Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** **ASU 2023-06, Disclosure Improvements**

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: In October 2023, FASB issued *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*, in response to a referral from SEC Release No. 33-10532, Disclosure Update and Simplification, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of Topics. Many of the amendments allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the SEC’s requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies. It was also noted by Staff that the effective date of ASU 2023-06 is unusual as both its timing, and ultimately its implementation within the Codification, is dependent on whether the SEC removes the related disclosures from Regulation S-X, or Regulation S-K becomes effective, prior to June 30, 2027. For this agenda item, Staff believes that the occurrence, or non-occurrence, of future SEC actions is not relevant to discussion concerning the proposed disclosures' merits for inclusion in the statutory accounting framework. If needed, the Working Group will address the effective date of adoption at a later stage.

Existing Authoritative Literature:

The table starting on page six summarizes the updates in this ASU, as well as defines the recommended actions for statutory 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 2024-04: Conforming Repurchase Agreements was developed in in response to the American Council of Life Insurers (ACLI) request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs.

**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 expose revisions** **to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative,* for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.** The disclosures revisions we have recommended are:

* Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
* Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

**NAIC staff also requests regulator and interested party input on whether the accounting policy disclosure for cash flows associated with derivatives, ASC 230-10-50-9, should also be adopted for statutory accounting purposes.** This would require companies to provide an accounting policy disclosure for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

Staff Review Completed by:

NAIC Staff – William Oden, February 2024

**Status:**

On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred exposure of this agenda item as some items were noted which require further consideration.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators.

***Proposed Revisions to SSAP No. 15—Debt and Holding Company Obligations***

1. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:
	1. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).
	2. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

**Relevant Literature**

1. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements*. Statutory modifications include:
	1. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.
	2. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

***Proposed Revisions to*** ***SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***

1. A reporting entity shall disclose the followingfn:
2. For Repurchase and Reverse Repurchase Agreements:
3. If the entity has entered into repurchase or reverse repurchase agreements, information regarding the company policy or strategies for engaging in repo programs, policy for requiring collateral, as well as whether transactions have been accounted for as secured borrowings or as sale transactions. This disclosure shall include the terms of reverse repurchase agreements whose amounts are included in borrowing money. The following information shall be disclosed by type of agreement:
4. Whether repo agreements are bilateral and/or tri-party trades;
5. Maturity time frame divided by the following categories: open or continuous term contracts for which no maturity date is specified, overnight, 2 days to 1 week, from 1 week to 1 month, greater than 1 month to 3 months, greater than 3 months to 1 year, and greater than 1 yearfn;
6. Aggregate narrative disclosure of the fair value of securities sold and/or acquired that resulted in default. (This disclosure is not intended to capture “failed trades,” which are defined as instances in which the trade did not occur as a result of an error and was timely corrected. Rather, this shall capture situations in which the non-defaulting party exercised their right to terminate after the defaulting party failed to execute.)
7. If as of the date of the most recent balance sheet the aggregate carrying amount of reverse repurchase agreements (securities or other assets purchased under agreements to resell) exceeds 10% of total admitted assets, the assets shall be separately disclosed. The entity shall also disclose whether there are any provisions, beyond the collateral requirements in paragraph 113, to ensure that the market value of the underlying assets remains sufficient to protect the entity in the event that the counterparty defaults and, if so, the nature of those provisions.

***Staff Note 2:*** *The Supplemental Investment Risks Interrogatories (Appendix A-001) does require reporting of the amount and percentage of admitted assets subject to reverse repurchase agreements. Staff is of the opinion that if the assets subject to reverse repurchase agreements exceeded 10% then this fact is significant enough to also be included in the notes the financial statements.*

1. For repurchase transactions accounted for as secured borrowingsfn, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
2. Fair value of securities sold. (Book adjusted carrying value shall be provided as an end balance only.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with identification of nonadmitted assets. Although legally sold as a secured borrowing, these assets are still reported by the insurer and shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.
3. Cash collateral and the fair value of security collateral (if any) received. This information is required in the aggregate and by type of security categorized by NAIC designation with identification of collateral securities received that do not qualify as admitted assets.
	* + - 1. For collateral received, aggregate allocation of the collateral by the remaining contractual maturity of the repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral received, including the impact arising changes in the fair value of the collateral received and/or the provided security and how those risks are managed.
				2. For cash collateral received that has been reinvested, the total reinvested cash and the aggregate amortized cost and fair value of the invested asset acquired with the cash collateral. This disclosure shall be reported by the maturity date of the invested asset: under 30 days, 60 days, 90 days, 120 days, 180 days, less than 1 year, 1-2 years, 2-3 years and greater than 3 years. To the extent that the maturity dates of the liability (collateral to be returned) does not match the invested assets, the reporting entity shall explain the additional sources of liquidity to manage those mismatches.
4. Liability recognized, including accrued interest, to return cash collateral, and the liability recognized to return securities received as collateral as required pursuant to the terms of the secured borrowing transaction.
5. For reverse repurchase transactions accounted for as secured borrowingsfn, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
6. Fair value of securities acquired. This information shall be reported in the aggregate, and by type of security categorized by NAIC designation, with identification of whether acquired assets would not qualify as admitted assets.
7. Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall identify the book adjusted carrying value of any nonadmitted securities provided as collateral. For collateral pledged, the aggregate allocation of the collateral by the remaining contractual maturity of the reverse-repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.
8. Recognized receivable for the return of collateral. (Generally cash collateral, but including securities provided as collateral as applicable under the terms of the secured borrowing transaction. Receivables are not recognized for securities provided as collateral if those securities are still reported as assets of the reporting entity.)
9. Recognized liability, including accrued interest, to return securities acquired under the reverse-repurchase agreement as required pursuant to the secured borrowing transaction. (Generally, a liability is required if the acquired securities are sold.)
10. For repurchase transactions accounted for as a salefn, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
11. Fair value of securities sold (derecognized from the financial statements). (Book adjusted carrying value shall be provided as an end balance only, reflecting the amount derecognized from the sale transaction.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with information on the book adjusted carrying value of nonadmitted assets sold.
12. Cash and the fair value of securities (if any) received as proceeds and recognized in the financial statements. This information is required in the aggregate and by type of security categorized by NAIC designation, with identification of received assets nonadmitted in the financial statements. All securities received shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.
13. The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.
14. For reverse repurchase transactions accounted for as salefn, the maximum amount and end balance as of each reporting period (quarterly and annual):
15. Fair value of securities acquired and recognized on the financial statements. (Book adjusted carrying value shall be provided as an end balance only.) This information shall be reported in the aggregate, and by type of security categorized by NAIC designation. The disclosure also requires the book adjusted carrying value of nonadmitted assets acquired.
16. Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall also identify whether any nonadmitted assets were provided as collateral (derecognized from the financial statements).
17. If as of the date of the most recent balance sheet the amount at risk under repurchase agreements or the amount at risk under reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of adjusted capital and surplus, an entity shall disclose the name(s) of those counterparties or group of related counterparties, the amount at risk with each, and the weighted-average maturity of the repurchase agreements or reverse repurchase agreements with each.
18. For the purposes of this statement, the amount at risk under repurchase agreements is the excess of the carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest).
19. For the purposes of this statement, the amount at risk under reverse repurchase agreements is the excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered in accordance with the agreements by the counterparty to an entity (or to a third-party agent that has affirmatively agreed to act on behalf of the entity) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.

**Relevant Literature**

1. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*. Statutory modifications include:
2. It is not feasible to require separate reporting of assets subject to reverse repurchase agreements in excess of 10% of total assets. Instead, this was modified to require separate disclosure and the threshold was modified to be "10% of total admitted assets.”
3. The disclosure threshold for the amount at risk under repurchase agreements or reverse repurchase agreements was modified to be 10% of adjusted capital and surplus, rather than 10% of total equity.
4. The requirement to disclose the weighted-average interest rate of repurchase liabilities and related repurchase liabilities was rejected for statutory accounting purposes.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Exposures/23-26 - ASU 2023-06 - Disclosure Improvements.docx

**The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.**

| **Topic** | **Codification** | **Abbreviated Summary of Change** | **Related Paragraphs** | **SAP Status/Recommendation** |
| --- | --- | --- | --- | --- |
| Statement of Cash Flows—Overall | 230-10 | Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows. | 50-9 | NAIC staff noted that this disclosure may be duplicative of *SSAP No. 86—Derivatives*, paragraph 63a.iv. However, this disclosure does not specifically require disclosure of the accounting policy for the presentation of cash flows from derivatives and the statutory statement of cash flows does not currently break out cash flows from derivatives.**Staff has requested feedback from regulators and interested parties on the potential usefulness of this disclosure for statutory accounting purposes.** |
| Accounting Changes and Error Corrections—Overall | 250-10 | Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements. | 50-6 | This disclosure is duplicative of *SSAP No. 3—Accounting Changes and Corrections of Errors*, paragraph 13.**This update is not applicable – no action required.** |
| Earnings Per Share—Overall | 260-10 | Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods. Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation. | 50-155-5155-52 | **This update is not applicable – no action required.** |
| Interim Reporting—Overall | 270-10 | Conforms to the amendments made to Topic 250. | 45-1245-1950-1 | **This update is not applicable – no action required.** |
| Commitments—Overall | 440-10 | Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized. | 50-1 | This disclosure is duplicative of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, paragraph 23b.**This update is not applicable – no action required.** |
| Debt—Overall | 470-10 | Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate. | 15-150-65-7 | Staff do not recommend adoption of the weighted-average interest rate calculation for statutory accounting purposes. Due to the complexity of this computation, this this disclosure is only required for public entities under GAAP. As SAP does not have the public/private entity distinction, adoption of this disclosure would be applicable to all insurance entities. This disclosure is not considered necessary in light of existing debt SAP disclosures and does not provide enough benefit to offset the cost of implementing such a potentially complex calculation.**We recommend adoption, with modification, of the disclosures unused LOC and commitment disclosures.** |
| Equity—Overall | 505-10 | Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value. | 50-4 | This disclosure is duplicative of *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 22b.**This update is not applicable – no action required.** |
| Derivatives and Hedging—Overall | 815-10 | Adds inter-codification reference to 230-10-50-9 for disclosure of cash flows associated with derivative instruments. | 50-8C | **This update is not applicable – no action required.** |
| Transfers and Servicing—Secured Borrowing and Collateral | 860-30 | Requires:a. That accrued interest be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions.b. Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets.c. Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities.d. Disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder’s equity.e. Disclosure for reverse repurchase agreements that exceed 10 percent of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions. | 15-145-245-2A45-350-750-9 thru 1255-4 | **We recommend adoption, with modification, of the disclosures in bullets a., b., d., and e. (see Abbreviated Summary of Changes)****The disclosure in bullet c. is not recommended for adoption within SAP – no action required.** |
| Extractive Activities—Oil and Gas—Notes to Financial Statements | 932-235 | Requires that paragraphs 932-235-50-3 through 50-36 be applicable for each annual period presented in the financial statements. | 50-2A | **This update is not applicable – no action required.** |
| Financial Services—Investment Companies—Investment Company Activities | 946-20 | Requires that investment companies disclose the components of capital on the balance sheet. | 50-1150-12 | **This update is not applicable – no action required.** |
| Real Estate—Real Estate Investment Trusts—Overall | 974-10 | Requires disclosure for annual reporting periods of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust. | 50-1 | **This update is not applicable – no action required.** |
| Generally Accepted Accounting Principles—Overall | 105-10 | Adds in transition and open effective date information. | 65-765-8 | **This update is not applicable – no action required.** |