



2023 Spring National Meeting
Louisville, Kentucky

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Thursday, March 23, 2023

11:00 a.m. – 12:00 p.m.

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met March 23, 2023. During this meeting, the Task Force:

1. Adopted its 2022 Fall National Meeting minutes.
2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met March 22 and took the following action:
 - A. Adopted its 2022 Fall National Meeting minutes.
 - B. Adopted *Issue Paper No. 16X—Derivatives and Hedging*, which historically documents new Statutory Accounting Principles (SAP) concept revisions to the documentation and assessment of hedge effectiveness, measurement method guidance for excluded components, and modified incorporation of the U.S. generally accepted accounting principles (GAAP) portfolio layer method and the partial-term hedging method in *Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives*. (Ref #2017-33)
 - C. Adopted the following clarifications to statutory accounting guidance:
 - i. Revisions clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Ref #2022-15)
 - ii. Revisions add and data-capture additional investment income disclosures. Directed NAIC staff to submit a corresponding blanks proposal for year-end 2023. (Ref #2022-17)
 - iii. Revisions adopt *Accounting Standards Update (ASU) 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions* with a modification to reject the contractual sales restrictions disclosures. (Ref #2022-16)
 - iv. Revisions reject guidance from *ASU 2017-12, Derivatives and Hedging* and *ASU 2022-04, Disclosure of Supplier Finance Program Obligations*, as the disclosures are for borrowers, not insurance entity investors. (Ref #2022-18)



- D. Exposed the following SAP clarifications to statutory accounting guidance until June 9, except for agenda items 2023-03 and 2023-11EP, which have a comment deadline of May 5:
- i. Exposed revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* and *Issue Paper No. 16X—Updates to the Definition of a Liability* that defer to topic-specific SSAP guidance that varies from the liability definition. (Ref #2022-01)
 - ii. Exposed revisions to *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 21R—Other Admitted Assets* to clarify that pledged collateral must qualify as an admitted invested asset for a collateral loan to be admitted. The revisions require audits and the use of net equity value for valuation assessments when the pledged collateral is in the form of partnerships, limited liability companies (LLCs), or joint ventures. (Ref #2022-11)
 - iii. Exposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to clarify the rejection of *ASU 2021-10, Government Assistance* and the incorporation of disclosures regarding government assistance. (Ref #2023-06)
 - iv. Exposed revisions to incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and clarify that CLOs are not legacy securities. (Ref #2023-02)
 - v. Exposed revisions to adopt with modification *ASU 2019-08, Compensation—Stock Compensation (Topic 718)* and *Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*. The revisions add guidance to include share-based consideration payable to customers. (Ref #2023-07)
 - vi. *Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement*: Exposed the intent to nullify INT 03-02, as it is inconsistent with *SSAP No. 25—Affiliates and Other Related Parties*. (Ref #2022-12)
 - vii. Exposed revisions to revise the expiration date of *INT 20-01: ASU 2020-04 and 2021-01 – Reference Rate Reform* to Dec. 31, 2024. (Ref #2023-05)
 - viii. Exposed revisions to refine guidance for the principles-based bond project and Schedule D reporting. Directed NAIC staff to continue interim discussions with interested parties. (Ref #2019-21)
 - ix. Exposed a proposed new project to review the annual and quarterly statement instructions to ensure that accounting guidance is reflected within the SSAPs. (Ref #2023-01)
 - x. Exposed revisions providing new disclosures, which provide the net amount at risk detail needed to support updates to the life risk-based capital (RBC) C-2 mortality risk charges. This item was exposed with a shortened comment deadline of May 5. (Ref #2023-03)
 - xi. Exposed editorial revisions with a shortened comment deadline of May 5. (Ref #2023-11EP)



xii. The following U.S. GAAP standards were exposed with revisions to reject, as they are not applicable to statutory accounting:

- a. *ASU 2019-07, Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates* (Ref #2023-08)
- b. *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)* (Ref #2023-09)
- c. *ASU 2022-05, Transition for Sold Contracts* (Ref #2023-10)

E. Directed NAIC staff on the following items:

- i. Directed NAIC staff to proceed with drafting revised accounting guidance and a related issue paper for both *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. (Ref #2022-14)
- ii. *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*: Directed NAIC staff regarding the consideration of negative interest maintenance reserve (IMR) with an intent to work on both a 2023 solution and a long-term solution as follows:
 - a. Recommend a referral to the Life Actuarial (A) Task Force on further consideration of the asset adequacy implications of negative IMR. Items to include: 1) developing a template for reporting within asset adequacy testing (AAT); 2) considering the actual amount of negative IMR that is admitted to be used in the AAT; 3) better consideration of cash flows within AAT (and documentation), as well as any liquidity stress test (LST) considerations; 4) ensuring that excessive withdrawal considerations are consistent with actual data (sales of bonds because of excess withdrawals should not use the IMR process); and 5) ensuring that any guardrails for assumptions in the AAT are reasonable and consistent with other aspects.
 - b. Recommend a referral to the Capital Adequacy (E) Task Force for the consideration of eliminating any admitted net negative IMR from total adjusted capital (TAC) and the consideration of sensitivity testing with and without negative IMR.
 - c. Develop guidance for future Working Group consideration that would allow the admission of negative IMR up to 5% of surplus using the type of limitation calculation similar to that used for goodwill admittance. The guidance should also provide for a downward adjustment if the RBC ratio is less than 300.
 - d. Review and provide updates on any annual statement instructions for excess withdrawals, related bond gains/losses, and non-effective hedge gains/losses to clarify that those related gains/losses are through asset valuation reserve (AVR), not IMR.



- e. Develop accounting and reporting guidance to require the use of a special surplus (account or line) for net negative IMR.
 - f. Develop governance related documentation to ensure that sales of bonds are reinvested in other bonds.
 - g. Develop a footnote disclosure for quarterly and annual reporting. (Ref #2022-19)
- iii. Directed NAIC staff to continue work with industry and Working Group members on developing guidance for the reporting of the corporate alternative minimum tax (CAMT) for interim Working Group discussion. (Ref #2023-04)
- F. Received an update on the following items:
- i. Received a referral from the Valuation of Securities (E) Task Force to inquire about the NAIC Securities Valuation Office (SVO) obtaining the ability to calculate analytical information.
 - ii. Announced that copyrighted PDF copies of the *Accounting Practices and Procedures Manual* (AP&P Manual) will be made available through an Account Manager upon purchase of the 2023 AP&P Bookshelf subscription.
 - iii. Received a request from the American Academy of Actuaries (Academy) for clarification on observed diversity across issuers regarding long-term care (LTC) AAT under *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), *SSAP No. 54R—Individual and Group Accident and Health Contracts*, and *Appendix A-010, Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*.
 - iv. Received an update on international activity as discussed by the International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group (AAWG), noting that public consultations of *Insurance Core Principle (ICP) 14: Valuation* and *ICP 17: Capital Adequacy* are expected in July 2023.
 - v. Received an update on U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.
3. Adopted the report of the Blanks (E) Working Group, which met March 7 and took the following action:
- A. Adopted its Nov. 17, 2022, minutes.



- B. Adopted its editorial listing and the following proposals:
- i. 2022-14BWG Modified – Modify Exhibit 1, Part 1 and 2, and Exhibit 8, Part 1 and 2, in the life and accident and health/fraternal blank, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages.
 - ii. 2022-15BWG – In the life, accident and health/fraternal, and property/casualty blanks, revise the language of the Schedule H, Part 5 to remove the 5% of premiums filing exemption.
 - iii. 2022-16BWG – Remove Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit’s Expense Allocation Report.
 - iv. 2022-18BWG – For the life and accident and health/fraternal blank instructional corrections on the handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO-Identified Funds within the IMR and the AVR.
 - v. 2022-20BWG – Modify the instructions and blanks for various health exhibits to change the order of the Vision and Dental lines of business to be consistent with all other statement types.
- C. Re-exposed the following proposal:
- i. 2022-17BWG – Add new disclosure paragraph for Note 8 – Derivative Instruments and illustration to new disclosure to be data-captured. Add electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add new code column instructions for Schedule DB, Part A and B (SAPWG 2021-20). Re-exposed for a public comment period ending April 28.
- D. Exposed nine new proposals for a public comment period ending April 28 for eight of the proposals and June 30 for proposal 2023-06BWG addressing Schedule D, Part 1 reporting.