranteed Interest Contracts (GICs):

Contracts that guarantee principal and interest for a specified period of time and include the option to purchase immediate annuities that depend on the survival of the annuitant.

Interest-indexed annuity contract:

Any annuity contract where the interest credits are linked to an external reference.

Supplementary contracts with life contingencies:

A type of agreement between the insurance company and either the insured or the beneficiary, usually to provide for full or partial settlement of the amount payable upon the termination of an original contract.

Variable annuity:

A policy or contract, individual or group, that provides for annuity benefits that vary according to the investment experience of a separate account or accounts maintained by the insurer as to the policy or contract.

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ANNUAL STATEMENT BLANKS – LIFE/FRATERNAL

DIRECT BUSINESS IN THE STATE OF _____ DURING THE YEAR

NAIC Group Code..... **LIFE INSURANCE** NAIC Company Code.....

DIRECT PREMIUMS AND ANNUITY CONSIDERATIONS	1 Ordinary	2 Credit Life (Group and Individual)	3 Group	4 Industrial	5 Total
1. Life insurance					
2. Annuity considerations					
3. Deposit-type contract funds		XXX		XXX	
4. Other considerations					
5. Totals (Sum of Lines 1 to 4)					
DIRECT DIVIDENDS TO POLICYHOLDERS/REFUNDS TO MEMBERS					
Life insurance:					
6.1 Paid in cash or left on deposit					
6.2 Applied to pay renewal premiums					
6.3 Applied to provide paid-up additions or shorten the endowment or premium paying period					
6.4 Other					
6.5 Totals (Sum of Lines 6.1 to 6.4)					
Annuities:					
7.1 Paid in cash or left on deposit					
7.2 Applied to provide paid-up annuities					
7.3 Other					
7.4 Totals (Sum of Lines 7.1 to 7.3)					
8. Grand Totals (Lines 6.5 + 7.4)					
DIRECT CLAIMS AND BENEFITS PAID					
9. Death benefits					
10. Matured endowments					
11. Annuity benefits					
12. Surrender values and withdrawals for life contracts					
13. Aggregate write-ins for miscellaneous direct claims and benefits paid					
14. All other benefits, except accident and health					
15. Totals					
DETAILS OF WRITE-INS					
1301.					
1302.					
1303.					
1398. Summary of remaining write-ins for Line 13 from overflow page					
1399. Total (Lines 1301 through 1303 + 1398) (Line 13 above)					

	Ordinary		Credit Life (Group and Individual)		Group		Industrial		Total	
DIRECT DEATH BENEFITS AND MATURED ENDOWMENTS INCURRED	1 No. of Pols. & Certifs.	2 Amount	3 No. of Ind. Pols. & Gr. Certifs.	4 Amount	5 No. of Certifs.	6 Amount	7 No. of Pols. & Certifs.	8 Amount	9 No. of Pols. & Certifs.	10 Amount
16. Unpaid December 31, prior year										
17. Incurred during current year										
Settled during current year:										
18.1 By payment in full										
18.2 By payment on compromised claims										
18.3 Totals paid										
18.4 Reduction by compromise										
18.5 Amount rejected										
18.6 Total settlements										
19. Unpaid Dec. 31, current year (Lines 16 + 17 - 18.6)										
POLICY EXHIBIT					No. of Policies					
20. In force December 31, prior year				(a)						
21. Issued during year										
22. Other changes to in force (Net)										
23. In force December 31 of current year				(a)						

(a) Includes Individual Credit Life Insurance prior year $..... , current year $.....
Includes Group Credit Life Insurance Loans less than or equal to 60 months at issue, prior year $..... , current year $.....
Loans greater than 60 months at issue BUT NOT GREATER THAN 120 MONTHS prior year $..... , current year $.....

ACCIDENT AND HEALTH INSURANCE

	1 Direct Premiums	2 Direct Premiums Earned	3 Policyholder Dividends Paid, Refunds to Members or Credited on Direct Business	4 Direct Losses Paid	5 Direct Losses Incurred
24. Group policies (b)					
24.1 Federal Employees Health Benefits Plan premium (b)					
24.2 Credit (Group and Individual)					
24.3 Collectively renewable policies/certificates (b)					
24.4 Medicare Title XVIII exempt from state taxes or fees					
Other Individual Policies:					
25.1 Non-cancelable (b)					
25.2 Guaranteed renewable (b)					
25.3 Non-renewable for stated reasons only (b)					
25.4 Other accident only					
25.5 All other (b)					
25.6 Totals (sum of Lines 25.1 to 25.5)					
26. Totals (Lines 24 + 24.1 + 24.2 + 24.3 + 24.4 + 25.6)					

(b) For health business on indicated lines report: Number of persons insured under PPO managed care products _____ and number of persons insured under indemnity only products _____.

DIRECT BUSINESS IN THE STATE OF DURING THE YEAR

NAIC Group Code…… **LIFE INSURANCE (STATE PAGE)** NAIC Company Code……

Line of Business	1 Premiums and Annuities Considerations	2 Other Considerations	Dividends to Policyholders/Refunds to Members					Claims and Benefits Paid				
			3 Paid in Cash or Left on Deposit	4 Applied to Pay Renewal Premiums	5 Applied to Provide Paid-Up Additions or Shorten the Endowment or Premium-Paying Period	6 Other	7 Total (Col. 3+4+5+6)	8 Death and Annuity Benefits	9 Matured Endowments	10 Surrender Values and Withdrawals for Life Contracts	11 All Other Benefits	12 Total (Sum Columns 8 through 11)
Individual Life												
1. Industrial												
2. Whole												
3. Term												
4. Indexed												
5. Universal												
6. Universal with Secondary Guarantees												
7. Variable												
8. Variable Universal												
9. Credit												
10. Other (f)												
11. Total Individual Life												
Group Life												
12. Whole												
13. Term												
14. Universal												
15. Variable												
16. Variable Universal												
17. Credit												
18. Other (f)												
19. Total Group Life												
Individual Annuities												
20. Fixed												
21. Indexed												
22. Variable with Guarantees												
23. Variable without Guarantees												
24. Life Contingent Payout												
25. Other (f)												
26. Total Individual Annuities												
Group Annuities												
27. Fixed												
28. Indexed												
29. Variable with Guarantees												
30. Variable without Guarantees												
31. Life Contingent Payout												
32. Other (f)												
33. Total Group Annuities												
Accident and Health												
34. Comprehensive Individual								XXX	XXX	XXX		
35. Comprehensive Group								XXX	XXX	XXX		
36. Medicare Supplement								XXX	XXX	XXX		
37. Vision Only								XXX	XXX	XXX		
38. Dental Only								XXX	XXX	XXX		
39. Federal Employees Health Benefits Plan								XXX	XXX	XXX		
40. Title XVIII Medicare (d)	(e)							XXX	XXX	XXX		
41. Title XIX Medicaid								XXX	XXX	XXX		
42. Credit A&H								XXX	XXX	XXX		
43. Disability Income								XXX	XXX	XXX		
44. Long-Term Care								XXX	XXX	XXX		
45. Other Health								XXX	XXX	XXX		
46. Total Accident and Health								XXX	XXX	XXX		
47. TOTAL	(c)											

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DIRECT BUSINESS IN THE STATE OF DURING THE YEAR

NAIC Group Code……..... **LIFE INSURANCE (STATE PAGE)** NAIC Company Code……..

	Direct Death Benefits and Matured Endowments Incurred										Policy Exhibit					
		Claims Settled During Current Year									Issued During Year		Other changes to in force (Net)		In Force December 31, Current Year (b)	
		Totals Paid		Reduction by Compromise		Amount Rejected		Total Settled During Current Year								
Line of Business	13 Incurred During Current Year	14 Number of Pols/Certs	15 Amount	16 Number of Pols/Certs	17 Amount	18 Number of Pols/Certs	19 Amount	20 Number of Pols/Certs	21 Amount	22 Unpaid December 31, Current Year	23 Number of Pols/Certs	24 Amount	25 Number of Pols/Certs	26 Amount	27 Number of Pols/Certs	28 Amount
Individual Life																
1. Industrial																
2. Whole																
3. Term																
4. Indexed																
5. Universal																
6. Universal with Secondary Guarantees																
7. Variable																
8. Variable Universal																
9. Credit																~~(a)~~
10. Other (f)																
11. Total Individual Life																
Group Life																
12. Whole																
13. Term																
14. Universal																
15. Variable																
16. Variable Universal																
17. Credit																(a)
18. Other (f)																
19. Total Group Life																
Individual Annuities																
20. Fixed																
21. Indexed																
22. Variable with Guarantees																
23. Variable without Guarantees																
24. Life Contingent Payout																
25. Other (f)																
26. Total Individual Annuities																
Group Annuities																
27. Fixed																
28. Indexed																
29. Variable with Guarantees																
30. Variable without Guarantees																
31. Life Contingent Payout																
32. Other (f)																
33. Total Group Annuities																
Accident and Health																
34. Comprehensive Individual	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
35. Comprehensive Group	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
36. Medicare Supplement	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
37. Vision Only	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
38. Dental Only	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
39. Federal Employees Health Benefits Plan	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
40. Title XVIII Medicare (d)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
41. Title XIX Medicaid	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
42. Credit A&H	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
43. Disability Income	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
44. Long-Term Care	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
45. Other Health	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
46. Total Accident and Health	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
47. TOTAL																

(a) Includes Group Credit Life Insurance Loans less than or equal to 60 months at issue, prior year $....., current year $..... Loans greater than 60 months at issue BUT NOT GREATER THAN 120 MONTHS prior year $....., current year $.....

(b) Corporate Owned Life Insurance/BOLI: 1) Number of policies: .....2) covering number of lives: .....3) face amount: $.....

(c) Deposit-Type Contract Considerations NOT included in Total Premiums and Annuities Considerations: Individual: $..... Group: $..... Total: $.....

(d) For health business: number of persons insured under PPO managed care products ..... and number of persons insured under indemnity only products .....

(e) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees $.....

(f) Certain Separate Account products are included in "Other" product categories in the table(s) above:

1. Individual Life – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) .$..... Column 12) $.....
2. Group Life – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....
3. Individual Annuities – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....
4. Group Annuities – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....

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ANNUAL STATEMENT BLANKS – HEALTH (LIFE SUPPLEMENT)

DIRECT BUSINESS IN THE STATE OF DURING THE YEAR

NAIC Group Code..... **LIFE INSURANCE** NAIC Company Code.....

DIRECT PREMIUMS AND ANNUITY CONSIDERATIONS	1 Ordinary	2 Credit Life (Group and Individual)	3 Group	4 Industrial	5 Total
1. Life insurance					
2. Annuity considerations					
3. Deposit-type contract funds		XXX		XXX	
4. Other considerations					
5. Totals (Sum of Lines 1 to 4)					
DIRECT DIVIDENDS TO POLICYHOLDERS/REFUNDS TO MEMBERS					
Life insurance:					
6.1 Paid in cash or left on deposit					
6.2 Applied to pay renewal premiums					
6.3 Applied to provide paid-up additions or shorten the endowment or premium paying period					
6.4 Other					
6.5 Totals (sum of Lines 6.1 to 6.4)					
Annuities:					
7.1 Paid in cash or left on deposit					
7.2 Applied to provide paid-up annuities					
7.3 Other					
7.4 Totals (sum of Lines 7.1 to 7.3)					
8. Grand Totals (Lines 6.5 + 7.4)					
DIRECT CLAIMS AND BENEFITS PAID					
9. Death benefits					
10. Matured endowments					
11. Annuity benefits					
12. Surrender values and withdrawals for life contracts					
13. Aggregate write-ins for miscellaneous direct claims and benefits paid					
14. All other benefits, except accident and health					
15. Totals					
DETAILS OF WRITE-INS					
1301.					
1302.					
1303.					
1398. Summary of remaining write-ins for Line 13 from overflow page					
1399. Total (Lines 1301 through 1303 + 1398) (Line 13 above)					

	Ordinary		Credit Life (Group and Individual)		Group		Industrial		Total	
	1	2	3	4	5	6	7	8	9	10
DIRECT DEATH BENEFITS AND MATURED ENDOWMENTS INCURRED	No. of Pols. & Certifs.	Amount	No. of Ind. Pols. & Gr. Certifs.	Amount	No. of Certifs.	Amount	No. of Pols. & Certifs.	Amount	No. of Pols. & Certifs.	Amount
16. Unpaid December 31, prior year										
17. Incurred during current year										
Settled during current year:										
18.1 By payment in full										
18.2 By payment on compromised claims										
18.3 Totals paid										
18.4 Reduction by compromise										
18.5 Amount rejected										
18.6 Total settlements										
19. Unpaid Dec. 31, current year (Lines 16 + 17 – 18.6)										
POLICY EXHIBIT					No. of Policies					
20. In force December 31, prior year				(a)						
21. Issued during year										
22. Other changes to in force (Net)										
23. In force December 31 of current year				(a)						

(a) Includes Individual Credit Life Insurance prior year $....., current year $.....
Includes Group Credit Life Insurance Loans less than or equal to 60 months at issue, prior year $....., current year $.....
Loans greater than 60 months at issue BUT NOT GREATER THAN 120 MONTHS, prior year $....., current year $.....

ACCIDENT AND HEALTH INSURANCE

	1 Direct Premiums	2 Direct Premiums Earned	3 Policyholder Dividends Paid, Refunds to Members or Credited on Direct Business	4 Direct Losses Paid	5 Direct Losses Incurred
24. Group policies (b)					
24.1 Federal Employees Health Benefits Plan premium (b)					
24.2 Credit (Group and Individual)					
24.3 Collectively renewable policies/certificates (b)					
24.4 Medicare Title XVIII exempt from state taxes or fees					
Other Individual Policies:					
25.1 Non-cancelable (b)					
25.2 Guaranteed renewable (b)					
25.3 Non-renewable for stated reasons only (b)					
25.4 Other accident only					
25.5 All other (b)					
25.6 Totals (sum of Lines 25.1 to 25.5)					
26. Totals (Lines 24 + 24.1 + 24.2 + 24.3 + 24.4 + 25.6)					

(b) For health business on indicated lines report: Number of persons insured under PPO managed care products _____ and number of persons insured under indemnity only products _____.

DIRECT BUSINESS IN THE STATE OF DURING THE YEAR

NAIC Group Code…… **LIFE INSURANCE (STATE PAGE)** NAIC Company Code……

Line of Business	1 Premiums and Annuities Considerations	2 Other Considerations	Dividends to Policyholders/Refunds to Members					Claims and Benefits Paid				
			3 Paid in Cash or Left on Deposit	4 Applied to Pay Renewal Premiums	5 Applied to Provide Paid-Up Additions or Shorten the Endowment or Premium-Paying Period	6 Other	7 Total (Col. 3+4+5+6)	8 Death and Annuity Benefits	9 Matured Endowments	10 Surrender Values and Withdrawals for Life Contracts	11 All Other Benefits	12 Total (Sum Columns 8 through 11)
Individual Life												
1. Industrial												
2. Whole												
3. Term												
4. Indexed												
5. Universal												
6. Universal with Secondary Guarantees												
7. Variable												
8. Variable Universal												
9. Credit												
10. Other (f)												
11. Total Individual Life												
Group Life												
12. Whole												
13. Term												
14. Universal												
15. Variable												
16. Variable Universal												
17. Credit												
18. Other (f)												
19. Total Group Life												
Individual Annuities												
20. Fixed												
21. Indexed												
22. Variable with Guarantees												
23. Variable without Guarantees												
24. Life Contingent Payout												
25. Other (f)												
26. Total Individual Annuities												
Group Annuities												
27. Fixed												
28. Indexed												
29. Variable with Guarantees												
30. Variable without Guarantees												
31. Life Contingent Payout												
32. Other (f)												
33. Total Group Annuities												
Accident and Health												
34. Comprehensive Individual								XXX	XXX	XXX		
35. Comprehensive Group								XXX	XXX	XXX		
36. Medicare Supplement								XXX	XXX	XXX		
37. Vision Only								XXX	XXX	XXX		
38. Dental Only								XXX	XXX	XXX		
39. Federal Employees Health Benefits Plan								XXX	XXX	XXX		
40. Title XVIII Medicare (d)	(e)							XXX	XXX	XXX		
41. Title XIX Medicaid								XXX	XXX	XXX		
42. Credit A&H								XXX	XXX	XXX		
43. Disability Income								XXX	XXX	XXX		
44. Long-Term Care								XXX	XXX	XXX		
45. Other Health								XXX	XXX	XXX		
46. Total Accident and Health								XXX	XXX	XXX		
47. TOTAL	(c)											

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DIRECT BUSINESS IN THE STATE OF DURING THE YEAR

NAIC Group Code…… **LIFE INSURANCE (STATE PAGE)** NAIC Company Code……

	Direct Death Benefits and Matured Endowments Incurred										Policy Exhibit					
		Claims Settled During Current Year									Issued During Year		Other changes to in force (Net)		In Force December 31, Current Year (b)	
		Totals Paid		Reduction by Compromise		Amount Rejected		Total Settled During Current Year								
Line of Business	13 Incurred During Current Year	14 Number of Pols/Certs	15 Amount	16 Number of Pols/Certs	17 Amount	18 Number of Pols/Certs	19 Amount	20 Number of Pols/Certs	21 Amount	22 Unpaid December 31, Current Year	23 Number of Pols/Certs	24 Amount	25 Number of Pols/Certs	26 Amount	27 Number of Pols/Certs	28 Amount
Individual Life																
1. Industrial																
2. Whole																
3. Term																
4. Indexed																
5. Universal																
6. Universal with Secondary Guarantees																
7. Variable																
8. Variable Universal																
9. Credit																(a)
10. Other																
11. Total Individual Life																
Group Life																
12. Whole																
13. Term																
14. Universal																
15. Variable																
16. Variable Universal																
17. Credit																(a)
18. Other																
19. Total Group Life																
Individual Annuities																
20. Fixed																
21. Indexed																
22. Variable with Guarantees																
23. Variable without Guarantees																
24. Life Contingent Payout																
25. Other																
26. Total Individual Annuities																
Group Annuities																
27. Fixed																
28. Indexed																
29. Variable with Guarantees																
30. Variable without Guarantees																
31. Life Contingent Payout																
32. Other																
33. Total Group Annuities																
Accident and Health																
34. Comprehensive Individual	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
35. Comprehensive Group	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
36. Medicare Supplement	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
37. Vision Only	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
38. Dental Only	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
39. Federal Employees Health Benefits Plan	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
40. Title XVIII Medicare (d)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
41. Title XIX Medicaid	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
42. Credit A&H	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
43. Disability Income	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
44. Long-Term Care	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
45. Other Health	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
46. Total Accident and Health	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX						
47. TOTAL																

(a) Includes Group Credit Life Insurance Loans less than or equal to 60 months at issue, prior year $....., current year $..... Loans greater than 60 months at issue BUT NOT GREATER THAN 120 MONTHS prior year $....., current year $.....

(b) Corporate Owned Life Insurance/BOLI: 1) Number of policies: .....2) covering number of lives: .....3) face amount: $.....

(c) Deposit-Type Contract Considerations NOT included in Total Premiums and Annuities Considerations: Individual: $..... Group: $..... Total: $.....

(d) For health business: number of persons insured under PPO managed care products ..... and number of persons insured under indemnity only products .....

(e) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees $.....

(f) Certain Separate Account products are included in "Other" product categories in the table(s) above:

1. Individual Life – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) .$..... Column 12) $.....
2. Group Life – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....
3. Individual Annuities – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....
4. Group Annuities – Other includes the following amounts related to Separate Account policies: Column 1) $..... Column 7) $..... Column 12) $.....

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/bwg/att2b-2022-19bwg_modified.docx

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Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the November 17, 2022, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2022	5 Year Historical Data	**CHANGE TO BLANK** Column 2 "2021" should be 'XXX' for lines 68 thru 71. The instructions state "2022 through current year". Missed on proposal 2022-13BWG.	L/F	Annual
2022	Schedule DA, Part 1	**CHANGE TO INSTRUCTION** Remove Unaffiliated Certificates of Deposit category as it is not allowed to be reported on Schedule DA. Unaffiliated Bank Loans Unaffiliated Bank Loans – Issued..... 1819999999 Unaffiliated Bank Loans – Acquired..... 1829999999 Subtotals – Unaffiliated Bank Loans..... 1909999999 ~~Unaffiliated Certificates of Deposit..... 2019999999~~ Note These changes have already been made. This listing is for documentation purposes.	H, L/F, P/C, T	Annual

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Effective	Table Name	Description	Statement Type	Filing Type
2022	Schedule H, Part 1	**CHANGE TO INSTRUCTION** U&I 1B line references are in the wrong order to match up to the columns on Schedule H, Part 1 and column reference should be Column 6. Line 1 – Premiums Written Life/Fraternal: Column 1 should agree with Schedule T, Column 4 Line 97 minus Line 98 if prepared on a written basis. Property: Column 1 should agree with Underwriting and Investment Exhibit, Part 1B sum of Lines 13 through 15 (Column ~~1 + 2 + 3~~6). Columns 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23 and 25 should agree with Underwriting and Investment Exhibit, Part 1B Column ~~1 + 2 + 3~~6 Lines 13.1, 13.2, 15.4, 15.1, 15.2, 15.8~~3~~, 15.6~~4~~, 15.5, 14, 15.3~~7~~, 15.7~~8~~ and 15.9 respectively. Note These changes have already been made. This listing is for documentation purposes.	L/F, P/C	Annual
2022	Schedule H, Part 2, Section C	**CHANGE TO INSTRUCTION** Property Schedule H column reference in the crosscheck should have been Column 1 not Column 13 Line 2 – Total Prior Year Line 1 from prior year. (For 2022 this only applies to Column 1. For 2023 it applies to all columns.) Should agree with Schedule H, Part 3, Line 3.2 below. Property: Column 1~~3~~ should agree with Underwriting and Investment Exhibit, Part 2, Column 6, sum of Lines 13, 14 and 15. Note These changes have already been made. This listing is for documentation purposes.	L/F, P/C	Annual

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Effective	Table Name	Description	Statement Type	Filing Type
2022	Life, Health and Annuity Guaranty Association Assessable Premium Exhibit	**CHANGE TO INSTRUCTION** Correct Property ASL reference due to changes in A&H ASL numbering. Property Blank Exhibit of Premiums and Losses (statutory page 14) Column and Lines reference | | | Col. 1 Direct Premiums Written Lines 13.1-15.98 (Various Accident and Health Insurance Premiums) Note These changes have already been made. This listing is for documentation purposes.	H, L/F, P/C	Annual
2022	Schedule S, Part 6	**CHANGE TO INSTRUCTION** Make the following corrections to line references. **A. Operations Items:** Line 1 – Premiums Underwriting and Investment Exhibit, Part 1, Column 3, ~~Sum of~~ Lines 1 ~~through 5 and~~ minus Line 7 and Line 8. Line 2 – Title XVIII – Medicare Underwriting and Investment Exhibit, Part 1, Line ~~6~~7, Column 3. Line 3 – Title XIX – Medicaid Underwriting and Investment Exhibit, Part 1, Line ~~7~~8, Column 3. Note These changes have already been made. This listing is for documentation purposes.	H	Annual

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Effective	Table Name	Description	Statement Type	Filing Type
2022	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Add the following clarifying instruction on completing the disclosure. R. The financial statements shall disclose the reporting entity's share of the cash pool by asset type (cash, cash equivalents, or short-term investments). This note shall only be completed in the event the reporting entity has a reported balance in a qualified cash pool (Line 8409999999 in Schedule E, Part 2). As an example, if a reporting entity has a $1M cash balance in a qualified cash pool, and the cash pool report indicated their $1M position represented $700K in cash, $200k in cash equivalents and $100k in short-term investments, the disclosure would indicate cash at 70%, cash equivalents at 20% and short-term investments at 10%. The summation of investment makeup percentages must equal 100%.	H, L/F, P/C, T	Annual
2023	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Add the following clarifying instruction on completing the disclosure. R. The financial statements shall disclose the reporting entity's share of the cash pool by asset type (cash, cash equivalents, or short-term investments). This note shall only be completed in the event the reporting entity has a reported balance in a qualified cash pool (Line 8409999999 in Schedule E, Part 2). As an example, if a reporting entity has a $1M cash balance in a qualified cash pool, and the cash pool report indicated their $1M position represented $700K in cash, $200k in cash equivalents and $100k in short-term investments, the disclosure would indicate cash at 70%, cash equivalents at 20% and short-term investments at 10%. The summation of investment makeup percentages must equal 100%.	H, L/F, P/C, T	Quarterly
2022	Supplemental Exhibits and Schedules Interrogatories	**CHANGE TO BLANK** Add headers to the form to show which filings are required of all companies and which are only to be filed if the reporting entity writes that type of business. **REQUIRED FILINGS** **SUPPLEMENTAL FILINGS**	H, L/F, P/C, T	Annual

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Effective	Table Name	Description	Statement Type	Filing Type
2022	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Add the following clarifying language for SSAP No. 24 disclosure. A. Unusual or Infrequent Items Disclose the nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. Refer to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* for accounting guidance.	H, L/F, P/C, T	Annual
2022	Analysis of Increase in Reserves During the Year – Group Life Insurance	**CHANGE TO INSTRUCTION** Columns 4 and 5 have been switched for consistency with the other pages of the Analysis of Increase In Reserves pages. A company shall not omit the columns for any lines of business in which it is not engaged. All figures for the group variable life insurance business of the company, excluding separate accounts items, shall be included in Column 5 or 6, as applicable.	L/F	Annual
2022	Analysis of Increase in Reserves During the Year – Group Life Insurance	**CHANGE TO BLANK** Columns 4 and 5 have been switched for consistency with the other pages of the Analysis of Increase In Reserves pages. Column 4 is updated to Universal Life and Column 5 is updated to Variable Life	L/F	Annual
2022	Analysis of Operations by Lines of Business – Group Life Insurance	**CHANGE TO BLANK** Columns 4 and 5 have been switched for consistency with the other pages of the Analysis of Operations by Lines of Business pages. Column 4 is updated to Universal Life and Column 5 is updated to Variable Life	SA	Annual

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Effective	Table Name	Description	Statement Type	Filing Type
2023	Exhibit of Premiums, Enrollment, and Utilization	**CHANGE TO BLANK** Columns 5 and 6, Vision and Dental, have been switched for consistency with all other statement types. This was switched in proposal 2021-19BWG to Dental/Vision but with researching consistency with other statement types, it should have remained Vision/Dental.	H	Annual
2023	Exhibit of Premiums, Enrollment, and Utilization	**CHANGE TO BLANK** Columns 5 and 6, Vision and Dental, have been switched for consistency with all other statement types. This was switched in proposal 2021-19BWG to Dental/Vision but with researching consistency with other statement types, it should have remained Vision/Dental.	H	Quarterly
2022	Mortgage Guaranty Insurance Exhibit	**CHANGE TO INSTRUCTION** Update instructions for Column 31 and 32 for changes made in error to the 2021 instructions	P/C	Annual
2022	Combined Annual Statement for Affiliated Property/Casualty Insurers	**CHANGE TO INSTRUCTION** Modify the line references for Schedule D, Parts 1 and 2 to be in accordance with adopted proposal 2020-35BWG	P/C	Annual

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: _____	**FOR NAIC USE ONLY**
CONTACT PERSON: _____	Agenda Item # _____ Year _____ Changes to Existing Reporting [ ] New Reporting Requirement [ ]
TELEPHONE: _____	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
EMAIL ADDRESS: _____	No Impact [ ] Modifies Required Disclosure [ ]
ON BEHALF OF: _____	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [ ] ****If Yes, complete question below****
NAME: _____	**DISPOSITION**
TITLE: _____	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment [ ] Adopted Date _____ [ ] Rejected Date _____ [ ] Deferred Date _____ [ ] Other (Specify) _____
AFFILIATION: _____	
ADDRESS: _____	
_____	

BLANK(S) TO WHICH PROPOSAL APPLIES

[ ] **ANNUAL STATEMENT**	[ ] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[ ] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[ ] Property/Casualty	[ ] Protected Cell	[ ] Other _____
[ ] Health	[ ] Health (Life Supplement)	

Anticipated Effective Date: _____

IDENTIFICATION OF ITEM(S) TO CHANGE

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.** **Revised 7/18/2022**

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To: Pat Gosselin, Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Third Quarter 2022 Disclosures – INT 22-02

Date: October 25, 2022

The purpose of this memo is for the Statutory Accounting Principles (E) Working Group to notify the Blanks (E) Working Group of revisions to the "Notes to the Financial Statements" that have been adopted for 3rd Quarter 2022 reporting. As *INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* has already been adopted as an interpretation, which represents the second level of authoritative guidance as promulgated by the Preamble, these additions to the financial statement notes for 3rd quarter 2022 reporting do not require approval from the Blanks (E) Working Group.

It is recommended that this memo, detailing changes to existing disclosure requirements and subsequent event exceptions, and the full related INT 22-02 be posted to the NAIC website. This is consistent with the *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank* located within the *Accounting Practices & Procedures Manual*. As these are temporary disclosures there is no need for them to be included in the next update to the Annual Statement Instructions. Excerpts from *INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* are included on the following page, however the full interpretation provides relevant explanation and detail.

INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax is one of two interpretations on the Inflation Reduction Act that the Working Group exposed on Oct. 6. The Working Group will forward another memo regarding *INT 22-03: Inflation Reduction Act - Corporate Alternative Minimum Tax*, which relates to fourth quarter 2022 and interim 2023 if and when it is finalized.

Please contact NAIC staff Robin Marcotte (rmarcotte@naic.org), Julie Gann (jgann@naic.org), Jake Stultz (jstultz@naic.org) or Jason Farr (jfarr@naic.org) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr

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Key excerpts from *INT 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax:*

Response: Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

12. Reporting entities that are aware they will be subject to the CAMT would normally reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for third quarter 2022. Because of the timing of the adoption of the Act and the considerable number of unknown variables for September 30, 2022, reporting, the Working Group has determined that a reasonable estimate is not determinable for third quarter 2022 interim financial statements for the calculations impacted by the CAMT.

13. Because reasonable estimates of calculations impacted by the CAMT are not determinable, reporting entities shall not recognize impacts related to CAMT for third quarter 2022 financial statements, but shall make the following disclosures regarding the CAMT and the Act:

a. The Act was enacted during the reporting period on August 16, 2022.

b. 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 2022 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 2022 financial statements do not include an estimated impact of the CAMT, because a reasonable estimate cannot be made.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

14. For third quarter 2022 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 financial statements are not required to reflect updated estimates subsequent to the third quarter filing date and prior to the filing 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.

15. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

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HEALTH ENTITIES

COMPANY NAME: _____ **NAIC Company Code:** _____

Contact: _____ **Telephone:** _____

REQUIRED FILINGS IN THE STATE OF: _____ **Filings Made During the Year 2023~~2~~**

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES* Domestic State	Domestic NAIC	Foreign State	(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
		I. NAIC FINANCIAL STATEMENTS						
	1	Annual Statement (8 ½"X14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
		II. NAIC SUPPLEMENTS						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Actuarial Opinion		EO		3/1	Company	
	13	Life Supplemental Data due March 1		EO		3/1	NAIC	
	14	Life Supplemental Data due April 1		EO		4/1	NAIC	
	15	Life Supp Statement non-guaranteed elements – Exh 5, Int. #3		EO		3/1	Company	
	16	Life Supp Statement on par/non-par policies – Exh 5 Int. 1&2		EO		3/1	Company	
	17	Life, Health & Annuity Guaranty Association Assessable Premium Exhibit, Parts 1 and 2		EO	xxx	4/1	NAIC	
	18	Long-Term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	19	Management Discussion & Analysis		EO		4/1	Company	
	20	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	21	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	22	Risk-Based Capital Report		EO		3/1	NAIC	
	23	Schedule SIS		N/A	N/A	3/1	NAIC	
	24	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	25	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	26	Supplemental Health Care Exhibit's Allocation Report		EO		4/1	NAIC	
	27	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
		III. ELECTRONIC FILING REQUIREMENTS						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	66	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	67	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	68	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	69	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		IV. AUDIT/INTERNAL CONTROL RELATED REPORTS						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES* Domestic State	Domestic NAIC	Foreign State	(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		V. STATE REQUIRED FILINGS						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA *****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	
	109	Group Capital Calculation **(File with lead state only)**		0				
	110							
	111							
	112							

***If XXX appears in this column, this state does not require this filing, if hard copy is filed with the state of domicile and if the data is filed electronically with the NAIC. If N/A appears in this column, the filing is required with the domiciliary state. EO (electronic only filing).**

****If Form Source is NAIC, the form should be obtained from the appropriate vendor.**

*****For those states that have adopted the NAIC Corporate Governance Annual Disclosure Model Act, an annual disclosure is required of all insurers or insurance groups by June 1. The Corporate Governance Annual Disclosure is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm.

******For those states that have adopted the NAIC updated Holding Company Model Act, a Form F filing is required annually by holding company groups. Consistent with the Form B filing requirements, the Form F is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm

*******For those states that have adopted the NAIC Risk Management and Own Risk and Solvency Assessment Model Act, a summary report is required annually by insurers and insurance groups above a specified premium threshold. The ORSA Summary Report is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm

		NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	

General Instructions
For Companies to Use Checklist

Please Note: **This state's instructions for companies to file with the NAIC are included in this Checklist. The NAIC will not be sending their own checklist this year.**

Electronic Filing is intended to be filing(s) submitted to the NAIC via the NAIC Internet Filing Site which eliminates the need for a company to submit diskettes or CD-ROM to the NAIC. Companies are not required to file hard copy filings with the NAIC.

Column (1) Checklist

Companies may use the checklist to submit to a state, if the state requests it. Companies should copy the checklist and place an "x" in this column when submitting information to the state.

Column (2) Line #

Line # refers to a standard filing number used for easy reference. This line number may change from year to year.

Column (3) Required Filings

Name of item or form to be filed.

The ***Annual Statement Electronic Filing*** includes the annual statement data and all supplements due March 1, per the *Annual Statement Instructions.* This includes all detail investment schedules and other supplements for which the *Annual Statement Instructions* exempt printed detail.

The ***March.PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions.*

The ***Supplemental.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Electronic Filing*** includes the complete quarterly filing and the PDF files for all quarterly data.

The ***Quarterly.PDF Filing*** is the .pdf file for quarterly statement data.

The ***June.PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

Column (4) Number of Copies

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and have chosen to rely upon the NAIC database for these filings. This waiver could include supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.**

Column (5) Due Date

Indicates the date on which the company must file the form.

Column (6) Form Source

This column contains one of three words: "NAIC," "State," or "Company," If this column contains "NAIC," the company must obtain the forms from the appropriate vendor. If this column contains "State," the state will provide the forms with the filing instructions (generally, on the state web site). If this column contains "Company," the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*.

Column (7) Applicable Notes

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/bwg/att2f1-hlthcklist_2022_filingsmade2023.docx

LIFE, ACCIDENT AND HEALTH/FRATERNAL INSURERS

COMPANY NAME: _____ **NAIC Company Code:** _____

Contact: _____ **Telephone:** _____

REQUIRED FILINGS IN THE STATE OF: _____ **Filings Made During the Year 2023~~2~~**

FRATERNAL COMPANIES BEGIN FILING LIFE/FRATERNAL STATEMENT EFFECTIVE WITH FIRST QUARTER, 2019.

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES* Domestic State	Domestic NAIC	Foreign State	(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
		I. NAIC FINANCIAL STATEMENTS						
	1	Annual Statement (8 ½"x14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
	3	Separate Accounts Annual Statement (8 ½"x14")		EO		3/1	NAIC	
		II. NAIC SUPPLEMENTS						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Credit Insurance Experience Exhibit		EO	xxx	4/1	NAIC	
	13	Health Care Receivables Supplement		EO	xxx	3/1		
	14	Life, Health & Annuity Guaranty Association Assessable Premium Exhibit, Parts 1 and 2		EO	xxx	4/1	NAIC	
	15	Long-term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	16	Management Discussion & Analysis		EO		4/1	Company	
	17	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	18	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	19	Risk-Based Capital Report		EO		3/1	NAIC	
	20	Schedule SIS		N/A	N/A	3/1	NAIC	
	21	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	22	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	23	Supplemental Health Care Exhibit's Allocation Report		EO		4/1	NAIC	
	24	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
	25	Supplemental Schedule O		EO	xxx	3/1	NAIC	
	26	Supplemental Term and Universal Life Insurance Reinsurance Exhibit		EO		4/1	NAIC	
	27	Trusteed Surplus Statement		EO	xxx	3/1, 5/15, 8/15, 11/15	NAIC	
	28	Variable Annuities Supplement		EO		4/1	NAIC	
	29	VM 20 Reserves Supplement		EO		3/1	NAIC	
	30	Workers' Compensation Carve-Out Supplement		EO		3/1	NAIC	
		Actuarial Related Items						
	31	Actuarial Certification regarding use 2001 Preferred Class Table		EO		3/1	Company	
	32	Actuarial Certification Related Annuity Nonforfeiture Ongoing Compliance for Equity Indexed Annuities		EO		3/1	Company	
	33	Actuarial Memorandum Related to Universal Life with Secondary Guarantee Policies required by Actuarial Guideline XXXVIII 8D		N/A	xxx	4/30	Company	
	34	Actuarial Opinion		EO		3/1	Company	
	35	Actuarial Opinion on Separate Accounts Funding Guaranteed Minimum Benefit		EO		3/1	Company	
	36	Actuarial Opinion on Synthetic Guaranteed Investment Contracts		EO		3/1	Company	
	37	Actuarial Opinion on X-Factors		EO		3/1	Company	
	38	Actuarial Opinion required by Modified Guaranteed Annuity Model Regulation		EO		3/1	Company	
	39	Request for Life PBR Exemption (~~formerly Companywide Exemption~~if applicable)		E/O		Commissioner 7/1 NAIC 8/15	Company	
	40	Executive Summary of the PBR Actuarial Report		N/A		4/1	Company	
	41	Life Summary of the PBR Actuarial Report		N/A		4/1	Company	
	42	Variable Annuities Summary of the PBR Actuarial Report		N/A		4/1	Company	
	43	PBR Actuarial Report (provide upon request)		N/A			Company	
	44	RAAIS required by *Valuation Manual*		N/A	xxx	4/1	Company	

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	45	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXV		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	46	Reasonableness of Assumptions Certification required by Actuarial Guideline XXXV		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	47	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXVI (Updated Average Market Value)		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	48	Reasonableness & Consistency of Assumptions Certification required by Actuarial Guideline XXXVI (Updated Market Value)		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	49	Reasonableness of Assumptions Certification for Implied Guaranteed Rate Method required by Actuarial Guideline XXXVI		EO	xxx	3/1,5/15, 8/15, 11/15	Company	
	50	RBC Certification required under C-3 Phase I		EO		3/1	Company	
	51	RBC Certification required under C-3 Phase II		EO		3/1	Company	
	52	Statement on non-guaranteed elements - Exhibit 5 Int. #3		EO		3/1	Company	
	53	Statement on par/non-par policies – Exhibit 5 Int. 1&2		EO		3/1	Company	
		III. ELECTRONIC FILING REQUIREMENTS						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Separate Accounts Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	66	Separate Accounts .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	67	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	68	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	69	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	70	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	71	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		IV. AUDIT/INTERNAL CONTROL RELATED REPORTS						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		V. STATE REQUIRED FILINGS						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA*****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	
	109	Group Capital Calculation **(File with lead state only)**		0				
	110							
	111							
	112							

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES*			(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
			Domestic		Foreign			
			State	NAIC	State			
	113							

***If XXX appears in this column, this state does not require this filing, if hard copy is filed with the state of domicile and if the data is filed electronically with the NAIC. If N/A appears in this column, the filing is required with the domiciliary state. EO (electronic only filing).**

****If Form Source is NAIC, the form should be obtained from the appropriate vendor.**

*****For those states that have adopted the NAIC Corporate Governance Annual Disclosure Model Act, an annual disclosure is required of all insurers or insurance groups by June 1. The Corporate Governance Annual Disclosure is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm.

******For those states that have adopted the NAIC updated Holding Company Model Act, a Form F filing is required annually by holding company groups. Consistent with the Form B filing requirements, the Form F is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm

*******For those states that have adopted the NAIC Risk Management and Own Risk and Solvency Assessment Model Act, a summary report is required annually by insurers and insurance groups above a specified premium threshold. The ORSA Summary Report is a state filing only and should not be submitted by the company to the NAIC. Note however that this filing is intended to be submitted to the lead state if filed at the insurance group level. For more information on lead states, see the following NAIC URL:** http://www.naic.org/public_lead_state_report.htm

		NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	

General Instructions
For Companies to Use Checklist

Please Note: **This state's instructions for companies to file with the NAIC are included in this Checklist. The NAIC will not be sending their own checklist this year.**

Electronic filing is intended to be filing(s) submitted to the NAIC via the NAIC Internet Filing Site which eliminates the need for a company to submit diskettes or CD-ROM to the NAIC. Companies are not required to file hard copy filings with the NAIC.

Column (1) Checklist

Companies may use the checklist to submit to a state, if the state requests it. Companies should copy the checklist and place an "x" in this column when submitting information to the state.

Column (2) Line #

Line # refers to a standard filing number used for easy reference. This line number may change from year to year.

Column (3) Required Filings

Name of item or form to be filed.

The ***Annual Statement Electronic Filing*** includes the annual statement data and all supplements due March 1, per the *Annual Statement Instructions.* This includes all detail investment schedules and other supplements for which the *Annual Statement Instructions exempt* printed detail.

The ***March.PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Separate Accounts Electronic Filing*** includes the separate accounts annual statement and investment schedule detail.

The ***Separate Accounts.PDF Filing*** is the .pdf file for the separate accounts annual statement and all investment schedule detail.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions.*

The ***Supplement.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Electronic Filing*** includes the quarterly statement data.

The ***Quarterly.PDF Filing*** is the .pdf for quarterly statement data.

The ***June.PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

Column (4) Number of Copies

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail, if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and to rely upon the NAIC database for these filings. This waiver could include**

supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.

Column (5) Due Date

Indicates the date on which the company must file the form.

Column (6) Form Source

This column contains one of three words: "NAIC," "State," or "Company," If this column contains "NAIC," the company must obtain the forms from the appropriate vendor. If this column contains "State," the state will provide the forms with the filing instructions. If this column contains "Company," the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions*.

Column (7) Applicable Notes

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2022fallnm/minutes/bwg/att2f2-lifecklist_2022_filingsmade2023.docx

PROPERTY & CASUALTY INSURERS

COMPANY NAME: _____ **NAIC Company Code:** _____

Contact: _____ **Telephone:** _____

REQUIRED FILINGS IN THE STATE OF: _____ **Filings Made During the Year 20232**

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES* Domestic State	Domestic NAIC	Foreign State	(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
		I. NAIC FINANCIAL STATEMENTS						
	1	Annual Statement (8 ½" x 14")		EO		3/1	NAIC	
	1.1	Printed Investment Schedule detail (Pages E01-E29)		EO	xxx	3/1	NAIC	
	2	Quarterly Financial Statement (8 ½" x 14")		EO		5/15, 8/15, 11/15	NAIC	
	3	Protected Cell Annual Statement		0	xxx	3/1	NAIC	
	4	Combined Annual Statement (8 ½" x 14")		EO		5/1	NAIC	
		II. NAIC SUPPLEMENTS						
	11	Accident & Health Policy Experience Exhibit		EO		4/1	NAIC	
	12	Actuarial Opinion		EO		3/1	Company	
	13	Actuarial Opinion Summary		N/A		3/15	Company	
	14	Bail Bond Supplement		EO		3/1	NAIC	
	15	Combined Insurance Expense Exhibit		EO		5/1	NAIC	
	16	Credit Insurance Experience Exhibit		EO	xxx	4/1	NAIC	
	17	Cybersecurity and Identity Theft Insurance Coverage Supplement		EO		4/1	NAIC	
	18	Director and Officer Insurance Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	19	Financial Guaranty Insurance Exhibit		EO		3/1	NAIC	
	20	Insurance Expense Exhibit		EO	xxx	4/1	NAIC	
	21	Life, Health & Annuity Guaranty Association Assessable Premium Exhibit, Parts 1 and 2		EO	xxx	4/1	NAIC	
	22	Long-Term Care Experience Reporting Forms		EO	xxx	4/1	NAIC	
	23	Management Discussion & Analysis		EO		4/1	Company	
	24	Medicare Part D Coverage Supplement		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	25	Medicare Supplement Insurance Experience Exhibit		EO	xxx	3/1	NAIC	
	26	Mortgage Guaranty Insurance Exhibit		EO	xxx	4/1	NAIC	
	27	Premiums Attributed to Protected Cells Exhibit		EO		3/1	NAIC	
	28	Private Flood Insurance Supplement		EO		4/1	NAIC	
	29	Reinsurance Attestation Supplement		EO	xxx	3/1	Company	
	30	Exceptions to Reinsurance Attestation Supplement		N/A	xxx	3/1	Company	
	31	Reinsurance Summary Supplemental		EO	xxx	3/1	NAIC	
	32	Risk-Based Capital Report		EO		3/1	NAIC	
	33	Schedule SIS		N/A	N/A	3/1	NAIC	
	34	Supplement A to Schedule T		EO		3/1, 5/15, 8/15, 11/15	NAIC	
	35	Supplemental Compensation Exhibit		N/A	N/A	3/1	NAIC	
	36	Supplemental Health Care Exhibit (Parts 1, 2 and 3)		EO		4/1	NAIC	
	37	Supplemental Health Care Exhibit's Allocation Report Supplement		EO		4/1	NAIC	
	38	Supplemental Investment Risk Interrogatories		EO		4/1	NAIC	
	39	Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts		EO		3/1	NAIC	
	40	Trusteed Surplus Statement		EO	xxx	3/1, 5/15, 8/15, 11/15	NAIC	
		III. ELECTRONIC FILING REQUIREMENTS						
	61	Annual Statement Electronic Filing	xxx	EO	xxx	3/1	NAIC	
	62	March .PDF Filing	xxx	EO	xxx	3/1	NAIC	
	63	Risk-Based Capital Electronic Filing	xxx	EO	N/A	3/1	NAIC	
	64	Risk-Based Capital .PDF Filing	xxx	EO	N/A	3/1	NAIC	
	65	Combined Annual Statement Electronic Filing	xxx	EO	xxx	5/1	NAIC	

(1) Checklist	(2) Line #	(3) REQUIRED FILINGS FOR THE ABOVE STATE	(4) NUMBER OF COPIES* Domestic State	Domestic NAIC	Foreign State	(5) DUE DATE	(6) FORM SOURCE**	(7) APPLICABLE NOTES
	66	Combined Annual Statement .PDF Filing	xxx	EO	xxx	5/1	NAIC	
	67	Supplemental Electronic Filing	xxx	EO	xxx	4/1	NAIC	
	68	Supplemental .PDF Filing	xxx	EO	xxx	4/1	NAIC	
	69	Quarterly Statement Electronic Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	70	Quarterly .PDF Filing	xxx	EO	xxx	5/15, 8/15, 11/15	NAIC	
	71	June .PDF Filing	xxx	EO	xxx	6/1	NAIC	
		IV. AUDIT/INTERNAL CONTROL RELATED REPORTS						
	81	Accountants Letter of Qualifications		EO	N/A	6/1	Company	
	82	Audited Financial Reports		EO		6/1	Company	
	83	Audited Financial Reports Exemption Affidavit		N/A	N/A		Company	
	84	Communication of Internal Control Related Matters Noted in Audit		EO	N/A	8/1	Company	
	85	Independent CPA (change)		N/A	N/A		Company	
	86	Management's Report of Internal Control Over Financial Reporting		N/A	N/A	8/1	Company	
	87	Notification of Adverse Financial Condition		N/A	N/A		Company	
	88	Relief from the five-year rotation requirement for lead audit partner		EO		3/1	Company	
	89	Relief from the one-year cooling off period for independent CPA		EO		3/1	Company	
	90	Relief from the Requirements for Audit Committees		EO		3/1	Company	
	91	Request to File Consolidated Audited Annual Statements		N/A	N/A		Company	
	92	Request for Exemption to File Management's Report of Internal Control Over Financial Reporting		N/A	N/A		Company	
		V. STATE REQUIRED FILINGS* **						
	101	Corporate Governance Annual Disclosure***		0			Company	
	102	Filings Checklist (with Column 1 completed)		0			State	
	103	Form B-Holding Company Registration Statement		0			Company	
	104	Form F-Enterprise Risk Report ****		0			Company	
	105	ORSA *****		0			Company	
	106	Premium Tax		0			State	
	107	State Filing Fees		0			State	
	108	Signed Jurat	xxx	0			NAIC	
	109	Group Capital Calculation **(File with lead state only)**		0				
	110							
	111							

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		NOTES AND INSTRUCTIONS (A-K APPLY TO ALL FILINGS)	
	A	Required Filings Contact Person:	
	B	Mailing Address:	
	C	Mailing Address for Filing Fees:	
	D	Mailing Address for Premium Tax Payments:	
	E	Delivery Instructions:	
	F	Late Filings:	
	G	Original Signatures:	
	H	Signature/Notarization/Certification:	
	I	Amended Filings:	
	J	Exceptions from normal filings:	
	K	Bar Codes (State or NAIC):	
	L	Signed Jurat:	
	M	NONE Filings:	
	N	Filings new, discontinued or modified materially since last year:	

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The ***March .PDF Filing*** is the .pdf file for annual statement data, detail for investment schedules and supplements due March 1.

The ***Risk-Based Capital Electronic Filing*** includes all risk-based capital data.

The ***Risk-Based Capital.PDF Filing*** is the .pdf file for risk-based capital data.

The ***Supplemental Electronic Filing*** includes all supplements due April 1, per the *Annual Statement Instructions.*

The ***Supplemental.PDF Filing*** is the .pdf file for all supplemental schedules and exhibits due April 1.

The ***Quarterly Statement Electronic Filing*** includes the complete quarterly statement data.

The ***Quarterly Statement.PDF Filing*** is the .pdf file for quarterly statement data.

The ***Combined Annual Statement Electronic Filing*** includes the required pages of the combined annual statement and the combined Insurance Expense Exhibit.

The ***Combined Annual Statement.PDF Filing*** is the .pdf file for the Combined annual statement data and the combined Insurance Expense Exhibit.

The ***June .PDF Filing*** is the .pdf file for the Audited Financial Statements and Accountants Letter of Qualifications.

Column (4) Number of Copies

Indicates the number of copies that each foreign or domestic company is required to file for each type of form. The Blanks (EX) Task Force modified the 1999 *Annual Statement Instructions* to waive paper filings of certain NAIC supplements and certain investment schedule detail if such investment schedule data is available to the states via the NAIC database. The checklists reflect this action taken by the Blanks (EX) Task Force. XXX appears in the "Number of Copies" "Foreign" column for the appropriate schedules and exhibits. **Some states have chosen to waive printed quarterly and annual statements from their foreign insurers and to rely upon the NAIC database for these filings. This waiver could include**

supplemental annual statement filings. The XXX in this column might signify that the state has waived the paper filing of the annual statement and all supplements.

Column (5) Due Date

Indicates the date on which the company must file the form.

Column (6) Form Source

This column contains one of three words: "NAIC," "State," or "Company," If this column contains "NAIC," the company must obtain the forms from the appropriate vendor. If this column contains "State," the state will provide the forms with the filing instructions. If this column contains "Company," the company, or its representative (e.g., its CPA firm), is expected to provide the form based upon the appropriate state instructions or the NAIC *Annual Statement Instructions.*

Column (7) Applicable Notes

This column contains references to the Notes to the Instructions that apply to each item listed on the checklist. The company should carefully read these notes before submitting a filing.

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