



Date: 4/4/22

2022 Spring National Meeting
Kansas City, Missouri

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP

Monday, April 4, 2022
9:45 a.m. – 12:00 p.m.

Meeting Summary Report

The Statutory Accounting Principles (E) Working Group met April 4, 2022. During this meeting, the Working Group:

1. Adopted its March 2, Jan. 27, and 2021 Fall National Meeting minutes.
2. Adopted the following clarifications to statutory accounting guidance:
 - A. *Statement of Statutory Accounting Principles (SSAP) No. 22R—Leases*: Revisions reject *Accounting Standards Update (ASU) 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments* for statutory accounting. (Ref #2021-29)
 - B. *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions reflect updated NAIC designation and designation category guidance adopted by the Valuation of Securities (E) Task Force to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*, for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). (Ref #2021-23)
 - C. *SSAP No. 68—Business Combinations and Goodwill*: Revisions reject *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events* for statutory accounting. (Ref #2021-28)
 - D. *SSAP No. 72—Surplus and Quasi-Reorganizations*: Revisions reject *ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* for statutory accounting while incorporating guidance on how to account for changes in fair values for written call options. (Ref #2021-27)
 - E. Adopted editorial revisions to update various terminology references of “substantive” and “nonsubstantive” to reflect “new SAP concept” and “SAP clarification.” (Ref #2021-26EP)
 - F. *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject *ASU 2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant*

to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants as not applicable for statutory accounting. (Ref #2021-30)

- G. Agenda items resulting in blanks proposals without statutory revisions:
- i. Adopted an agenda item supporting supplemental reporting of subsidiary, controlled, and affiliated (SCA) entities investments reported in Schedule D, Part 6, Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies. The supplemental data is consistent with SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities* disclosure requirements and did not result in statutory revisions. The adoption reflects support for blanks proposal 2022-02 BWG sponsored by the Working Group. (Ref #2021-22)
 - ii. Adopted an agenda item proposing to add a new general interrogatory to require disclosure pertaining to cryptocurrencies directly held or permitted for the remittance of premiums. This agenda item did not result in statutory revisions; however, adoption reflects support for the blanks proposal 2022-01BWG sponsored by the Working Group. (Ref #2021-24)
3. Exposed the following statutory accounting principles (SAP) clarifications to statutory accounting guidance:
- A. SSAP No. 4—*Assets and Nonadmitted Assets*, SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets*, and the Preamble: Revisions incorporate: 1) updates from Financial Accounting Standards Board (FASB) Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7, Presentation*, which identifies factors to consider when deciding how items should be displayed on the financial statements; and 2) Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which updates the definitions of an asset and a liability. The Working Group exposed two draft issue papers for historical documentation of these SAP clarifications. (Ref #2022-01)
 - B. SSAP No. 22R: Revisions reject ASU 2021-09, *Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities* for statutory accounting. (Ref #2022-05)
 - C. SSAP No. 24—*Discontinued Operations and Unusual or Infrequent Items*: Revisions incorporate certain disclosures from ASU 2021-10, *Government Assistance, Disclosures by Business Entities about Government Assistance* of terms and provisions of assistance received. (Ref #2022-04)
 - D. SSAP No. 25—*Affiliates and Other Related Parties* and SSAP No. 43R: Revisions clarify the identification and reporting requirements for affiliated transactions and incorporate new reporting codes in the investment schedules to identify investments held that involve related parties. The new reporting requirements will identify investments acquired through, or in, related parties, regardless of if they meet the definition of an affiliate. (Ref #2021-21)
 - E. SSAP No. 47—*Uninsured Plans* and SSAP No. 68: Revisions reject ASU 2021-08, *Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* for statutory accounting. Revisions in SSAP No. 68 also note that the intent is not to modify any U.S. generally accepted accounting principles (GAAP) requirement for the determination of U.S. GAAP book value. (Ref #2022-07)

- F. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*: Revisions propose to either eliminate the audited U.S. tax basis equity valuation exception or clarify that the U.S. tax basis equity audit shall occur at the investee level. (Ref #2022-02)
 - G. *SSAP No. 86—Derivatives*: Revisions propose: 1) a new Exhibit A, which will replace both Exhibit A and Exhibit B of SSAP No. 86 that adopts with modification U.S. GAAP guidance in determining hedge effectiveness; and 2) revised measurement methods for excluded components in hedging instruments. The Working Group directed staff to continue to work with industry representatives on other elements within *ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. (Ref #2021-20)
 - H. *SSAP No. 104R—Share-Based Payments*: Revisions incorporate the practical expedient from *ASU 2021-07, Compensation – Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards* for the current price input, a required component for option-pricing models utilized in determining fair value for share-based payments. (Ref #2022-06)
 - I. *Interpretation (INT) 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates*: Revisions support a draft interpretation to clarify that investments in the Freddie Mac “When Issued K-Deal” (WI) Program are in scope of SSAP No. 43R. (Ref #2022-08)
 - J. Blanks Proposal: Exposed an agenda item that expressed support for a blanks proposal with instructional changes to Schedule T, the State Page, and Accident and Health Policy Experience Exhibit (AHPEE) to clarify guidance for premium adjustments. The instructions clarify that all premium adjustments, including but not limited to federal Affordable Care Act (ACA) premium adjustments related to the risk adjustment program, shall be allocated as premium in the respective jurisdiction. This agenda item does not result in statutory revisions. (Ref #2022-03)
 - K. The comment period for items exposed is June 3, except for agenda items 2021-21, 2022-03 and 2022-08, which have a May 6 comment deadline to allow for adoption consideration during an interim call anticipated for May.
4. Reviewed comments and directed staff on the following items
- A. Bond Proposal Project: Received comments and an update regarding potential reporting options to revise Schedule D, Part 1: Long-Term Bonds. The update included preliminary responses to certain aspects of those comments. The Working Group directed NAIC staff to proceed with developing a more robust illustration of proposed reporting revisions for subsequent exposure. (Ref #2019-21)
 - B. SSAP No. 22R: Reviewed comments on prior exposed revisions intending 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. (Ref #2021-25)

5. Received an update 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 Working Group referral of agenda item 2019-49: Retroactive Reinsurance Exception regarding diversity in companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. The Casualty Actuarial and Statistical (C) Task Force discussed this item on March 8. The Task Force directed and formed a small group to further work on this, including drafting instructional revisions to Schedule P – Analysis of Losses and Loss Expenses.
 - C. Received an update that the Working Group and the Valuation of Securities (E) Task Force (VOSTF) received a comment letter from the American Council of Life Insurers (ACLI) regarding a proposed amendment to the P&P Manual to permit unguaranteed and unrated subsidiary obligors in Working Capital Finance Investment (WCFI) transactions. As the Working Group does not have an exposure on this topic, the chair indicated that the Working Group will note receipt but does not plan to address comments at this time; however, the comment letter will be included in the VOSTF minutes.
6. During its March 2 meeting, the Working Group:
 - A. Exposed agenda item 2021-19: Proposed Bond Definition, a revised principle-based bond definition, and a draft issue paper for a public comment period ending May 6. In addition, the motion directed NAIC staff to continue discussions with industry on the bond definition and develop proposed reporting changes and potential statutory accounting revisions for a subsequent exposure.
7. During its Jan. 27 meeting, the Working Group:
 - A. Adopted the following SAP clarifications to statutory accounting guidance:
 - i. *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions reflect clarifications to life and health reinsurance disclosures and provide guidance to address audit inquiries. The revisions were effective for year-end 2021 reporting. (Ref #2021-31)
 - ii. *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*: Revisions remove reference to the “standard scenario” to ensure consistency with VM-21, Requirements for Principle-Based Reserves for Variable Annuities. The revisions were effective for year-end 2021 reporting. (Ref #2021-18)