

Adoptions by the Statutory Accounting Principles (E) Working Group

This list of adopted items will be updated following each interim and national meeting of the Statutory Accounting Principles (E) Working Group.

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**Revisions to the
As of March 2023, Accounting Practices and Procedures Manual**

On **August 13, 2023**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2019-21	SSAP No. 26R SSAP No. 43R Various SSAPs	Bond Definition <i>New SAP Concept</i> Effective January 1, 2025	Adoption revises <i>SSAP No. 26R—Bonds</i> and <i>SSAP No. 43R—Loan-Backed and Structured Securities</i> for the principles-based bond definition, the accounting for bonds (issuer credit obligations and asset-backed securities), as well as revisions to various SSAPs that have been updated to reflect the revised definition and/or SSAP references.
2022-01	SSAP No. 5R IP No. 168	Conceptual Framework <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Adoption revises the definition of a liability under statutory accounting to be more consistent with recent FASB revisions.
2022-19	INT 23-01	Negative IMR <i>New SAP Concept</i> Effective Immediately (August 13, 2023)	Adoption provides an optional, limited-time guidance, which allows the admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus. <i>INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve</i> will be automatically nullified on January 1, 2026.
2023-02	SSAP No. 43R	CLO Financial Modeling <i>SAP Clarification</i> Effective December 31, 2023	Adopted revisions incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities.
2023-05	INT 20-01	<i>ASUs 2020-04, 2021-01 & 2022-06 - Reference Rate Reform</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Adoption provides a temporary (optional) expedient and exception interpretative guidance to revise the expiration date of the guidance in <i>INT 20-01: ASUs 2020-04 & 2021-01 – Reference Rate Reform</i> to December 31, 2024.

Ref #	SSAP/ Appendix	Title	Summary
2023-06	SSAP No. 24	Additional Updates on <i>ASU 2021-10, Government Assistance</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Adoption clarifies <i>SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items</i> for the rejection of <i>ASU No. 2021-10</i> while incorporating certain disclosures regarding government assistance.
2023-07	SSAP No. 47 SSAP No. 95 SSAP No. 104R	<i>ASU 2019-08 on Stock Compensation and Revenue Recognition</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Revisions adopt with modification <i>ASU 2019-08</i> to include share-based consideration payable to customers in the scope of <i>SSAP No. 47—Uninsured Plans</i> , <i>SSAP No. 95—Nonmonetary Transactions</i> , and <i>SSAP No. 104R—Share-Based Payments</i> .
2023-08	Appendix D	<i>ASU 2019-07, Codification Updates to SEC Sections...</i> <i>SAP Clarification</i> Effective May 1, 2023	Adoption rejects <i>ASU 2019-07</i> as not applicable for statutory accounting.
2023-09	Appendix D	<i>ASU 2020-09, Amendments to SEC Paragraphs...</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Adoption rejects <i>ASU 2020-09</i> as not applicable for statutory accounting.
2023-10	SSAP No. 50 SSAP No. 51R SSAP No. 52 SSAP No. 56 SSAP No. 71 SSAP No. 86	<i>ASU 2022-05, Transition for Sold Contracts</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2023)	Adoption rejects <i>ASU 2022-05</i> as not applicable for statutory accounting.
2023-13	SSAP No. 34	PIK Interest Disclosure <i>SAP Clarification</i> Effective for year-end 2023 disclosures	Adopted revisions clarify and incorporate a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure for <i>SSAP No. 34—Investment Income Due and Accrued</i> and proposed annual statement instructions.

Statement of Statutory Accounting Principles No. 26

Bonds

STATUS

Type of Issue	Common Area
Issued	August 13, 2023
Effective Date	January 1, 2025
Affects	Replaces SSAP No. 26R on January 1, 2025
Affected by	No other pronouncements
Interpreted by	INT 01-25; INT 06-02; INT 06-07; INT 07-01
Relevant Appendix A Guidance	None

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SCOPE OF STATEMENT

1. The principles-based definition of a bond within this statement shall be utilized to identify whether security structures should be reported as bonds. Investments that qualify within the principles-based definition as an issuer credit obligation shall follow the accounting guidance within this statement. Investments that qualify within the principles-based definition as an asset-backed security (ABS) shall follow the accounting guidance in *SSAP No. 43R—Asset-Backed Securities*.
2. In addition to security investments that qualify under the principles-based definition as issuer credit obligations, certain specific instruments are also captured in scope of this statement:
 - a. Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition;
 - b. Bank loans that are obligations of operating entities issued directly by a reporting entity or acquired through a participation, syndication or assignment¹;
 - c. Debt instruments in a certified capital company (CAPCO) ^(INT 06-02)
 - d. Exchange Traded Funds (ETFs) that qualify for bond treatment as identified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and included in the ‘SVO-Identified Bond ETF List’ published on the SVO’s webpage. (These instruments are referred to as SVO-Identified Bond ETFs.)
 - e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment and are identified as SVO-Identified Credit Tenant Loans.
3. Securities that qualify as issuer credit obligations with a maturity date of one year or less from date of acquisition that qualify as cash equivalents or short-term investments shall follow the accounting requirements of this statement. These investments are also captured in *SSAP No. 2R—Cash, Cash*

¹ **Bank Loan** – Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans can be issued directly by a reporting entity or acquired through an assignment, participation or syndication:

- **Assignment** – A bank loan assignment is defined as a fixed-income instrument in which there is the sale and transfer of the rights and obligations of a lender (as assignor) under an existing loan agreement to a new lender (and as assignee) pursuant to an Assignment and Acceptance Agreement (or similar agreement) which effects a novation under contract law, so the new lender becomes the direct creditor of and is in contractual privity with the borrower having the sole right to enforce rights under the loan agreement.
- **Participation** – A bank loan participation is defined as a fixed-income investment in which a single lender makes a large loan to a borrower and subsequently transfers (sells) undivided interests in the loan to other entities. Transfers by the originating lender may take the legal form of either assignments or participations. The transfers are usually on a nonrecourse basis, and the originating lender continues to service the loan. The participating entity may or may not have the right to sell or transfer its participation during the term of the loan, depending on the terms of the participation agreement. Loan Participations can be made on a parri-passu basis (where each participant shares equally) or a senior subordinated basis (senior lenders get paid first and the subordinated participant gets paid if there are sufficient funds left to make a payment).
- **Syndication** – A bank loan syndication is defined as a fixed-income investment in which several lenders share in lending to a single borrower. Each lender loans a specific amount to the borrower and has the right to repayment from the borrower. Separate debt instruments exist between the debtor and the individual creditors participating in the syndication. Each lender in a syndication shall account for the amounts it is owed by the borrower. Repayments by the borrower may be made to a lead lender that then distributes the collections to the other lenders of the syndicate. In those circumstances, the lead lender is simply functioning as a servicer and shall not recognize the aggregate loan as an asset. A loan syndication arrangement may result in multiple loans to the same borrower by different lenders. Each of those loans is considered a separate instrument.

Equivalents, Drafts and Short-Term Investments and shall follow the reporting and disclosure requirements of that statement.

4. This statement excludes:
- a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.
 - b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*
 - c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.
 - d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack contractual payments or substantive credit enhancement. These investments shall follow the appropriate guidance in *SSAP No. 21R—Other Admitted Assets*.
 - e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.
 - f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

SUMMARY CONCLUSION

Principles-Based Bond Definition

5. A bond shall be defined as any security² representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security as described in this statement.

² This statement adopts the GAAP definition of a security as it is used in FASB Accounting Standards Codification Topics 320 and 860. Evaluation of an investment under this definition should consider the substance of the instrument rather than solely its legal form.

Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

- a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
- b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
- c. It is either one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations.

6. Determining whether a security represents a creditor relationship should consider its substance, rather than solely the legal form of the instrument. The analysis of whether a security represents a creditor relationship should consider all other investments the reporting entity owns in the investee as well as any other contractual arrangements. A security that in substance possesses equity-like characteristics or represents an ownership interest in the issuer does not represent a creditor relationship. While not intended to be all-inclusive, paragraphs 6.a.-6.d. discuss specific elements that may introduce equity-like characteristics:

- a. Determining whether a debt instrument represents a creditor relationship in substance when the source of cash flows for repayment is derived from underlying equity interests inherently requires significant judgment and analysis. Unlike a debt instrument collateralized by assets with contractual cash flows, debt instruments collateralized by equity interests are dependent on cash flow distributions that are not contractually required to be made and are not controlled by the issuer of the debt. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not represent a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. Factors to consider in making this determination include but are not limited to:
 - i. Number and diversification of the underlying equity interests
 - ii. Characteristics of the underlying equity interests (vintage, asset-types, etc.)
 - iii. Liquidity facilities
 - iv. Overcollateralization
 - v. Waiting period for distributions/paydowns to begin
 - vi. Capitalization of interest
 - vii. Covenants (e.g., loan-to-value trigger provisions)
 - viii. Reliance on ongoing sponsor commitments
- b. While reliance of the debt instrument on sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that the other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.
- c. Analysis of whether the rebuttable presumption for underlying equity interests is overcome shall be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a larger diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors, may provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.
- d. In order for a debt instrument to represent a creditor relationship in accordance with

Paragraph 6, it 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 (i.e., performance) of any underlying collateral value or other non-debt variable. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variable is precluded from bond treatment. This exclusion is not intended to restrict variables that are commonly related to debt instruments such as, but not limited to, plain-vanilla³ inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-linked coupons, respectively), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. This exclusion is also not intended to encompass nominal interest rate adjustments⁴. For clarification purposes, all returns from a debt instrument in excess of principal are required to be considered as interest. Therefore, investments with “stated” interest and then “additional returns” to which the holder of the debt instrument is entitled are collectively considered as interest and shall be assessed together in determining whether the investment has variable principal or interest due to underlying referenced non-debt variables. Examples of securities excluded from the bond definition under this guidance:

- i. Structured Notes, which are securities that otherwise meet the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than the failure of the borrower to pay the principal amount due, are excluded from the bond definition. These investments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in *SSAP No. 86—Derivatives*. Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign currency fluctuations are not structured notes.
- ii. Principal-protected securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* are excluded from the bond definition as they have a performance component whose payments originate from, or are determined by, non-fixed income securities. These investments shall follow the guidance for non-bond securities in *SSAP No. 21—Other Admitted Assets*.

³ Inflation or benchmark interest rate adjustment mechanisms are considered plain-vanilla if based on widely recognized measures of inflation or interest rate benchmarks and excludes those that involve either leverage (such as a multiplier) or an inverse adjustment relationship.

⁴ Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment’s substance as a bond. Nominal adjustments are not typically influential factors in an investors’ evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary⁵ source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

- a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;^(INT 01-25)
- b. U.S. government agency securities;
- c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);
- d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;
- e. Corporate bonds, issued by holding companies that own operating entities;
- f. Project finance bonds issued by operating entities;
- g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., Credit Tenant Loans (CTLs), Equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.
- h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;
- i. Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.
- j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

⁵ "Primary" refers to the first in order of repayment source, not to a majority of the sources of repayment. For example, an issuer obligation may have secondary recourse to collateral upon default of the operating entity but would otherwise be expected to be fully repaid with cash flows of the operating entity. This differs from an asset-backed security for which the primary source of repayment is from cash flows of the collateral.

8. An asset-backed security⁶ is a bond issued by an entity (an “ABS Issuer”) created for the primary purpose of raising debt capital backed by financial assets⁷ or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity⁸. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle (“SPV”), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

- a. *Meaningful Level of Cash Flows:* Determining what constitutes a “meaningful” level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:
 - i. The price volatility in the principal market for the underlying collateral;
 - ii. The liquidity in the principal market for the underlying collateral;
 - iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);
 - iv. The overcollateralization of the underlying collateral relative to the debt obligation; and
 - v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

⁶ The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

⁷ *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

⁸ Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

The factors for price variability and the variability of cash flows are directly related to the “meaningful” requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the “meaningful” concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

- b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in [paragraph 9](#).

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer’s assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

- a. *Substantive Credit Enhancement:* The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm’s length) would conclude is substantive.
- b. The first loss position may be issued as part of a 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 position(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 investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in *SSAP No. 21R—Other Admitted Assets*.)

11. Whether an issuer of debt represents an operating entity or ABS Issuer is unambiguous in most instances, but certain instances may be less clear. For example, an entity may operate a single asset such as a toll road or power generation facility (e.g., project finance) which serves to collateralize a debt issuance, and the cash flows produced by the operation of the assets are pledged to service the debt. In many such instances, the entity is structured as a bankruptcy-remote entity that is separate from the municipality or project sponsor. Such entities have characteristics of operating entities as the operation of the asset constitutes a stand-alone business. They also have many common characteristics of ABS Issuers as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed more holistically, these issuing entities are typically being used to facilitate the financing of an operating component of a project sponsor or municipality. The use of a bankruptcy-remote entity facilitates the efficient raising of debt to finance the operating project, but the primary purpose is to finance an operating project. Therefore, structures in which the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, shall be considered operating entities despite certain characteristics they may share with ABS Issuers.

12. The definition of a creditor relationship, per paragraph 6, does not include equity/fund investments (such as mutual funds or exchanged-traded funds), or securities that possess equity-like characteristics or that represent an ownership interest in the issuer. However, as identified in paragraph 2, exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and included in the ‘SVO-Identified Bond ETF List’ published on the SVO’s webpage are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were issuer credit obligations, unless different treatment is specifically identified in paragraphs 32-38.

13. Investments within the scope of this statement issued by a related party, or acquired through a related party transaction, are also subject to the provisions, admittance assessments and disclosure requirements of *SSAP No. 25—Affiliates and Other Related Parties*.

14. Investments within the scope of this statement meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and *SSAP No. 25*.

Accounting and Reporting Guidance for Investments that Qualify as Issuer Credit Obligations⁹

Acquisitions, Disposals and Changes in Unrealized Gains and Losses

15. A bond acquisition or disposal shall be recorded on the trade date (not the settlement date) except for the acquisition of private placement bonds which shall be recorded on the funding date. At acquisition, bonds shall be reported at their cost, including brokerage and other related fees. The reported cost of a bond received as a property dividend or capital contribution shall be the initial recognized value. *SSAP No. 25* shall be used to determine whether a transfer is economic or noneconomic for initial recognition.

16. For reporting entities required to maintain an interest maintenance reserve (IMR), the accounting for realized capital gains and losses on sales of bonds shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7*.

⁹ For all references to “bond” investments beginning in paragraph 15, this term intends to refer to investments that are permitted accounting and reporting treatment within scope of this standard.

17. For reporting entities not required to maintain an IMR, realized gains and losses on sales of bonds shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

Amortized Cost

18. Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond.¹⁰ (INT 07-01) Bonds containing call provisions (where the issuer can be called away from the reporting entity at the issuer's discretion), except "make-whole" call provisions, shall be amortized to the call or maturity value/date which produces the lowest asset value (yield-to-worst). Although the concept for yield-to-worst shall be followed for all callable bonds, make-whole call provisions, which allow the bond to be callable at any time, shall not be considered in determining the timeframe for amortizing bond premium or discount unless information is known by the reporting entity indicating that the issuer is expected to invoke the make-whole call provision.

Application of Yield-to-Worst

19. For callable bonds¹¹, the first call date after the lockout period (or the date of acquisition if no lockout period exists) shall be used as the "effective date of maturity." Depending on the characteristics of the callable bonds, the yield-to-worst concept in [paragraph 18](#) shall be applied as follows:

- a. For callable bonds with a lockout period, premium in excess of the next call price¹² (subsequent to acquisition¹³ and lockout period) shall be amortized proportionally over the length of the lockout period. After each lockout period (if more than one), remaining premium shall be amortized to the call or maturity value/date which produces the lowest asset value.
- b. For callable bonds without a lockout period, the book adjusted carrying value (at the time of acquisition) of the callable bonds shall equal the lesser of the next call price (subsequent to acquisition) or cost. Remaining premium shall then be amortized to the call or maturity value/date which produces the lowest asset value.
- c. For callable bonds that do not have a stated call price, all premiums over par shall be immediately expensed. For callable bonds with a call price at par in advance of the maturity date, all premiums shall be amortized to the call date.

¹⁰ For perpetual bonds with an effective call option, any applicable premium shall be amortized utilizing the yield-to-worst method.

¹¹ Callable bonds within the scope of [paragraph 19](#) excludes bonds with make-whole call provisions unless information is known by the reporting entity indicating that the issuer is expected to invoke the make-whole call provision. [Exhibit C](#) includes illustrations for the amortization of callable bonds.

¹² Reference to the "next call price" indicates that the reporting entity shall continuously review the call dates/prices to ensure that the amortization (and resulting BACV) follows the yield-to-worst concept throughout the time the reporting entity holds the bond.

¹³ The reporting entity shall only consider call dates/prices that occur after the reporting entity acquires the bond. If all of the call dates had expired prior to the reporting entity acquiring the bond, the reporting entity would consider the bond continuously callable without a lockout period.

Balance Sheet Amount

20. Bonds shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office (SVO).

- a. Bonds, except for mandatory convertible bonds: For reporting entities that maintain an asset valuation reserve (AVR), the bonds shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, bonds that are designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; all other bonds (NAIC designations 3 to 6) shall be reported at the lower of amortized cost or fair value. For perpetual bonds which do not possess or no longer possess an effective call option, the bond shall be reported at fair value regardless of NAIC designation.
- b. Mandatory convertible bonds: Mandatory convertible bonds are subject to special reporting instructions and are not assigned NAIC designations or unit prices by the SVO. The balance sheet amount for mandatory convertible bonds shall be reported at the lower of amortized cost or fair value during the period prior to conversion. This reporting method is not impacted by NAIC designation or information received from credit rating providers (CRPs). Upon conversion, these securities will be subject to the accounting guidance of the statement that reflects their revised characteristics. (For example, if converted to common stock, the security will be in scope of *SSAP No. 30R—Unaffiliated Common Stock*, if converted to preferred stock, the security will be in scope of *SSAP No. 32R—Preferred Stocks*.)

21. The premium paid on a zero coupon convertible bond that produces a negative yield as a result of the value of a warrant exceeding the bond discount shall be written off immediately so that a negative yield is not produced. The full amount of the premium should be recorded as amortization within investment income on the date of purchase.

Impairment

22. An other-than-temporary^(INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition.¹⁴ A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond’s carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

¹⁴ If a bond has been modified from original acquisition, the guidance in *SSAP No. 36—Troubled Debt Restructuring* and paragraph 22 of *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the modified contractual terms of the debt instrument.

23. In periods subsequent to the recognition of an other-than-temporary impairment loss for a bond, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the bond on the measurement date shall become the new cost basis of the bond and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized over the remaining life of the security in the prospective manner based on the amount and timing of future estimated cash flows. The security shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than temporary shall be recorded as realized losses.

Income

24. Interest income for any period consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium amortization and interest paid on acquisition of bonds, and the addition of discount accrual. In accordance with *SSAP No. 34—Investment Income Due and Accrued*, investment income shall be reduced for amounts which have been determined to be uncollectible. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.

25. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

26. The amount of prepayment penalty and/or acceleration fee to be reported as investment income or loss shall be calculated as follows:

- a. For called or tendered bonds in which the total proceeds (consideration) received exceeds par:
 - i. The amount of investment income reported is equal to the consideration received less the par value of the investment; and
 - ii. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses, subject to the authoritative literature in SSAP No. 7.
- b. For called or tendered bonds in which the consideration received is less than par¹⁵:
 - i. To the extent an entity has in place a process to identify an explicit prepayment penalty or acceleration fee, these should be reported as investment income. (An entity shall consistently apply their process. Once a process is in place, an entity is required to maintain a process to identify prepayment penalties for called bonds in which consideration received is less than par.)
 - ii. After determining any explicit prepayment penalty or acceleration fee, the reporting entity shall calculate the resulting realized gain as the difference between

¹⁵ This guidance applies to situations in which consideration received is less than par but greater than the book adjusted carrying value (BACV). Pursuant to the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest asset value. In the event a bond has not been amortized to the lowest value prior to the call, or in cases of an accepted tender bond offer (BACV is greater than the consideration received), the entire difference between consideration received and the BACV shall be reported to investment income.

the remaining consideration and the BACV, which shall be reported as realized capital gain, subject to the authoritative literature in SSAP No. 7.

Origination Fees

27. Origination fees represent fees charged to the borrower in connection with the process of originating or restructuring a transaction such as the private placement of bonds. The fees include, but are not limited to, points, management, arrangement, placement, application, underwriting and other fees pursuant to such a transaction. Origination fees shall not be recorded until received in cash. Origination fees intended to compensate the reporting entity for interest rate risks (e.g., points) shall be amortized into income over the term of the bond consistent with paragraph 18 of this statement. Other origination fees shall be recorded as income upon receipt.

Origination, Acquisition and Commitment Costs

28. Costs related to origination when paid in the form of brokerage and other related fees shall be capitalized as part of the cost of the bond, consistent with paragraph 15 of this statement. All other costs, including internal costs or costs paid to an affiliated entity related to origination, purchase or commitment to purchase bonds shall be charged to expense when incurred.

Commitment Fees

29. Commitment fees are fees paid to the reporting entity that obligate the reporting entity to make available funds for future borrowing under a specified condition. A fee paid to the reporting entity to obtain a commitment to make funds available at some time in the future, generally, is refundable only if the bond is issued. If the bond is not issued, then the fees shall be recorded as investment income by the reporting entity when the commitment expires.

30. A fee paid to the reporting entity to obtain a commitment to be able to borrow funds at a specified rate and with specified terms quoted in the commitment agreement, generally, is not refundable unless the commitment is refused by the reporting entity. This type of fee shall be deferred, and amortization shall depend on whether or not the commitment is exercised. If the commitment is exercised, then the fee shall be amortized in accordance with paragraph 18 of this statement over the life of the bond as an adjustment to the investment income on the bond. If the commitment expires unexercised, the commitment fee shall be recognized in income on the commitment expiration date.

Exchanges and Conversions

31. If a bond is exchanged or converted into other securities (including conversions of mandatory convertible securities addressed in paragraph 20.b.), the fair value of the bond surrendered at the date of the exchange or conversion shall become the cost basis for the new securities with any gain or loss realized at the time of the exchange or conversion. However, if the fair value of the securities received in an exchange or conversion is more clearly evident than the fair value of the bond surrendered, then it shall become the cost basis for the new securities.

SVO-Identified Bond Exchange –Traded Funds

32. SVO-identified bond exchange-traded fund (ETF) investments, as discussed in paragraph 2.d., are captured within the scope of this statement for accounting and reporting¹⁶ purposes only. The inclusion of these investments within this statement is not intended to contradict state law regarding the classification

¹⁶ With the inclusion of these SVO-identified investments as bonds, specific guidelines are detailed in the annual statement instructions for reporting purposes.

of these investments and does not intend to provide exceptions to state investment limitations involving types of financial instruments (e.g., equity/fund interests), or with regards to concentration risk (e.g., issuer).

33. SVO-identified bond ETF investments shall be initially reported at cost, including brokerage and other related fees. Subsequently, SVO-identified bond ETF investments shall be reported at fair value,¹⁷ with changes in fair value recorded as unrealized gains or losses) unless the reporting entity has elected use¹⁸ of a documented systematic approach to amortize or accrete the investment in a manner that represents the expected cash flows from the underlying bond holdings. This special measurement approach is referred to as the “systematic value” measurement method and shall only be used for the SVO-identified bond ETF investments within the scope of this statement.

34. Use of the systematic value for SVO-identified bond ETF investments is limited as follows:

- a. Systematic value is only permitted to be designated as the measurement method for AVR filers acquiring qualifying investments that have an NAIC designation of 1 to 5, and for non-AVR filers acquiring qualifying investments with an NAIC designation of 1 or 2. SVO-identified investments that have an NAIC designation of 6 for AVR filers or 3-6 for non AVR filers shall be measured at fair value.
- b. Designated use of a systematic value is an irrevocable election per qualifying investment (by CUSIP) at the time investment is originally acquired¹⁹. Investments owned prior to being identified by the SVO as a qualifying SSAP No. 26R investment are permitted to be subsequently designated to the systematic value measurement method. This designation shall be applied as a change in accounting principle pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors*, which requires the reporting entity to recognize a cumulative effect to adjust capital and surplus as if the systematic value measurement method had been applied retroactively for all prior periods in which the investment was held. The election to use systematic value for investments shall be made before the year-end reporting of the investment in the year in which the SVO first identifies the investment as a qualifying SSAP No. 26R investment.
- c. Once designated for a particular investment, the systematic value measurement method must be retained as long as the qualifying investment is held by the reporting entity and the investment remains within the scope of this statement with an allowable NAIC designation per paragraph 34.a. Upon a full sale/disposal of an SVO-identified investment (elimination of the entire CUSIP investment), after 90 days the reporting entity can reacquire the SVO-identified investment and designate a different measurement method. If the reporting entity was to reacquire the same investment within 90 days after it was sold/disposed, the reporting entity must utilize the measurement method previously designated for the investment. Subsequent/additional purchases of the same SVO-identified investment (same CUSIP) already held by a reporting entity must follow the election previously made by the reporting entity. If an investment no longer qualifies for a systematic value

¹⁷ For these investments, net asset value (NAV) is allowed as a practical expedient to fair value.

¹⁸ The election to use systematic value is not a permitted or prescribed practice as it is an accounting provision allowed within this SSAP. Similarly, this election does not override state statutes, and if a state does not permit reporting entities the election to use systematic value as the measurement method, this is also not considered a permitted or prescribed practice. SVO-identified investments reported at fair value (NAV) or systematic value, if in accordance with the provisions of this standard, are considered in line with SSAP No. 26R and do not require permitted or prescribed disclosures under *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*.

¹⁹ This guidance requires investments purchased in lots to follow the measurement method established at the time the investment was first acquired.

measurement because the NAIC designation has declined, then the security must be subsequently reported at the lower of “systematic value” or fair value. If the security has been removed from the SVO-identified listings, and is no longer in scope of this statement, then the security shall be measured and reported in accordance with the applicable SSAP.

- d. Determination of the designated systematic value must follow the established²⁰ approach, which is consistently applied for all SVO-identified bond ETF investments designated for a systematic value. In all situations, an approach that continuously reflects “original” or “historical cost” is not an acceptable measurement method. The designated approach shall result with systematic amortization or accretion of the equity/fund investment in a manner that represents the expected cash flows from the underlying bond holdings.

35. Income distributions received from SVO-identified bond ETF investments (cash or shares) shall be reported as interest income in the period in which it is earned. For those SVO-identified bond ETF investments where the systematic value method is applied, interest income shall be recognized based on the book yield applied to the carrying value each period, similar to bonds.

36. For reporting entities required to hold an IMR and AVR reserve, realized and unrealized gains and losses for the SVO-identified bond ETF investments shall be consistent with bonds within the scope of this standard. With this guidance, recognition of gains/losses (and corresponding AVR/IMR impacts) will be based on the ETF, and not activity that occurs within the ETF (e.g., such as changes in the underlying bonds held within the ETF). Also consistent with the guidance for bonds, recognized losses from other-than-temporary impairments shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

37. SVO-identified bond ETF investments reported at systematic value shall recognize other-than-temporary impairments in accordance with the following guidance:

- a. A decision to sell an SVO-identified bond ETF investment that has a fair value less than systematic value results in an other-than-temporary impairment that shall be recognized.
- b. In situations in which an SVO-identified bond ETF investment has a fair value that is less than systematic value, the reporting entity must assess for other-than-temporary impairment. For these investments, a key determinant, along with other impairment indicators in *INT 06-07: Definition of Phrase “Other Than Temporary,”* shall be whether the net present value of the projected cash flows for the underlying bonds in the SVO-identified investment have materially²¹ declined from the prior reporting period (most recent issued financial statements) or from the date of acquisition. In calculating the net present value of the projected cash flows for each reporting period, entities shall discount cash flows using a constant purchase yield, which is the initial book yield at acquisition. Consistent with INT 06-07, a predefined threshold to determine whether the decline in projected cash flows (e.g., percentage change) shall result in an other than temporary impairment has not been set, as exclusive reliance on such thresholds removes the ability of management to apply its judgement.
- c. Upon identification of an SVO-identified investment as OTTI, the reporting entity shall recognize a realized loss equal to the difference between systematic value and the current

²⁰ Exhibit B details the established systematic value approach.

²¹ The net present value of cash flows will decline in a declining interest rate environment. Reporting entities shall use judgment when assessing whether the decline in cash flows is related to a decline in interest rates or the result of a non-interest related decline, and determine whether the decline represents an OTTI pursuant to INT 06-07.

fair value. (Although the determination of OTTI is likely based on projected cash flows, the realized loss recognized for the OTTI is based on the difference between systematic value and fair value.) The fair value of the SVO-identified investment on the date of the OTTI shall become the new cost basis of the investment.

- d. Subsequent to recognition of an OTTI, the SVO-identified bond ETF investment is required to be reported at the lower of the then-current period systematic value or fair value. As the underlying bonds can be replaced within an ETF, it is possible for a subsequent period systematic value and fair value to recover above the fair value that existed at the time an OTTI was recognized. As such, the requirement for subsequent reporting at the lower of systematic value or fair value is intended to be a current period assessment. For example, in reporting periods after an OTTI, the systematic value for an SVO-identified investment may exceed the fair value at the time of the OTTI, but in no event shall the reported systematic value exceed the then-current period fair value. If current calculated systematic value is lower than the current fair value, systematic value is required.

38. Impairment guidance for SVO-identified bond ETF investments reported at fair value is consistent with impairment guidance for investments captured under SSAP No. 30R. Pursuant to this guidance, realized losses are required to be recognized when a decline in fair value is considered to be other-than-temporary. Subsequent fluctuations in fair value shall be recorded as unrealized gains or losses. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses. A decision to sell an impaired security results with an other-than-temporary impairment that shall be recognized.

Disclosures

39. The financial statements shall include the following disclosures:

- a. Fair value in accordance with *SSAP No. 100R—Fair Value*;
- b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;
- c. The basis at which the bonds, mandatory convertible securities, and SVO-identified bond ETF investments identified in [paragraph 2.d.](#), are stated;
- d. Amortization method for bonds and mandatory convertible securities, and if elected by the reporting entity, the approach for determining the systematic value for SVO-identified securities per [paragraph 33](#). If utilizing systematic value measurement method approach for SVO-identified investments, the reporting entity must include the following information:
 - i. Whether the reporting entity consistently utilizes the same measurement method for all SVO-identified investments²² (e.g., fair value or systematic value). If different measurement methods are used²³, information on why the reporting entity

²² As identified in [paragraph 34.d.](#), a consistent approach must be followed for all investments designated to use the systematic value method. As such, this disclosure is limited to situations in which a reporting entity uses both fair value and systematic value for reported SVO-identified investments.

²³ The guidance in this statement allows different measurement methods by qualifying investment (CUSIP), but it is anticipated that companies will generally utilize a consistent approach for all qualifying investments.

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has elected to use fair value for some SVO-identified investments and systematic value for others.

- ii. Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)
 - iii. Identification of securities still held that no longer qualify for the systematic value method. This should separately identify those securities that are still within the scope of SSAP No. 26R and those that are being reported under a different SSAP.
- e. For each balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond or assets in scope of this statement.
 - f. For the most recent balance sheet, the book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory Annual Statement Schedule D – **Part 1A** due:
 - i. In one year or less (including items without a maturity date which are payable on demand and in good standing);
 - ii. After one year through five years;
 - iii. After five years through ten years;
 - iv. After ten years (including items without a maturity date which are either not payable on demand or not in good standing).
 - g. For each period for which results of operations are presented, the proceeds from sales of bonds and assets in scope of this Statement and gross realized gains and gross realized losses on such sales.
 - h. For each balance sheet presented, all items in scope of this Statement in an unrealized loss position for which other-than-temporary declines in value have not been recognized:
 - i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
 - ii. The aggregate related fair value of bonds with unrealized losses.
 - i. The disclosures in **paragraphs 39.h.i. and 39.h.ii.** should be segregated by items that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100R.

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- j. As of the most recent balance sheet date presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.
- k. When it is not practicable to estimate fair value in accordance with SSAP No. 100R, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:
 - i. The aggregate carrying value of the investments not evaluated for impairment, and
 - ii. The circumstances that may have a significant adverse effect on the fair value.
- l. For securities sold, redeemed or otherwise disposed as a result of a call or tender offer feature (including make-whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

40. Refer to the Preamble for further discussion regarding disclosure requirements. The disclosures in paragraphs 39.b., 39.e., 39.f., 39.g., 39.h., 39.i., 39.j. and 39.k. shall be included in the annual audited statutory financial reports only.

Relevant Literature

41. This statement adopts *AICPA Statement of Position 90-11, Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets*, and *AICPA Practice Bulletin No. 4, Accounting for Foreign Debt/Equity Swaps*. This statement also adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. This statement adopts the GAAP definition of “security” as it is used in FASB Codification Topic 320 and 860. This statement refers to the definition of “financial assets” captured in SSAP No. 103R adopted from U.S. GAAP. As noted in footnote 7, for purposes of this statement, and in applying the principles-based bond definition, financial assets do not include assets that depend on the completion of a performance obligation. When there is a performance obligation, the asset represents non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

42. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*, *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA*, and *FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115*.

Effective Date and Transition

43. Revisions to SSAP No. 26R, adopted August 2023, to incorporate the principle-based bond concepts are effective January 1, 2025. These revisions incorporate principle concepts on what should be reported as a long-term bond. Securities that qualify as issuer credit obligations within the principle concepts are captured within scope of SSAP No. 26R. Securities that qualify as asset-backed securities within the principle concepts are captured within scope of SSAP No. 43R. Securities that do not qualify as

issuer credit obligations or ABS, unless specifically permitted in scope of these statements, are not permitted to be reported as a bond.

44. At the time of transition, reporting entities shall make their best efforts to assess investments to determine whether they qualify within the bond definition for reporting on Schedule D-1. The bond definition requires assessments at the time of acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an issuer obligation or asset-backed security.

45. Investments that were reported as a bond on Schedule D-1: Long-Term Bonds as of December 31, 2024, that do not qualify under the principle-based bond concepts shall be reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025. These investments shall be accounted for in accordance with the resulting SSAP that addresses the specific investment structure. For securities that are reported at the lower of amortized cost or fair value under the new applicable guidance, this could result with an unrealized loss in the measurement of the investment at the time of the reclassification. Although the adoption of this guidance is considered a change in accounting principle under SSAP No. 3, the following transition guidance shall be applied on January 1, 2025, to ensure consistency in reporting and to allow investment schedules to roll appropriately:

- a. Securities reclassified from Schedule D-1 as they no longer qualify under the bond definition shall be reported as a disposal from Schedule D-1 at amortized cost. Although no proceeds are received, amortized cost at the time of disposal shall be reported as consideration on Schedule D-4.
 - i. For securities held at amortized cost at the time of disposal, book adjusted carrying value and amortized cost shall agree, preventing gain or loss recognition at the time of reclassification.
 - ii. For securities held at fair value under the lower of amortized cost or fair value measurement method, previously reported unrealized losses shall be reversed on Jan. 1, 2025, prior to disposal, resulting with a reported value that mirrors amortized cost at the time of disposal. This action prevents realized loss recognition at time of reclassification.
- b. Securities reclassified from Schedule D-1 shall be recognized on the subsequent schedule (e.g., Schedule BA) with an actual cost that agrees to the disposal value (amortized cost). Immediately subsequent to recognition on the resulting schedule, the securities shall be reported in accordance with the measurement method prescribed by the applicable SSAP:
 - i. For securities previously reported at fair value on Schedule D-1 (under a lower of amortized cost or fair value measurement method), the reporting entity will recognize an unrealized loss to match the previously reported book adjusted carrying value. Subsequently, the security will continue to reflect a lower of amortized cost or fair value measurement method.
 - ii. For securities previously reported at amortized cost on Schedule D-1, if the subsequent statement requires a lower of amortized cost or fair value measurement

method, then the reporting entity shall recognize an unrealized loss to the extent fair value is less than amortized cost.

- iii. After application of paragraph 45.b.i. and 45.b.ii. all securities shall reflect either the same reported value as of December 31, 2024 (amortized cost or fair value) or a lower reported value (if the security is subject to the lower of amortized cost or fair value measurement method). There should be no instances that result with a security having a greater reported value than what was presented on December 31, 2024. Subsequent to transition, securities reported at fair value may incur unrealized gains or losses due to fair value fluctuations, but should never have unrealized gains that result with a book adjusted carrying value that exceeds amortized cost.

46. With this transition guidance, changes in measurement for securities reclassified under the bond definition will be reported as a change in unrealized capital gains (losses) in the first quarter 2025 financial statements (unless sold in the interim with a realized gain or loss) and not as a change in accounting principle. To enable regulators the ability to identify the impact of securities reclassified under the bond definition, the following disclosure for the 2025 first quarter financial statement is required:

- a. Aggregate book adjusted carrying value for all securities reclassified off Schedule D-1.
- b. Aggregate book adjusted carrying value after transition for all securities reclassified off Schedule D-1 that resulted with a change in measurement basis. (This shall be a subset of paragraph 46.a. and captures the securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.)
- c. Aggregate surplus impact for securities reclassified off Schedule D-1. This shall include the difference between book adjusted carrying value as of December 31, 2024, and book adjusted carrying value after transition for those securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.

47. For clarification purposes, the transition guidance shall be applied prospectively beginning with the first year of adoption (Jan. 1, 2025). For disclosures that provide comparative information, reporting entities shall not restate the prior year's information in the 2025 disclosure.

Historical Adoption and Revisions to Original SSAP No. 26R

48. For historical reference, the original adoption, and subsequent revisions to SSAP No. 26R prior to the adoption of the principles-based bond definition are detailed below:

- a. SSAP No. 26R was originally effective for years beginning January 1, 2001.
- b. Guidance for the accounting of securities subsequent to other than temporary impairments was originally effective for reporting periods beginning on January 1, 2009, with early adoption permitted. This guidance was incorporated from *SSAP No. 99—Accounting for Securities Subsequent to an Other-Than-Temporary Impairment* in 2010. The original impairment guidance included in this standard, and the substantive revisions reflected in SSAP No. 99 are retained for historical purposes in Issue Paper No. 131.

Bonds

SSAP No. 26R

- c. Guidance pertaining to the accounting for zero-coupon convertible bonds was originally effective December 8, 2002, and was subsequently incorporated into this statement from *INT 02-05: Accounting for Zero Coupon Convertible Bonds*.
- d. Guidance adopted in December 2013 clarifying the ‘yield-to-worst’ concept for bonds with make-whole call provisions was initially effective January 1, 2014, unless the company had previously been following the guidance. (Companies that have previously been following the original intent, as clarified in the revisions, were not impacted by these changes.)
- e. The guidance on the calculation of investment income for prepayment penalties and/or acceleration fees was effective January 1, 2017, on a prospective basis and was required for interim and annual reporting periods thereafter, with early application permitted.
- f. In April 2017, revisions were incorporated in accordance with the investment classification project. These revisions are detailed in Issue Paper No. 156 and were effective December 31, 2017. These revisions clarified the scope of the bond definition as well as incorporated new guidance for SVO-Identified Bond ETFs identified in scope of this statement. Retained transition / application guidance is captured as follows:
 - i. For situations in which there is an interval of time between when a company purchases an investment and when the investment is designated as an SVO-identified investment eligible for systematic value, the book yield should be calculated by equating the book/adjusted carrying value at that time to the portfolio’s aggregate cash flows (ACF). For these situations, the ETF shall be reported as a disposed security on the prior reporting schedule and reported as an acquisition.
 - ii. In accordance with the systematic value methodology, at the next reporting period date, the reporting entity shall amortize or accrete the carrying value by the difference between the effective interest using the initial book yield, and the distributions received, and shall recalculate the new effective book yield using the new carrying value and ACF as of the last day of the reporting period.
 - iii. As the necessary historical ACF data is not available for calculating the initial book yield at acquisition for the net present value constant purchase yield (NPV-CPY) method for impairment recognition, reporting entities shall use recently published yield-to-maturity (YTM) as their constant purchase yield to be applied for NPV-CPY impairment recognition.
 - iv. If the investment no longer qualifies as an SVO-Identified Bond ETF in scope of statement, this change shall be reflected prospectively from the effective date. Investments previously captured in this statement, that will move within the scope of another SSAP and reporting schedule shall be shown as dispositions on and shown as an acquisition on the schedule for which it will be subsequently reported.
- g. The guidance to explicitly exclude securities for which the contract amount of the instrument to be paid at maturity (or the original investment) is at risk for other than failure of the borrower to pay the contractual amount due, were effective December 31, 2019.
- h. Revisions to clarify existing guidance that all prepayment penalties and acceleration fees for when a bond is liquidated prior to its scheduled maturity date, including those from tendered bonds, shall follow the guidance in SSAP No. 26R was effective January 1, 2021.

Reporting entities that have historically applied this guidance shall not change historical practices, but the effective date of January 1, 2021, with early application permitted, was allowed for reporting entities to make systems changes to capture tendered bonds in scope of this guidance.

REFERENCES

Other

- *Purposes and Procedures Manual of the NAIC Investment Analysis Office*
- NAIC Valuation of Securities product prepared by the Securities Valuation Office

Relevant Issue Papers

- *Issue Paper No. 26—Bonds, Excluding Loan-Backed and Structured Securities*
- *Issue Paper No. 131—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*
- *Issue Paper No. 156—Bonds*
- *Issue Paper No. XX—Principles-Based Bond Definition*

EXHIBIT A - EXAMPLES OF ANALYSIS FOR ASSET-BACKED SECURITIES

1. As detailed in paragraphs 9-10, the holder of an asset-backed securities is 1) required to be in a different economic position than if the holder owned the ABS Issuer's assets directly, and 2) if the assets owned by the ABS Issuer are cash generating non-financial assets, then the assets are expected to generate a meaningful level of cash flows towards repayment of the bond through use, licensing, leasing servicing or management fees, or other similar cash flow generation. (This guidance requires a meaningful level of cash flows to service the debt other than through the sale or refinancing of the assets.) This appendix details example analysis for these meaningful cash flow and substantive credit enhancements.

2. **Example 1:** A reporting entity invests in debt instruments issued from a SPV sponsored by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, "Agency or Agencies"). These debt instruments pass through principal and interest payments received from underlying mortgage loans held by the SPV to the debtholders proportionally, with principal and interest guaranteed by the Agencies. While there is prepayment and extension risk associated with the repayment of the underlying mortgage loans, the credit risk associated with the mortgage loans is assumed by the Agencies.

3. **Example 1 Rationale:** Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgage loans directly because the credit risk has been redistributed and assumed by the Agencies. This is a substantive credit enhancement because a market participant (i.e., a knowledgeable investor transacting at arm's length) would conclude the Agency guarantee is expected to absorb all losses before the debt instrument being evaluated. Therefore, the holder of the debt instrument is in a substantively different economic position than if the holder owned the ABS Issuer's unguaranteed assets directly, in accordance with the requirements in paragraph 10. When guarantees do not cover 100% of principal and interest as the Agency guarantees do in this example, it is still appropriate to determine if the guarantee is substantive in accordance with the requirements in paragraph 10, to determine if the holder is in a substantively different economic position that if the holder held the ABS Issuer's assets directly.

4. **Example 2:** 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, and the mortgage 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 all or a portion of the defaulted lease payments. The loan-to-value (as a percentage of property value) at origination is 100%.

5. 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 SPV will either need to refinance the debt or sell the underlying collateral 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.

6. **Example 2 Rationale:** The reporting entity determined that the debtholder was in a fundamentally different position than if the real estate was owned directly. 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 which 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 its 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 at the maturity of the loan.

7. The reporting entity also determined that the structure provides substantive credit enhancement in the form of overcollateralization to conclude that investors are in a different economic position than holding the real property directly, in accordance with the requirements in [paragraph 10](#). In reaching this conclusion, the reporting entity noted that although the debt instrument starts with a 100% loan-to-value (not including the value of the contractually required lease payments), contractual fixed payments from the lease provide additional security such that the reporting entity is in a different economic position than owning the property directly. Lease cash flows are sufficient to cover the payment of all interest and 50% of the outstanding principal over the term of the lease. In the context of the predictable nature of the cash flows and collateral value range over time, the reporting entity concluded that a market participant (i.e., knowledgeable investor transacting at arm's length) would consider this level of overcollateralization to put the investor in a substantively different economic position than owning the underlying property directly.

8. 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.

9. **Example 3:** A reporting entity invested in a debt instrument with the same characteristics as described in Example 2, except that the existing lease at the time of origination has a contractual term that is shorter than that of the debt instrument. It is expected with a high degree of probability that the lease will be renewed, and a substantial leasing market exists to replace the lessee should they not renew. However, in the unlikely circumstance that the property cannot be re-leased, there would not be enough cash flows to service the scheduled principal and interest payments, and the property would have to be liquidated to pay off the debt upon default.

10. **Example 3 Rationale:** All details of Example 3, including the expected collateral cash flows, are consistent with those in Example 2, except that the cash flows in Example 2 are contractually fixed for the duration of the debt while the cash flows in Example 3 are subject to re-leasing risk. Notwithstanding the involvement of re-leasing risk, the reporting entity concluded that the ability to re-lease the property was highly predictable and supported the conclusion that the underlying collateral was expected to produce meaningful cash flows to service the debt.

11. This distinction is to highlight that the expected cash flows of a cash-generating non-financial asset may or may not be contractually fixed for the term of the bond. Certain securitized cash flow streams may not by their nature lend themselves to long-term contracts (e.g., single-family home rentals), but may nevertheless lend themselves to the production of predictable cash flows. While the non-contractual nature of the cash flows is an important consideration in determining whether a non-financial asset is expected to

produce meaningful cash flows to service the debt, it does not, in and of itself, preclude a reporting entity from concluding that the assets are expected to produce meaningful cash flows.

12. **Example 4:** A reporting entity invested in a debt instrument issued by a SPV that owns equipment which is leased to an equipment operator. The equipment operator makes lease payments to the SPV, which are passed through to service the SPV's debt obligation. While the debt is outstanding, the equipment and lease are held in trust and pledged as collateral for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the equipment 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 70%.

13. 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 maturity, there is a balloon payment due, totaling 80% of the original outstanding principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying equipment to service the final debt balloon payment. The loan-to-value at maturity is expected to increase to 95% considering the scheduled principal amortization payments net of the expected economic depreciation in the equipment value over the term of the debt. The equipment 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 equipment could be liquidated over a reasonable period of time, if necessary.

14. **Example 4 Rationale:** The equipment is a cash generating non-financial asset which is not expected to generate a meaningful level of cash flows for the repayment of the bonds via the existing lease that covers all interest payments and 20% of principal payments. In reaching this determination, the reporting entity considered that, while the cash flows being produced are predictable, the ability to recover the principal of the debt investment is almost entirely reliant on the equipment retaining sufficient value to sell or refinance to satisfy the debt.

15. The reporting entity also determined that the structure lacks substantive credit enhancement to conclude that investors are in a different economic position than holding the equipment directly, in accordance with the requirements in [paragraph 10](#). In reaching this conclusion, the reporting entity noted that the debt starts with a 70% loan-to-value, but the overcollateralization is expected to deteriorate over the term of the debt as the equipment economically depreciates more quickly than the debt amortizes. This results in a high loan-to-value (i.e., 95%) at maturity, relative to the market value volatility of the underlying collateral. Despite the predictable nature of the cash flows, the reporting entity concluded that the debt instrument lacked a substantive level of overcollateralization to conclude that the investor is in a different economic position than owning the underlying equipment directly. It was determined that the level of overcollateralization, as determined by a market participant (i.e., a knowledgeable investor transacting at arm's length), is nominal. Therefore, the reporting entity concluded that it was in a substantively similar position as if it owned the equipment directly.

16. 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 factor in any expected economic appreciation. Note that a debt instrument with a loan-to-value that is expected to increase over time is not necessarily deemed to have nominal overcollateralization.

EXHIBIT B – SYSTEMATIC VALUE CALCULATION

The established systematic value method is considered an “aggregated cash flow” (ACF) method in which the cash flow streams from the individual bond holdings are aggregated into a single cash flow stream. These cash flows are scaled such that, when equated with the market price at which the ETF was purchased or sold, an internal rate of return is calculated, representing the investor’s initial book yield for the ETF. Although the initial book yield is utilized to determine the current period effective yield, and the resulting adjustments to the ETF’s reported (systematic) value, the book yield is recalculated at least quarterly in order to adjust the investor’s book yield to reflect current cash flow projections of the current bond holdings within the ETF.

The following calculation shall be followed by reporting entities electing systematic value:

1. Download **cash flows** file from ETF provider website.

NAV:	\$115.07	(Official end-of-day NAV found on <u>ETF provider website</u>)
Maturity:	12/8/2027	= SUMPRODUCT (CASHFLOW_DATE column, PRINCIPAL column)/SUM (PRINCIPAL column)
When Paid:	Monthly	
Par Value:	2,500	# shares purchased
Monthly Effective Interest:	\$0.40	= (Recalculated Effective Book Yield from prior month x Prior Month Ending Book Value /12)
Distribution:	\$0.34	Found on <u>provider website</u>
Net Amortization/Accretion:	\$0.06	= (Monthly Effective Interest) – (Distribution)
Prior Month Ending Book Value:	\$115.35	
NPV Constant Yield Method:	\$117.10	= XNPV (Initial Book Yield, CASHFLOW column, CASHFLOW_DATE column) / 1000000
Initial Book Yield:	4.15%	
Book (Systematic) Value:	\$115.41	= (Prior Period Ending Book Value) + (Net “amortization/ accretion”)
Expense Ratio:	0.1500%	
Recalculated Effective Book Yield:	4.1639%	=XIRR(CASHFLOW column, CASHFLOW_DATE column, 0.05)

All formulas on the left are at a per share level (excepting “Par Value” which represents the number of shares purchased for this lot).

The resulting values calculated on the left are aggregated to reflect the total number of shares held on the previous tabs reflecting how one might populate the reporting schedule with these values.

Additionally, the cash flows in the data file are based on 1 million shares. This was done in order to make the cash flows easier to observe and work with (i.e., at a single share level, cash flows would be at fractional dollar levels). Therefore, in order to calculate the yield, investors must multiply the price of the ETF by 1 million shares and then use that value as a cash outflow against the positive cash inflows from the bond portfolio in order to calculate the IRR.

CUSIP	ASOF_DATE	CALL_TYPE	CASHFLOW_DATE	INTEREST	PRINCIPAL	CASHFLOW
2. Insert a row in between the column headings and the cash flow data.		3. Filter for “Call Type” is WORST. (Click “Data” at the top of Excel sheet, then click “Filter” and click the new dropdown box in the “Call Type” cell and select only “WORST.”)	4. Enter the date of the cash flow data file underneath cash flow date.			5. Under the column “CASHFLOW” enter the following formula in Excel: =(-Ending Book Value)*1000000
			8/31/20X1			(115,414,059.56)
“Ticker”	8/31/20X1	WORST	9/8/20X1	136,538.564	81,472.372	218,010.937
“Ticker”	8/31/20X1	WORST	9/9/20X1	5,990.106	0	5,990.106
“Ticker”	8/31/20X1	WORST	9/10/20X1	9,706.324	0	9,706.324

EXHIBIT C – AMORTIZATION TREATMENT FOR CALLABLE BONDS

Example 1: Call Price Less Than BACV Throughout the Life of the Bond

12/31/2008 – Issuance of Bond. Par = 100/10-Year Bond (Matures 12/31/2018)

01/01/2009 – Call Date/Call Price 107

12/15/2010 – Reporting Entity Acquires Bond. Cost = 106

01/01/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 104

01/01/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 103

01/01/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102

General Note for Examples: The reporting entity purchased the bond at a premium (cost was greater than par). The 1/1/2009 call date and price is ignored as it occurred prior to the reporting entity acquiring the bond. The bolded numbers represent the lowest asset value at each reporting period. The bond is amortized to the lowest asset value, which in this scenario is amortizing to the call dates and prices. (The standard amortization to the maturity date is shown as it should be compared to the amortization to the call date/price to verify that the BACV at any given reporting date reflects the lowest asset value.)

Date	Action	Cost	Call Price	BACV (Under Call Date/Price)	Amortization to the Lowest Value	BACV Under Standard Amortization
12/15/2010	Acquired	106		106		106
12/31/2011	Lockout Period			104	2	105.25
01/01/2012	Call Date		104	104		
12/31/2012	Year-End Reporting			103.5	0.5	104.50
12/31/2013	Year-End Reporting			103	0.5	103.75
01/01/2014	Call Date		103	103		
12/31/2014	Year-End Reporting			102.5	0.5	103
12/31/2015	Year-End Reporting			102	0.5	102.25
01/01/2016	Call Date Exercised		102	102		

Standard Amortization								
This table shows the amortization with a purchase date of 12/15/2010 at \$106 through the maturity date of 12/31/2018.								
12/15/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Amortization	.75	.75	.75	.75	.75	.75	.75	.75
BACV	105.25	104.50	103.75	103	102.25	101.50	100.75	100

	Consideration	Par Value	BACV at Disposal Date	Realized Gain/Loss*
01/01/2016 Call Exercised	102	100	102	(2)

* Per paragraph 26, the entity would recognize a \$(2) loss (BACV less par), and investment income of \$2 (consideration less par).

Example 2: Call Price Could be Greater Than BACV

12/31/2008 – Issuance of Bond. Par = 100/10-Year Bond (Matures 12/31/2018)

01/01/2009 – Call Date/Call Price 107

12/15/2010 – Reporting Entity Acquires Bond. Cost = 104

01/01/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 106

01/01/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 103

01/01/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102

The bolded numbers represent the lowest asset value:

Date	Action	Cost	Call Price	BACV (Under Call Date / Price)	Amortization To the Lowest Asset Value	BACV Under Standard Amortization
12/15/2010	Acquired	104		104		104
12/31/2011	Lockout Period		106	104	0.5	103.50
01/01/2012	Call Date		106	104		103.50
12/31/2012	Year-End Reporting			103.5	0.5	103
12/31/2013	Year-End Reporting			103	0.5	102.50
01/01/2014	Call Date		103	103		102.50
12/31/2014	Year-End Reporting			102.5	0.5	102
12/31/2015	Year-End Reporting			102	0.5	101.50
01/01/2016	Call Date Exercised		102	102		101.50

Standard Amortization

This table shows the amortization with a purchase date of 12/15/2010 at \$104 through the maturity date of 12/31/2018.

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Amortization	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
BACV	103.50	103	102.50	102	101.50	101	100.50	100

	Consideration	Par Value	BACV at Disposal Date	Realized Gain/Loss*
01/01/2016 Call Exercised	102	100	101.50	(1.50)

* Per paragraph 26, the entity would recognize a \$(1.50) loss (BACV less par), and investment income of \$2 (consideration less par).

Example 3: Call Price Could be Greater Than BACV

12/31/2008 – Issuance of Bond. Par = 100/10-Year Bond (Matures 12/31/2018)

01/01/2009 – Call Date/Call Price 107

12/15/2010 – Reporting Entity Acquires Bond. Cost = 104

01/01/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 106

01/01/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102

01/01/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 101

Note – This illustration shows that the evaluation of whether standard amortization (to the maturity date) or the call date price may change over the time. The bolded numbers represent the lowest asset value:

Date	Action	Cost	Call Price	BACV (Under Call Date / Price)	Amortization To the Lowest Asset Value	BACV Under Standard Amortization
12/15/2010	Acquired	104		104		
12/31/2011	Lockout Period		106	104	0.5	103.50
01/01/2012	Call Date		106	104		103.50
12/31/2012	Year-End Reporting			103	0.5	103
12/31/2013	Year-End Reporting			102	1	102.50
01/01/2014	Call Date		102	102		102.50
12/31/2014	Year-End Reporting			101.5	0.5	102
12/31/2015	Year-End Reporting			101	0.5	101.50
01/01/2016	Call Date Exercised		101	101		101.50

Standard Amortization

This table shows the amortization with a purchase date of 12/15/2010 at \$104 through the maturity date of 12/31/2018.

	12/15/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Amortization		0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
BACV		103.50	103	102.50	102	101.50	101	100.50	100

	Consideration	Par Value	BACV at Disposal Date	Realized Gain/Loss*
01/01/2016 Call Exercised	101	100	101	(1)

* Per paragraph 26, the entity would recognize a \$(1) loss (BACV less par), and investment income of \$1 (consideration less par).

Example 4: Continuously Callable Bond – Callable at Par After Initial Lockout Period

12/31/2008 – Issuance of Bond. Par = 100/10-Year Bond (Matures 12/31/2018)

01/01/2009 – Call Date / Call Price 107 – Continuously Callable Thereafter at Par

12/15/2010 – Reporting Entity Acquires Bond. Cost = 104

The bolded numbers represent the lowest asset value:

Date	Action	Cost	Call Price	BACV (Under Call Date/Price)	Amortization To the Lowest Asset Value	BACV Under Standard Amortization
12/15/2010	Acquired	104		100	4	
12/31/2010	Year-End Reporting		100	100	There is no subsequent amortization as the premium was fully expensed at acquisition.	104
12/31/2011	Year-End Reporting		100	100		103.50
12/31/2012	Year-End Reporting		100	100		103
12/31/2013	Year-End Reporting		100	100		102.50
12/31/2014	Year-End Reporting		100	100		102
12/31/2015	Year-End Reporting		100	100		101.50
01/01/2016	Year-End Reporting		100	100		101.50

Standard Amortization								
This table shows the amortization with a purchase date of 12/15/2010 at \$104 through the maturity date of 12/31/2018.								
12/15/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Amortization	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
BACV	103.50	103	102.50	102	101.50	101	100.50	100

	Consideration	Par Value	BACV at Disposal Date	Realized Gain/Loss*
01/01/2016 Call Exercised	100	100	100	0

* Since the call price is par and could occur immediately after acquisition, the premium is immediately expensed. When the bond is called, there is no gain or loss as the consideration received equals the BACV.

Example 5: Determination of Prepayment Penalty When Call Price is Less Than Par

Call Price Less than Par				
Entity 1			Entity 2	
Par	100		Par	100
BACV	24		BACV	25
Consideration	26		Consideration	26
Explicit fee	1		Explicit fee	1
Remaining consideration	25		Remaining consideration	25
Gain	2		Gain	0
Income*	0		Income**	1

*Entity 1 does not have in place a process to identify an explicit prepayment penalty or acceleration fee.

**Entity 2 has in place a process to identify an explicit prepayment penalty or acceleration fee.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/19-21a-SSAP26R-8-13-23.docx>

Statement of Statutory Accounting Principles No. 43

Asset-Backed Securities

STATUS

Type of Issue.....	Common Area
Issued	August 13, 2023
Effective Date	January 1, 2025
Affects.....	Replaces SSAP No. 43R on January 1, 2025
Affected by	No other pronouncements
Interpreted by.....	INT 06-07; INT 07-01; INT 22-01
Relevant Appendix A Guidance	None

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SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for each security investment that qualifies as an asset-backed security (ABS) under the principles-based bond definition detailed in *SSAP No. 26R—Bonds*. Each security shall be individually assessed under the bond definition to determine applicability as an asset-backed security and reported separately regardless of whether the security was issued in combination or as a unit with other investments. Items captured in scope of this statement are collectively referred to as asset-backed securities.

2. In addition to security investments that qualify under the principles-based definition as an asset-backed security, certain specific investments are also captured in scope of this statement:

- a. Mortgage Referenced Securities that do not meet the definition of an asset-backed security. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise¹ or by a special purpose trust in a transaction sponsored by a government sponsored enterprise in the form of a “credit risk transfer.” In these situations, the issued security is tied to a referenced pool of mortgages and the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions within this standard apply to mortgage-referenced securities.
 - b. Freddie-Mac When Issued K-Deal (WI Trust) Certificates fully guaranteed by Freddie Mac are included in scope of this statement from original acquisition, and not initially reported as a derivative forward contract.^(INT 22-01)
3. Securities captured in scope of this statement are not permitted to be reported as cash equivalents or short-term investments in scope of *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* even if acquired within one year or less from the maturity date. Investments captured in scope of SSAP No. 2R are intended to reflect situations in which limited risk remains, either from changes in credit quality or interest rates, due to the short-duration until maturity. As ultimate cash flows from asset-backed securities may have other risks beyond default risk or interest rate risk (such as performance factors, balloon payments, collateral quality) reporting as a cash equivalent or short-term investment is not permitted to prevent inappropriate assumptions of the investment’s remaining potential risk.
4. This statement excludes:
- a. Securities captured in scope of *SSAP No. 26R—Bonds*.
 - b. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.
 - c. Securities that do not qualify as Asset-Backed Securities per the bond definition in *SSAP No. 26R—Bonds*. This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. Debt securities that do not qualify and residual interests shall follow guidance in *SSAP No. 21R—Other Admitted Assets*.

SUMMARY CONCLUSION

Principles-Based Bond Definition - Asset-Backed Security

5. Investments within the scope of this statement issued by a related party or acquired through a related party transaction or arrangement are also subject to the provisions, admittance assessments and disclosure requirements of *SSAP No. 25—Affiliates and Other Related Parties*. In determining whether a security is a related party investment, consideration should be given to the substance of the transaction, and the parties whose action or performance materially impacts the insurance reporting entity holding the security. Asset-

¹ Currently, only Fannie Mae and Freddie Mac are the government sponsored entities that either directly issue qualifying mortgage-referenced securities or sponsor transactions in which a special purpose trust issues qualifying mortgage-reference securities. However, this guidance would apply to mortgage-referenced securities issued by any other government sponsored entity that subsequently engages in the transfer of mortgage credit risk.

backed securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

- a. Although an asset-backed security may be acquired from a non-related issuer, if the assets held in trust predominantly² reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment. In such situations where the underlying collateral assets are issued by related parties that do not qualify as affiliates, these securities shall be identified as related party investments in the investment schedules.
- b. An asset-backed security may involve a relationship with a related party but not be considered an affiliated investment. This may be because the relationship does not result in direct or indirect control of the issuer or because there is an approved disclaimer of control or affiliation. Regardless of whether investments involving a related party relationship are captured in the affiliated investment reporting lines, these securities shall be identified as related party investments in the investment schedules. Examples of related party relationships would include involvement of a related party in sponsoring or originating the asset-backed security or any type of underlying servicing arrangement. For the avoidance of doubt, investments from any arrangement that results in direct or indirect control, including control through a servicer or other controlling arrangement, shall be reported as affiliated in accordance with *SSAP No. 25—Affiliates and Other Related Parties*.

Initial Reporting Value and Recognition of Origination and Commitment Fees & Costs

6. Items in scope of this statement shall initially be reported at cost, including brokerage and related fees, unless otherwise detailed in paragraph 8. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement asset-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.

7. For assets that qualify in scope of this statement that result from a securitization or transfer of assets by the reporting entity captured in SSAP No. 103R, the guidance in that SSAP determines the initial reporting value:

- a. For asset-backed securities resulting from transfers of participating interests that qualify as a sale, the participating interests in financial assets that continue to be held by the reporting entity transferor shall be measured and reported at the date of transfer by allocating the previous carrying amount between the participating interests transferred and sold, and the participating interests that are not transferred and continue to be held by the reporting entity, based on their relative fair values.

² In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a SSAP No. 43R structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or SSAP No. 43R security issuer. As identified in *SSAP No. 25—Affiliates and Other Related Parties*, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

- b. For asset-backed securities resulting from transfers of an entire financial asset or group of entire financial assets that qualify as a sale, assets obtained, including beneficial interests, shall be initially recognized at fair value.
 - c. For asset-backed securities resulting from the transfer of assets that do not qualify as sales, the reporting entity transferor shall continue to report the transferred financial assets with no change in measurement.
8. Costs related to origination when paid in the form of brokerage and other related fees shall be capitalized as part of the cost of the asset-backed security. All other costs, including internal costs or costs paid to an affiliated entity related to origination, purchase, or commitment to purchase asset-backed securities, shall be charged to expense when incurred.
9. Origination fees represent fees charged to the borrower (paid to the reporting entity) in connection with the process of originating or restructuring a transaction. The fees include, but are not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to such a transaction. Origination fees shall not be recorded until received in cash. Origination fees intended to compensate the reporting entity for interest rate risks (e.g., points), shall be amortized into income over the term of the asset-backed security consistent with [paragraph 12](#) of this statement. Other origination fees shall be recorded as income upon receipt.
10. Commitment fees are fees paid to the reporting entity that obligate the reporting entity to make available funds for future borrowing under a specified condition:
- a. A fee paid to the reporting entity to obtain a commitment to make funds available at some time in the future is generally refundable only if the asset-backed security is issued. If the security is not issued, then the fees shall be recorded as investment income by the reporting entity when the commitment expires.
 - b. A fee paid to the reporting entity to obtain a commitment to borrow funds at a specified rate and with specified terms quoted in the commitment agreement is generally not refundable unless the commitment is refused by the reporting entity. This type of fee shall be deferred, and amortization shall depend on whether or not the commitment is exercised. If the commitment is exercised, then the fee shall be amortized in accordance with [paragraph 12](#) of this statement over the life of the asset-backed security as an adjustment to the investment income on the security. If the commitment expires unexercised, the commitment fee shall be recognized in income on the commitment expiration date.

Subsequent Carrying Value Method, Amortization, Accruals and Prepayment Penalties

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*³:
- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, excluding residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.

³ Paragraphs 39-40 provide guidance on the NAIC financial modeling approach applicable to certain securities in determining NAIC designations.

- b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
 - c. For residual tranches or interests⁴, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. These items are captured in *SSAP No. 21R—Other Admitted Assets* and subject to admittance restrictions detailed in that statement.
12. Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method and shall be recorded as an adjustment to investment income.^(INT 07-01) The interest method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the asset-backed securities is expected to occur, not the stated maturity period. (P9)
13. Interest shall be accrued using the effective-yield method using the redemption prices and redemption dates used for amortizing premiums and discounts. Interest income consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium amortization and interest paid on acquisition of asset-backed securities, and the addition of discount accrual. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.
14. An asset-backed security may provide for a prepayment penalty or acceleration fee in the event the investment is liquidated prior to its scheduled termination date. These fees shall be reported as investment income when received.
15. The amount of prepayment penalty and/or acceleration fees to be reported as investment income shall be calculated as follows:
- a. The amount of investment income reported is equal to the total proceeds (consideration) received less the par value of the investment; and
 - b. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses subject to the authoritative literature in *SSAP No. 7*.

⁴ Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Assessment of Cash Flows and Impact of Prepayments

16. Prepayments can be a significant variable element in the cash flows received from asset-backed securities because they may affect the yield and determine the expected maturity against which the yield is evaluated. For example, with a mortgage-backed security, falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created when rising interest rates slow repayment and can significantly lengthen the duration of the security. In addition to interest rate risk, other factors can influence the cash flows generated from an asset-backed securities. These factors include, but are not limited to, defaults of the underlying payors as well as performance requirements that must occur before cash flows can be generated from the underlying assets (such as with leases or royalty rights). If the underlying assets are delinquent or otherwise not generating expected cash flows, such items should be reflected in the cash flow analysis through diminishing security cash flows. Updated cash flow assessments shall continue to occur even if the underlying assets have not been liquidated and regardless of whether an other-than-temporary loss has been recognized.

17. Changes in currently estimated cash flows, including the effect of prepayment assumptions, on all asset-backed securities shall be reviewed periodically, at least quarterly. The prepayment rates of the underlying assets shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all asset-backed securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

18. Asset-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions. Reporting entities may utilize the prospective adjustment method for all asset-backed securities, or they may elect to utilize the retrospective adjustment methodology to specific asset-backed securities that are reported with NAIC designations that are of high credit quality⁵ at the time of acquisition by the reporting entity. That is, the reporting entity shall determine if it will apply the retrospective or prospective method at the time of acquisition depending on the NAIC designation at that time and can only apply retrospective (as a policy election) to securities that of high credit. Subsequently, if an investment is downgraded below high credit quality, the reporting entity may continue to apply the retrospective method unless the security is other-than-temporarily impaired.

19. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the amortized cost of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

20. The retrospective methodology changes both the yield and the amortized cost so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost

⁵ Under U.S. GAAP, application of the retrospective method for beneficial interests in securitized financial assets, which would generally encompass most asset backed securities defined within SSAP 43R, is limited to “high quality” investments. This has been interpreted to be investments with AA or better ratings.

of the investment. The current amortized cost basis for the asset-backed security is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Accretable Yield and Changes to Effective Yield for Application of Prospective Method

21. At initial acquisition of an asset-backed security, the reporting entity shall determine the accretable yield. The accretable yield is the excess of cash flows expected to be collected over the reporting entity's initial investment in the asset-backed security. The accretable yield shall be recognized as interest income on an effective-yield basis over the life of the asset-backed security⁶. The nonaccretable difference is the contractually required payments in excess of the cash flows expected to be collected. The nonaccretable difference shall not be recognized as an adjustment to yield, a loss accrual or a valuation allowance for credit risk. For transactions initially captured in SSAP No. 103R resulting from a reporting entity's transfer of assets, all cash flows estimated at the transaction date are defined as the holder's estimate of the amount and timing of estimated future principal and interest cash flows used in determining the purchase price or the holder's fair value for purposes of determining a gain or loss under SSAP No. 103R.

22. After the transaction date, cash flows expected to be collected are defined as the holder's estimate of the amount and timing of the estimated principal and interest cash flows based on the holder's best estimate of current considerations and reasonable and supportable forecasts. Expected cash flows are re-evaluated each quarter to determine if there has been a favorable (or an adverse) change in cash flows versus the previous estimate.

23. If upon evaluation there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, the reporting entity shall recalculate the amount of accretable yield for the asset-backed security on the date of evaluation as the excess of cash flows expected to be collected over the asset-backed security's current amortized cost. The amortized cost is equal to the initial investment minus cash received to date, minus write-offs of the amortized cost basis (e.g., recognized other than temporary impairments) plus the yield accreted to date. If the security is in an impaired state (meaning, fair value is less than amortized cost, regardless if an unrealized loss has been recognized because the security is reported at amortized cost) and there is an adverse change in cash flows expected to be collected, an other-than-temporary impairment shall be considered to have occurred as described in paragraph 30 and requires recognition of a realized loss pursuant to paragraph 35. However, an adverse change in cash flows due solely to changes in the interest rate of a "plain-vanilla", variable-rate asset-backed security generally shall not result in the recognition of an other-than-temporary impairment (a plain-vanilla, variable-rate asset-backed investment does not include those variable-rate investments with interest rate reset formulas that involve either leverage or an inverse floater).

24. A favorable (or an adverse) change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected. Based on cash flows expected to be collected, interest income may be recognized on an asset-backed security even if the net investment in the asset-backed security is accreted to an amount greater than the amount at which the asset-backed security could be settled if prepaid immediately in its entirety. The adjustment shall be accounted for prospectively as a change in estimate in conformity with SSAP No. 3, with the amount of periodic accretion adjusted over the remaining life of the asset-backed security.

25. Determining whether there has been a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected (taking into consideration both the timing and amount

⁶ An asset-backed security may be acquired at a discount because of a change in credit quality or rate or both. When a security is acquired at a discount that relates, at least in part, to the security's credit quality, the effective interest rate is the discount rate that equates the present value of the investor's estimate of the security's future cash flows with the purchase price of the security.

of the cash flows expected to be collected) involves comparing the present value of the remaining cash flows expected to be collected at the initial transaction date (or at the last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. Both the current and previous sets of cash flows shall be discounted at a rate equal to the current yield used to accrete the asset-backed security.

Recognition of Realized and Unrealized Gains and Losses and Impairment Guidance

26. Asset-backed securities required to be reported at the lower of amortized cost or fair value shall report changes from the prior reporting period as unrealized gains or losses unless an other-than-temporary impairment has occurred. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be reported through the AVR. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus). (P29)

27. Assessment of an other-than-temporary impairment is required for all asset-backed securities when fair value is less than the amortized cost basis. The amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, and previous other-than-temporary impairments recognized as a realized loss. Reporting a security at the lower of amortized cost or fair value is not a substitute for other-than-temporary impairment recognition. For securities reported at fair value where an other-than-temporary impairment has been determined, the loss recognized reflects the realization of unrealized losses previously recorded from fluctuations in fair value. (The extent to which unrealized losses are realized depends on whether the other-than-temporary impairment is considered a full impairment or a bifurcated impairment pursuant to paragraphs 34 and 35.) After the recognition of an other-than-temporary impairment, securities reported at the lower of amortized cost or fair value shall continue to report unrealized gains and losses from fluctuations in fair value.

28. If an entity intends to sell the asset-backed security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

29. If an entity does not intend to sell the asset-backed security, the entity shall assess whether it has the intent and ability⁷ to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

30. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security and the entity has the intent and ability to hold. (This includes situations in which an entity has an adverse change in cash flows expected to be collected for a security that is an impaired position (meaning, fair value is less than amortized cost, regardless of if an unrealized loss has been recognized.) In such situations, an other-than temporary impairment shall be considered to have occurred. (For mortgage-referenced securities, an OTTI is considered to have occurred when there has been a delinquency or other credit event in the referenced pool of mortgages such that the entity does not expect to recover the entire amortized cost basis of the security.) In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered, and an other-than-temporary impairment shall be considered to have occurred. A decrease in

⁷ This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this statement (amortized cost).

the present value of cashflows expected to be collected on an asset-backed security that results from an increase or decrease in expected prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

31. In determining whether an other than-temporary impairment has occurred, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired asset-backed security, discounted at the security's effective interest rate. For securities in which there was no nonaccretable yield and for which there has been no changes to estimated cash flows since acquisition, the effective interest rate is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).⁸ For all other securities, the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment. (Meaning, the effective interest rate as adjusted to reflect the last revised assessment of expected cash flows.)

32. It is inappropriate to automatically conclude that a security is not other-than-temporarily impaired because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents an other-than-temporary impairment. Further analysis and judgment are required to assess whether a decline in fair value indicates that it is probable that the holder will not collect all of the contractual or estimated cash flows from the security. In addition, the length of time and extent to which the fair value has been less than cost can indicate a decline is other than temporary. The longer and/or the more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that it is probable that the holder will not collect all of the contractual or estimated cash flows from the issuer of the security.

33. In making its other-than-temporary impairment assessment, the holder shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows. Such information generally shall include the remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral. To achieve that objective, the holder shall consider, for example, industry analyst reports and forecasts, sector credit ratings, and other market data that are relevant to the collectibility of the security. The holder also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by "nontraditional loans"⁹). Thus, the holder shall consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including "balloon" payments). The holder also shall consider how the value of any collateral would affect the expected performance of the

⁸ An asset-backed security may be acquired at a discount because of a change in credit quality or rate or both. When a security is acquired at a discount that relates, at least in part, to the security's credit quality, the effective interest rate is the discount rate that equates the present value of the investor's estimate of the security's future cash flows with the purchase price of the security.

⁹ A nontraditional loan may have features such as (a) terms that permit principal payment deferral or payments smaller than interest accruals (negative amortization), (b) a high loan-to-value ratio, (c) multiple loans on the same collateral that when combined result in a high loan-to value ratio, (d) option adjustable-rate mortgages (option ARMs) or similar products that may expose the borrower to future increases in repayments in excess of increases that result solely from increases in the market interest rate (for example, once negative amortization results in the loan reaching a maximum principal accrual limit), (e) an initial interest rate that is below the market interest rate for the initial period of the loan term and that may increase significantly when that period ends, and (f) interest-only loans that should be considered in developing an estimate of future cash flows.

security. If the fair value of the collateral has declined, the holder needs to assess the effect of that decline on the ability of the holder to collect the balloon payment.

34. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date (full impairment). For asset-backed securities held at lower of amortized cost or fair value, upon recognition of an other-than-temporary impairment, all unrealized losses would be considered realized and the current fair value becomes the new cost basis.)

35. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the security's effective interest rate in accordance with **paragraph 31** (bifurcated impairment). For asset-backed securities held at lower of cost or fair value, unrealized losses would be realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities based on the difference between the current fair value and the present value of cash flows expected to be collected. (After recognizing an OTTI in these situations, the present value of cash flows expected to be collected becomes the new cost basis of the security.)

36. For reporting entities required to maintain an AVR or IMR, all unrealized gains and losses shall be reported through the AVR. For realized gains and losses, an analysis is required on whether the realized loss reflects an interest or non-interest related decline¹⁰. The analysis required is the same regardless of whether a realized loss results from an impairment write-down or whether there was a gain or loss upon sale. Guidance on specific scenarios resulting in realized gains and losses are as follows:

- a. Unrealized Gains and Losses – Record all unrealized gains and losses through AVR. At the time an unrealized gain or loss is realized, allocation between AVR or IMR will depend on the analysis and bifurcation between interest or non-interest related declines Unrealized gains or losses that are realized shall be reversed from AVR before the recognition of the realized gain or loss within AVR and IMR.
- b. Other-Than-Temporary Impairment – Non-interest related other-than-temporary impairment losses shall be recorded through the AVR and interest-related OTTI losses shall be recorded through the IMR. If the reporting entity wrote the security down to fair value due to the intent to sell or because the entity does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the entity shall bifurcate the realized loss between non-interest related (AVR) and interest related (IMR). The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined. Entities that recognized an OTTI based on the difference between amortized cost and the present value of expected cash flows shall recognize the full realized loss through AVR.

¹⁰ Pursuant to INT 06-07, the term interest-related includes a declining value due to both increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or the perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest-related.

- c. Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale.
- d. Security Sold at a Loss With Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- e. Security Sold at a Gain With Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- f. Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

37. This statement does not permit reversals of recognized other-than-temporary impairments based on subsequent recoveries of fair value. If there are subsequent changes to the cash flows expected to be collected, the prospective adjustment method shall be used to adjust the effective yield in future periods to reflect those changes.

38. In periods subsequent to the recognition of an other than temporary impairment loss for an asset-backed security, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. A reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the asset-backed security.

Designation Guidance

39. For Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and Collateralized Loan Obligations (CLOs) securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

- a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled RMBS/CMBS legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating the insurers' carrying value. For a modeled RMBS/CMBS non-legacy security, meaning one which closed after December 31, 2012, or modeled CLO, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those RMBS/CMBS legacy securities that are financially modeled, the insurer must use NAIC

CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. The three-step process for modeled RMBS/CMBS legacy securities is as follows:

- i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of an asset-backed security is compared to the modeled breakpoint values assigned to each NAIC designation and NAIC designation category for each CUSIP to establish the **initial** NAIC designation.
 - ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 11 based upon the initial NAIC designation from Step 1.
 - iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 39.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the NAIC designation and NAIC designation category for each CUSIP or is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 39.a.ii.).
- b. All Other Asset-Backed Securities: For securities not subject to paragraph 39.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 11.

40. For securities that will be financially modeled under paragraph 39, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 39, regardless of the quarterly methodology used. (P28)

- a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 39.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.
- b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 39.a.) for these securities acquired subsequent to year-end.

- c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPs, and are not captured within paragraphs 40.a. or 40.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27.a., as appropriate). Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.
- d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27.a., as appropriate).

Giantization/Megatization of FHLMC or FNMA Mortgage-Backed Securities

41. Giantization/megatization of mortgage-backed securities is defined as existing pools of FHLMC or FNMA mortgage-backed securities (MBS) with like coupon and prefix which are repooled together by the issuing agency creating a new larger security. The new Fannie Mae “Mega” or Freddie Mac “Giant” is a guaranteed MBS pass-through representing an undivided interest in the underlying pools of loans.

42. Repooled FHLMC and FNMA securities meet the definition of substantially the same as defined in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The transaction shall not be considered a sale/purchase and no gain or loss shall be recognized. To properly document the repooling, the transaction shall be reported through Schedule D of the annual statement as a disposition and an acquisition.

43. Transaction fees charged by the issuing agencies shall be capitalized and amortized over the life of the repooled security.

Disclosures

44. In addition to the disclosures required for invested assets in general, the following disclosures regarding asset-backed securities shall be made in the financial statements. Regardless of the allowances within paragraph 63 of the Preamble, the disclosures in paragraph 44.f., 44.g. and 44.h. of this statement are required in separate, distinct notes to the financial statements:

- a. Fair values in accordance with *SSAP No. 100R—Fair Value*.
- b. Concentrations of credit risk in accordance with *SSAP No. 27*;
- c. Basis at which the asset-backed securities are stated;
- d. The adjustment methodology used for each type of security (prospective or retrospective);
- e. Descriptions of sources used to determine prepayment assumptions.
- f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present

value of cash flows expected to be collected is less than the amortized cost basis of the security.

- g. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:
 - i. The amortized cost basis, prior to any current-period other-than-temporary impairment.
 - ii. The other-than-temporary impairment recognized in earnings as a realized loss.
 - iii. The fair value of the security.
 - iv. The amortized cost basis after the current-period other-than-temporary impairment.
- h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):
 - i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
 - ii. The aggregate related fair value of securities with unrealized losses.
- i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100R.
- j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.
- k. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:
 - i. The aggregate carrying value of the investments not evaluated for impairment, and
 - ii. The circumstances that may have a significant adverse effect on the fair value.
- l. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.
- m. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26R—Bonds*, paragraphs 39.e., 39.f. and 39.g.

45. Refer to the Preamble for further discussion regarding disclosure requirements. All disclosures within this statement, except disclosures included in paragraphs 44.b., 44.k. and 44.m., shall be included

within the interim and annual statutory financial statements. Disclosure requirements in paragraphs 44.b., 44.k. and 44.m. are required in the annual audited statutory financial statements only.

Relevant Literature

46. This statement reflects specific statutory accounting guidance for assets that qualify as asset-backed securities under the statutory accounting principles-based bond definition. The classification of investments as ‘bonds’ for statutory accounting and reporting purposes differs from the U.S. GAAP determination of a “debt instrument” and this statement reflects statutory specific measurement and impairment guidance for investments captured in scope. This statement does incorporate limited U.S. GAAP concepts, particularly with the determination of accretible yield and consideration of changes in expected cash flows using the retrospective or prospective method. However, due to the statutory accounting specifications on scope, measurement method and impairment, no U.S. GAAP standards are considered adopted within this statement. Concepts that converge with U.S. GAAP are limited to the extent they are detailed in this statement.

Effective Date and Transition

47. This statement adopted August 13, 2023, is effective for years beginning January 1, 2025. The revisions to this statement, and *SSAP No. 26R—Bonds*, incorporate principal concepts on what should be reported as a long-term bond. Securities that qualify as issuer credit obligations within the principal concepts are captured within scope of SSAP No. 26R. Securities that qualify as asset-backed securities within the principal concepts are captured within scope of SSAP No. 43R. Securities that do not qualify as issuer credit obligations or ABS, unless specifically permitted in scope of these statements, are not permitted to be reported as a bond.

48. At the time of transition, reporting entities shall make their best efforts to assess investments to determine whether they qualify within the bond definition for reporting as issuer credit obligations on Schedule D-1-1 or asset-backed securities on Schedule D-1-2. The bond definition requires assessments at the time of acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an issuer obligation or asset-backed security.

49. Investments that were reported as a bond on Schedule D-1: Long-Term Bonds as of December 31, 2024, that do not qualify under the principle-based bond concepts shall be reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025. These investments shall be accounted for in accordance with the resulting SSAP that addresses the specific investment structure. For securities that are reported at the lower of amortized cost or fair value under the new applicable guidance, this could result with an unrealized loss in the measurement of the investment at the time of the reclassification. Although the adoption of this guidance is considered a change in accounting principle under SSAP No. 3, the following transition guidance shall be applied on January 1, 2025, to ensure consistency in reporting and to allow investment schedules to roll appropriately:

- a. Securities reclassified from Schedule D-1 as they no longer qualify under the bond definition shall be reported as a disposal from Schedule D-1 at amortized cost. Although no proceeds are received, amortized cost at the time of disposal shall be reported as consideration on Schedule D-4.

- i. For securities held at amortized cost at the time of disposal, book adjusted carrying value and amortized cost shall agree, preventing gain or loss recognition at the time of reclassification.
 - ii. For securities held at fair value under the lower of amortized cost or fair value measurement method, previously reported unrealized losses shall be reversed on Jan. 1, 2025, prior to disposal, resulting with a reported value that mirrors amortized cost at the time of disposal. This action prevents realized loss recognition at time of reclassification.
- b. Securities reclassified from Schedule D-1 shall be recognized on the subsequent schedule (e.g., Schedule BA) with an actual cost that agrees to the disposal value (amortized cost). Immediately subsequent to recognition on the resulting schedule, the securities shall be reported in accordance with the measurement method prescribed by the applicable SSAP:
- i. For securities previously reported at fair value on Schedule D-1 (under a lower of amortized cost or fair value measurement method), the reporting entity will recognize an unrealized loss to match the previously reported book adjusted carrying value. Subsequently, the security will continue to reflect a lower of amortized cost or fair value measurement method.
 - ii. For securities previously reported at amortized cost on Schedule D-1, if the subsequent statement requires a lower of amortized cost or fair value measurement method, then the reporting entity shall recognize an unrealized loss to the extent fair value is less than amortized cost.
 - iii. After application of paragraph 49.b.i. and 49.b.ii. all securities shall reflect either the same reported value as of December 31, 2024 (amortized cost or fair value) or a lower reported value (if the security is subject to the lower of amortized cost or fair value measurement method). There should be no instances that result with a security having a greater reported value than what was presented on December 31, 2024. Subsequent to transition, securities reported at fair value may incur unrealized gains or losses due to fair value fluctuations, but should never have unrealized gains that result with a book adjusted carrying value that exceeds amortized cost.

50. With this transition guidance, changes in measurement for securities reclassified under the bond definition will be reported as a change in unrealized capital gains (losses) in the first quarter 2025 financial statements (unless sold in the interim with a realized gain or loss) and not as a change in accounting principle. To enable regulators the ability to identify the impact of securities reclassified under the bond definition, the following disclosure for the 2025 first quarter financial statement is required:

- a. Aggregate book adjusted carrying value for all securities reclassified off Schedule D-1.
- b. Aggregate book adjusted carrying value after transition for all securities reclassified off Schedule D-1 that resulted with a change in measurement basis. (This shall be a subset of paragraph 50.a. and captures the securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.)

- c. Aggregate surplus impact for securities reclassified off Schedule D-1. This shall include the difference between book adjusted carrying value as of December 31, 2024, and book adjusted carrying value after transition for those securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.

51. Asset-backed securities that were previously reported as short-term (Schedule DA) or as a cash equivalent (Schedule E2) shall be reclassified to be reported on Schedule D-1-2 on Jan. 1, 2025. Similar to the process detailed in paragraph 49, the securities shall be removed from DA and E2 at amortized cost, with reversal of any unrealized loss prior to the reclassification. The amortized cost shall be reported as “consideration received on disposals” on Schedule DA – Verification Between Years or Schedule E-2 – Verification Between Years, as applicable based on the prior reporting location. The security shall be recognized as an ABS acquired on Schedule D-3 at amortized cost. Immediately after initial recognition, if the security was required to be held at fair value, under the lower of amortized cost or fair value measurement method, the reporting entity shall recognize an unrealized loss.

52. For clarification purposes, the transition guidance shall be applied prospectively beginning with the first year of adoption (Jan. 1, 2025). For disclosures that provide comparative information, reporting entities shall not restate the prior year’s information in the 2025 disclosure.

REFERENCES

Other

- *Purposes and Procedures Manual of the NAIC Investment Analysis Office*
- NAIC Valuation of Securities product prepared by the Securities Valuation Office

Relevant Issue Papers

- *Issue Paper No. XX—Principles Based Bond Definition*

EXHIBIT A – QUESTION AND ANSWER IMPLEMENTATION GUIDE

This exhibit addresses common questions regarding the valuation and impairment guidance detailed in SSAP No. 43R.

Index to Questions

No.	Question
1	Are reporting entities permitted to establish an accounting policy to write down a SSAP No. 43R other-than-temporarily impaired security, for which a “non-interest” related decline exists, to fair-value regardless of whether the reporting entity intends to sell, or has the intent and ability to hold?
2	Can a reporting entity avoid completing a cash-flow assessment or testing for a specific other-than-temporarily impaired security when the entity believes there is a clear cash-flow shortage (i.e., non-interest related impairment) and elect to recognize a full impairment for the SSAP No. 43R security (no impairment bifurcation), with fair value becoming the new amortized cost basis, and recognition of the full other-than-temporary impairment as a realized loss?
3	Can reporting entities change their “intend to sell” or “unable to hold” assertions and recover previously recognized other-than-temporary impairments?
4	How do the regulators intend the phrase “intent and ability to hold” as used within SSAP No. 43R to be interpreted?
5	How do contractual prepayments affect the determination of credit losses?
6	Are the disclosure requirements within paragraphs 44.f. and 44.g. of SSAP No. 43R required to be completed for the current reporting quarter only, or as a year-to-date cumulative disclosure?
7	If an impairment loss is recognized based on the "present value of projected cash flows" in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?
Questions 8-10 are specific to securities subject to the financial modeling process. (This process is limited to qualifying RMBS/CMBS securities reviewed by the NAIC Structured Securities Group.) The guidance in questions 8-10 shall not be inferred to other securities in scope of SSAP No. 43R.	
8	Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?
9	The NAIC Designation process for ABS may incorporate loss expectations that differ from the reporting entity’s expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?

No.	Question
10	For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

Questions 8-10 are specific to securities subject to the financial modeling process. (This process is limited to qualifying RMBS/CMBS securities reviewed by the NAIC Structured Securities Group.) The guidance in questions 8-10 shall not be inferred to other securities in scope of SSAP No. 43R.

1. Question - Are reporting entities permitted to establish an accounting policy to write down a SSAP No. 43R other-than-temporarily impaired security, for which a “non-interest” related decline exists, to fair value regardless of whether the reporting entity intends to sell, or has the intent and ability to hold?

1.1 Pursuant to the guidance in SSAP No. 43R, optionality is not permitted. As such, an accounting policy that differs from SSAP No. 43R would be considered a departure from statutory accounting principles as prescribed by the NAIC *Accounting Practices and Procedures Manual*.

2. Question – Can a reporting entity avoid completing a cash-flow assessment or testing for a specific other-than-temporarily impaired security when the entity believes there is a clear cash-flow shortage (i.e., non-interest related impairment) and elect to recognize a full impairment for the SSAP No. 43R security (no impairment bifurcation), with fair value becoming the new amortized cost basis, and recognition of the full other-than-temporary impairment as a realized loss?

2.1 Under the basis of SSAP No. 43R, an entity is not permitted to elect a write-down to fair value in lieu of assessing cash flows and bifurcating “interest” and “non-interest” impairment components. As noted in paragraph 30, if the entity does not have the intent to sell, and has the intent and ability to hold, but does not expect to recover the entire amortized cost basis of the security, the entity shall compare the present value of cash flows expected to be collected with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (a non-interest decline exists) and an other-than-temporary impairment shall be considered to have occurred. Pursuant to paragraph 35, when an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment’s amortized cost basis and the present value of cash flows expected to be collected, discounted at the asset-backed security’s effective interest rate.

2.2 If the entity does not want to assess cash flows of an impaired security (fair value is less than amortized cost), the entity can designate the security as one the entity intends to sell, or one that the entity does not have the intent and ability to hold, providing it is reflective of the true intent and assessment of the ability of the entity. Once an impaired security has this designation, pursuant to paragraphs 28 or 29, an other-than-temporary impairment shall be considered to have occurred. As detailed in paragraph 34, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date.

- 2.3 As addressed in question 3 of this Question and Answer Guide, reporting entities are not permitted to change assertions regarding their intent to sell or their lack of intent and ability to hold. Once the security has been identified as one the entity intends to sell, or as a security that the entity does not have the intent and ability to hold, that assertion shall not change as long as the entity continues to hold the security.

3. Question - Can reporting entities change their “intend to sell” or “unable to hold” assertions and recover previously recognized other-than-temporary impairments?

- 3.1 No, a reporting entity is not permitted to change assertions and reverse previously recognized SSAP No. 43R other-than-temporary impairments. Although an entity may elect to hold a security due to a favorable change in the security’s fair value, once the security has been identified as one the entity intends to sell, or as a security that the entity does not have the intent and ability to hold for purposes of initially recognizing an other-than-temporary impairment, that assertion shall not change as long as the entity continues to hold the security.

- 3.2 Reporting entities that have recognized an other-than-temporary impairment on a SSAP No. 43R security in a manner corresponding with an assertion on the intent to sell or the lack of the intent and ability to hold, for which a subsequent other-than-temporary impairment has been identified, shall recognize a realized loss for the difference between the current amortized cost (reflecting the previously recognized SSAP No. 43R other-than-temporary impairment) and the fair value at the balance sheet date of the subsequent impairment. Thus, bifurcation of impairment between interest and non-interest related declines is not permitted for securities in which an other-than-temporary impairment was previously recognized on the basis that the reporting entity had the intent to sell, or lacked the intent and ability to hold, regardless if the entity has subsequently decided to hold the security.

- 3.3 Reporting entities shall reclassify a security as one for which there is an intent to sell, or for which there is not an intent or ability to hold, regardless if a bifurcated other-than-temporary impairment had previously been recognized, as soon as the entity realizes that they can no longer support a previous assertion to hold the security. In making such reclassifications, if the security is impaired, the difference between the amortized cost (reflecting the initial non-interest other-than-temporary impairment recognized) and fair value at the balance sheet date of the reclassification shall be recognized as a realized loss, with fair value reflecting the new amortized cost basis. Once such a reclassification occurs, and the security is classified as one for which there is an intent to sell, or for which there is not an intent and ability to hold, the security must continue to carry that assertion until it is no longer held by the reporting entity.

4. Question – How do the regulators intend the phrase “intent and ability to hold” as used within SSAP No. 43R to be interpreted?

- 4.1 SSAP No. 43R paragraph 29 states in part “...the entity shall assess whether it has the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.”

- 4.2 The intent of this language within SSAP No. 43R is focused on ensuring that, as of the balance sheet date, after considering the entity’s own cash or working capital requirements

and contractual or regulatory obligations and all known facts and circumstances related to the impaired security, the entity does not have the intention of selling the impaired security and has the current intent and ability to hold the security to recovery. Due to impairment bifurcation provisions provided within SSAP No. 43R, and the amortized cost measurement method generally permitted for asset-backed securities, the assessment of “intent and ability” is intended to be a high standard. Despite the intent of [paragraph 29](#), it is identified that information not known to the entity may become known in subsequent periods and/or facts and circumstances related to an individual holding or group of holdings may change thereby influencing the entity’s subsequent determination of intent and ability with respect to a security or securities.

- 4.3 If a reporting entity asserts that it has the intent and ability to hold a security, or group of securities, until recovery of the amortized cost, but sells or otherwise disposes the security or securities prior to such recovery, the reporting entity shall be prepared to justify this departure from their original assertion to examiners and auditors. SSAP No. 43R purposely does not identify specific circumstances in which a change in assertion would be justifiable, but requires judgment from management, examiners and auditors on whether future assertions warrant closer review.
- 4.4 Delaying recognition of other-than-temporary impairments is a cause of serious concern by the regulators, and entities that habitually delay such recognition through false assertions on the “intent and ability to hold” may face increased scrutiny and regulatory action by their domiciliary state. It is imperative that a reporting entity recognize the full other-than-temporary impairment as soon as the entity realizes that they will no longer be able to hold the security until recovery of the amortized cost basis. Greater scrutiny shall be placed on securities sold or otherwise disposed shortly after a financial statement reporting date if such securities had been excluded from the full other-than-temporary impairment recognition on the basis of the reporting entity’s intent and ability to hold.
- 4.5 As noted in [paragraph 3.3](#) of this question and answer guide, once a security is classified as one for which there is an intent to sell, or for which there is not an intent and ability to hold, the security must continue to carry that assertion until the security is no longer held by the reporting entity.

5. Question – How do contractual prepayments affect the determination of credit losses?

- 5.1 [Paragraph 30](#) of SSAP No. 43R states that "A decrease in cash flows expected to be collected on asset-backed security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of present value of cash flows expected to be collected." [Paragraph 18](#) states that "Asset-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions. Reporting entities may utilize the prospective adjustment method for all asset-backed securities that are reported with NAIC designations that are of high credit at the of acquisition by the reporting entity."

6. Question – Are the disclosure requirements within [paragraphs 44.f. and 44.g.](#) of SSAP No. 43R required to be completed for the current reporting quarter only, or as a year-to-date cumulative disclosure?

- 6.1 The disclosures should reflect the year-to-date other-than-temporary impairments. The “fair value” reported within the disclosure is intended to reflect the fair value at the date of the other-than-temporary impairment and shall not be updated due to the fluctuations identified at subsequent reporting dates. If a security has more than one other-than-

temporary impairment identified during a fiscal reporting year, the security shall be included on the disclosure listing separately for each identified other-than-temporary impairment. Notation shall be included in the disclosure identifying the other-than-temporary impairments that were recognized for each respective reporting period.

7. Question – If an impairment loss is recognized based on the "present value of projected cash flows" in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?

7.1 The guidance in **paragraph 38** of SSAP No. 43R indicates that a reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the asset-backed security. This guidance is explicit that the reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

7.2 As provided in paragraph 2.2 of this Q&A, if the entity does not want to assess cash flows of an impaired security (fair value is less than amortized cost), the entity can designate the security as one the entity intends to sell, or one that the entity does not have the intent and ability to hold, providing it is reflective of the true intent and assessment of the ability of the entity. Reporting entities subject to the requirements of AVR and IMR should allocate the impairment loss between AVR and IMR accordingly.

8. Question – Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the "final" NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

9. Question – The NAIC Designation process for ABS subject to the financial modeling process may incorporate loss expectations that differ from the reporting entity's expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?

9.1 In accordance with *INT 06-07: Definition of Phrase "Other Than Temporary,"* reporting entities are expected to "consider all available evidence" at their disposal, including the information that can be derived from the NAIC designation.

10. Question - For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

10.1 The financial modeling process for qualifying RMBS/CMBS securities is required for applicable securities held in either the general or separate account.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Adoptions/19-21b - 43R -8-13-23.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2023/8-13-23%20Summer%20National%20Meeting/Adoptions/19-21b-43R-8-13-23.docx)

Bond Definition - Revisions to other SSAPs Adopted Aug. 13, 2023

SSAP Reference Revisions

1. SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

SSAP No. 26R: Updated reference in paragraph 18. No revisions needed to paragraph 7 or 15.

SSAP No. 43R: Adjusted title references in paragraphs 7 and 15.

2. SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

SSAP No. 43R: Adjusted reference in paragraph 3.

3. SSAP No. 15—Debt and Holding Company Obligations

SSAP No. 26R: No revisions needed to paragraph 13.

4. SSAP No. 21—Other Admitted Assets

SSAP No. 26R: Updated footnote 1 and clarified guidance for GICs in paragraphs 14-17.

SSAP No. 43R: Adjusted reference in paragraph 6 to asset-backed securities that qualify.

5. SSAP No. 36—Troubled Debt Restructuring

SSAP No. 26R: No revisions needed to paragraph 29.

6. SSAP No. 43R—Asset-Backed Securities

SSAP No. 26R: Updated disclosure reference that link to SSAP No. 26R, paragraph 51.m.

7. SSAP No. 86—Derivatives

SSAP No. 26R and SSAP No. 43R: Updated the guidance for structured notes in paragraph 5.g. and replication (synthetic assets) in Footnote 5.

8. SSAP No. 95—Nonmonetary Transactions

SSAP No. 26R: No revisions needed to paragraph 6.

SSAP No. 43R: Adjusted the citation to SSAP No. 43R in paragraph 6.

9. SSAP No. 100R—Fair Value

SSAP No. 26R: No revisions needed to Footnote 3.

10. SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

SSAP No. 43R: Revisions remove the direct pointer of beneficial interests as in scope of SSAP No. 43R and incorporate guidance for reporting under the applicable SSAP in paragraphs 2, 11 and 18.

11. INT 01-25: Accounting for U.S. Treasury Inflation-Indexed Securities

SSAP No. 26: No revisions needed.

12. 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)

SSAP No. 26: Updated paragraph reference in paragraph 5.a.

13. 06-07: Definition of Phrase “Other Than Temporary”

SSAP No. 26: No revisions needed.

SSAP No. 43R: Updated reference in list of applicable SSAPs.

14. INT 07-01: Application of the Scientific (Constant Yield) Method in Situations of Reverse Amortization

SSAP No. 26R: Removed quoted guidance.

SSAP No. 43R: Updated reference in list of applicable SSAPs and removed quoted guidance.

15. INT 19-02: Freddie Mac Single Security Initiative

SSAP No. 26R: No revisions needed.

SSAP No. 43R: Updated reference in list of applicable SSAPs and in paragraph 1.

16. INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates

SSAP No. 43R: Updated reference in list of applicable SSAPs and in paragraph 1.

Summary of SAP Guidance Revisions

17. SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Revisions preclude asset-backed securities that are in scope of SSAP No. 43R from being reported as cash equivalents or short-term investments. The revisions also identify items captured on Schedule BA as non-bond securities. (These revisions also add reference to working capital finance investments, but that is not new guidance, but was not explicitly stated in SSAP No. 2R.)

Summary of SAP Reference Revisions:

SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—~~Loan-Backed and Structured~~Asset-Backed Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,¹ unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
- b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)

Footnote 1: Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—~~Loan-Backed and Structured~~Asset-Backed Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,^{2, 3} unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
- b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

Footnote 2: Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Footnote 3: Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

Disclosures

18. The following disclosures shall be made for short-term investments in the financial statements:
 - a. Fair values in accordance with *SSAP No. 100R—Fair Value*;
 - b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;
 - c. Basis at which the short-term investments are stated.
 - d. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26R—Bonds*, paragraph ~~39.f.30.f.~~
 - e. Identification of cash equivalents (excluding money market mutual funds as detailed in paragraph 8) and short-term investments (or substantially similar investments), which remain on the same reporting schedule for more than one consecutive reporting period. This disclosure is satisfied by use of a designated code in the investment schedules of the statutory financial statements.

SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

3. The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for ~~loan-backed and structured~~ asset-backed securities), or if not specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

SSAP No. 15—Debt and Holding Company Obligations - (No Changes)

13. Convertible debt securities and convertible preferred stock with beneficial conversion features are to be valued according to the appropriate statutory accounting statement; *SSAP No. 26R—Bonds* or *SSAP No. 32R—Preferred Stock*.

SSAP No. 21R—Other Admitted Assets

Collateral Loans

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an investment² and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities [that qualify as issuer creditor obligations and SSAP No. 43—Asset-Backed Securities includes securities that qualify as asset-backed securities under the bond definition](#). ~~(as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments.~~ Investments captured in SSAP No. 26R [or SSAP No. 43R](#) that are also secured with collateral shall continue to be captured within scope of ~~SSAP No. 26R~~[those statements](#).

Footnote 2: Investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities*.

6. A reporting entity that acquires (directly or indirectly) structured settlement payment rights³ through a factoring company, excluding securitizations [that qualify as asset-backed securities captured in scope of](#) SSAP No. 43R, shall report the acquisition as follows:

- a. Period-certain (non-life contingent) structured settlement income streams shall be reported as other long-term invested assets⁴, and are admitted assets if the rights to the future payments from a structured settlement have been legally acquired in accordance with all state and federal requirements. If the structured settlement has not met all legal requirements, including the court-approved transfer from the original recipient, then the reporting entity shall recognize the appropriate excise tax obligation and the structured settlement shall be nonadmitted.
- b. Life-contingent structured settlement income streams shall be reported as other long-term invested assets on Schedule BA and shall be nonadmitted. (Nonadmittance is required regardless if the right to future payments has been legally transferred.)

Footnote 3: This guidance is specific to acquired structured settlement income streams (legal right to receive future payments from a structured settlement) and does not capture accounting and reporting guidance for the acquisition of any insurance product (e.g., life settlement, annuities, etc.).

Footnote 4: Reporting entities that hold qualifying structured settlement payment rights shall report the security on Schedule BA either as an “any other class of asset” or as a “fixed or variable interest rate investment with underlying characteristics of other fixed income instruments” if the structured settlement payment right qualifies for reporting within that reporting line (e.g., NAIC designation).

Guaranteed Investment Contracts

14. Guaranteed Investment Contracts (GICs) purchased for investment purposes meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. [This includes an investment in a GIC payment stream which can be created when an intermediary purchases individual GICs, pools them, and sells the rights to the payment stream.](#)

[15. GICs acquired in a security structure that qualify under the bond definition as an issuer obligation or asset-backed security shall follow the accounting guidance within SSAP No. 26R or SSAP No. 43R as applicable.](#)

~~15.~~16. Purchases of GIC investments that do not meet the definition of a security, but for which all contractual rights and ownership of the GIC result in an investment similar to a corporate bond, shall be reported at amortized cost and ~~accounted for in accordance with the guidance in SSAP No. 26R—Bonds included on Schedule BA: Other Long-Term Invested Assets.~~ If, in accordance with SSAP No. 5R, it is probable that the carrying value of a GIC is not fully recoverable the investment shall be considered impaired. Accordingly, the cost basis of the investment shall be written down to the undiscounted estimated cash flows and the amount of the write down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value.

~~16.—An investment in a GIC payment stream is created when an intermediary purchases individual GICs, pools them, and sells the rights to the payment stream. These investments shall be reported as other long-term invested assets and shall be carried at amortized cost.~~

~~17.—If, in accordance with SSAP No. 5R, it is probable that the carrying value of a GIC is not fully recoverable the investment shall be considered impaired. Accordingly, the cost basis of the investment shall be written down to the undiscounted estimated cash flows and the amount of the write down shall be accounted for as a capital loss. The new cost basis shall not be changed for subsequent recoveries in fair value.~~

SSAP No. 36—Troubled Debt Restructuring (No Changes)

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.

SSAP No. 43R—Asset-Backed Securities

Disclosures

51. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed and structured securities shall be made in the financial statements. Regardless of the allowances within paragraph 63 of the Preamble, the disclosures in paragraph 51.f., 51.g. and 51.h. of this statement are required in separate, distinct notes to the financial statements:

- m. The items in the scope of this statement are also subject to the annual audited disclosures in SSAP No. 26R—Bonds, paragraphs ~~39.e., 30.e., 39.f., 30.f.~~ and ~~39.g., 30.g.~~

SSAP No. 86—Derivatives

5. Derivative instruments include, but are not limited to; options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures, structured notes with risk of principal/original investment loss based on the terms of the agreement (in addition to default risk), and any other agreements or instruments substantially similar thereto or any series or combination thereof.

- g. “Structured Notes” ~~in scope of this statement are instruments defined in SSAP No. 26R—Bonds (often in the form of debt instruments),~~ in scope of this statement are instruments in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest⁵, where the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). ~~Structured notes that are “mMortgage-referenced securities”~~ issued by a government sponsored enterprise in the

form of credit-risk transfers where an issue security is tied to a referenced pool are mortgages are captured in *SSAP No. 43R—Loan-Backed and Structured Securities*.

Footnote 5 - ~~The “structured notes” captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due).~~ These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled “principal-protected notes” are captured within scope of this statement if the “principal protection” involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment/principal loss (outside of default risk) are not captured as structured notes in scope of this statement. A replication (synthetic asset) transaction addressed within this standard may reproduce the investment characteristics of an otherwise permissible investment that would not meet the principles-based bond definition (e.g., is distinct from a “structured note” as defined here); the admissibility, classification and measurement of a replication (synthetic asset) transaction are not preemptively determined by the principles-based bond definition, and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within this standard.

SSAP No. 95—Nonmonetary Transactions

6. Fair value of assets received or transferred in a nonreciprocal transfer shall be measured based on statutory accounting principles for the type of asset transferred. Accordingly, the value shall be determined in accordance with *SSAP No. 26R—Bonds*, *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 37—Mortgage Loans*, *SSAP No. 39—Reverse Mortgages*, *SSAP No. 40R—Real Estate Investments*, *SSAP No. 43R—~~Loan-Backed and Structured~~Asset-Backed Securities*, *SSAP No. 90—Impairment or Disposal of Real Estate Investments* or other applicable statements. The guidance provided in *SSAP No. 25* shall be followed in accounting for nonreciprocal transactions with affiliates and other related parties as defined in that statement.

SSAP No. 100—Fair Value (No Changes)

48. For each class of assets and liabilities measured and reported³ at fair value or NAV in the statement of financial position after initial recognition. The reporting entity shall determine appropriate classes of assets and liabilities in accordance with the annual statement instructions.

Footnote 3: The term “reported” is intended to reflect the measurement basis for which the asset or liability is classified within its underlying SSAP. For example, a bond with an NAIC designation of 2 is considered an amortized cost measurement and is not included within this disclosure even if the amortized cost and fair value measurement are the same. An example of when such a situation may occur includes a bond that is written down as other-than-temporarily impaired as of the date of financial position. The amortized cost of the bond after the recognition of the other-than-temporary impairment may agree to fair value, but under *SSAP No. 26R* this security is considered to still be reported at amortized cost.

SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

2. This statement focuses on the issues of accounting for transfers and servicing of financial assets and extinguishments of liabilities. This statement establishes statutory accounting principles for transfers and servicing of financial assets, including asset securitizations and securitizations of policy acquisition costs, extinguishments of liabilities, repurchase agreements, repurchase financing and reverse repurchase agreements, including dollar repurchase and dollar reverse repurchase agreements that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts). This statement discusses generalized situations. Facts and circumstances and specific contracts need to be considered carefully in applying this statement. Securitizations of nonfinancial assets are outside the scope of this statement. Transfers of financial assets that are in substance real estate shall be accounted for in accordance with *SSAP No. 40R—Real Estate Investments*. Additionally, retained beneficial interests

from the sale of ~~loan-backed or structured~~ asset-backed securities are to be accounted for in accordance with the statutory accounting statement that is applicable to the investment retained ~~with SSAP No. 43R—Loan-Backed and Structured Securities, Revised~~. If the retained security does not qualify for reporting as a bond under the bond definition detailed in SSAP No. 26R, it shall be reported as a debt security that does not qualify as a bond in scope of SSAP No. 21R—Other Admitted Assets.

11. Upon completion of a transfer of an entire financial asset or a group of entire financial assets that satisfies the conditions to be accounted for as a sale (see paragraph 8), the transferor (seller) shall:
- a. Derecognize the transferred financial assets;
 - b. Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained (including a transferor's beneficial interest in the transferred financial assets) and liabilities incurred¹ in the sale (paragraphs 60 and 62-66).
 - c. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized and unrealized capital gains and losses shall be determined per the guidance in the SSAP for the specific type of investment ~~(e.g., SSAP No. 43R for loan-backed and structured securities)~~, or if not specifically stated in the related SSAP, in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized capital gains and losses shall be reported as net realized capital gains or losses in the statement of income, and unrealized capital gains and losses shall be reported as net unrealized gains and losses in unassigned funds (surplus).

The transferee shall recognize all assets obtained and any liabilities incurred, and initially measure them at fair value.

Footnote 1: Some assets that might be obtained and liabilities that might be incurred include cash, put or call options that are held or written (for example, guarantee or recourse obligations), forward commitments (for example, commitments to deliver additional receivables during the revolving periods of some securitizations) and swaps (for example, provisions that convert interest rates from fixed to variable).

Financial Assets Subject to Prepayment

18. Financial assets, except for instruments that are within the scope of *SSAP No. 86—Derivatives*, that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment shall be assessed in accordance with the bond definition captured in SSAP No. 26R—Bonds to determine appropriate accounting and reporting. Securities that do not qualify for bond reporting shall be captured as debt securities that do not qualify as bonds in scope of SSAP No. 21R—Other Admitted Assets. ~~subsequently measured in accordance with the statutory accounting statement that is applicable to the financial asset, subsequently measured like investments in debt securities and loan-backed and structured securities in accordance with SSAP No. 43R. Examples of such financial assets include, but are not limited to, interest-only strips, other beneficial interests, loans, or other receivables.~~

INT 01-25: Accounting for U.S. Treasury Inflation-Indexed Securities

- No Change – Applies to SSAP No. 26R.

INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)

5. For Issue 1, the Working Group came to a consensus that reporting entities should account and report for investments in CAPCO's consistent with the agreement structure within the guidance provided below:
- h. Investment in a debt instrument of a CAPCO shall be reported as a bond in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office (Valuations of Securities manual) as stated in SSAP No. 26R, paragraph ~~2011~~.
 - i. Investment in an equity interest of a CAPCO shall be reported as common stock and reported at fair value as stated in SSAP No. 30R, paragraph 8.
 - j. Investment in preferred stock interest of a CAPCO shall be reported as preferred stock in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office (Valuations of Securities manual) as stated in SSAP No. 32R, paragraphs 19-22.
 - k. Investment in a Joint Venture, Partnership and Limited Liability Company (LLC) shall be reported in accordance with SSAP No. 48, paragraphs 5-6. The reported value of the investment shall be decreased in proportion to the premium tax credits utilized.
 - l. The tax credits shall be recognized as a reduction of the tax liabilities as they are utilized. Tax credits received are not to be included in investment income.

INT 06-07: Definition of Phrase "Other Than Temporary"

- Update interpreted SSAP list to reference to *SSAP No. 43R—Asset-Backed Securities*

INT 07-01: Application of the Scientific (Constant) Yield Method in Situations of Reverse Amortizations

1. SSAP No. 26R and SSAP No. 43R both reference the use of the scientific or constant yield method of amortization of a premium or a discount. ~~SSAP No. 26R—Bonds provides the following (bolding added for emphasis):~~

~~Amortized Cost~~

~~9. Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).~~

~~SSAP No. 43R—Loan Backed and Structured Securities provides the following (bolding added for emphasis):~~

~~Amortization~~

~~8. — Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method and shall be recorded as an adjustment to investment income. The interest method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the loan-backed securities is expected to occur, not the stated maturity period.~~

Collection of All Contractual Cashflows is Probable

~~12. — The following guidance applies to loan-backed and structured securities for which it is probable that the investor will be able to collect all contractually required payments receivable. (Paragraphs 17-19 provide guidance for securities in which collection of all contractual cash flows is not probable and paragraphs 20-24 provide guidance for beneficial interests.) Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security. Differences in cash flows can also result from other changes in the cash flows from the underlying assets. If assets are delinquent or otherwise not generating cash flow, which should be reflected in the cash flow analysis through diminishing security cash flows, even if assets have not been liquidated and gain/losses have not been booked.~~

~~13. — Changes in currently estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities shall be reviewed periodically, at least quarterly. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled-affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.~~

~~14. — Loan-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions, using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities. However, if at any time during the holding period, the reporting entity determines it is no longer probable that they will collect all contractual cashflows, the reporting entity shall apply the accounting requirements in paragraphs 17-19.~~

~~15. — The prospective approach recognizes, through the recalculation of the **effective yield** to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.~~

~~16. — The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated **effective yield** will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.~~

2. This interpretation~~The following~~ identifies three situations where, using a constant yield methodology for determining amortization or accretion, changes in amortized value move in the opposite direction of what is expected. That is, if a security is purchased at a premium, the constant yield methodology will, in certain cases, cause the amortized value to move to a discount during the life of the security. Conversely, if the security were purchased at a discount, the constant yield methodology will, in certain cases, cause the amortized value to move to a premium during the life of the security.

INT 19-02: Freddie Mac Single Security Initiative

- Update interpreted SSAP list to reference to *SSAP No. 43R—Asset-Backed Securities*
 1. This interpretation has been issued to provide a limited-scope exception to the exchange and conversion guidance in *SSAP No. 26R—Bonds* as well as prescribe guidance in *SSAP No. 43R—Asset-Backed ~~Loan-Backed and Structured~~ Securities* (SSAP No. 43R) for instruments converted in accordance with the Freddie Mac Single Security Initiative. Under this initiative, reporting entities will be permitted to exchange “45-day securities” for “55-day securities” without any material change to the securities, or to the loans that back the securities. (With the exchange, there would be a 10-day delay in payment cycle.)

INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates

- Update interpreted SSAP list to reference to *SSAP No. 43R—Asset-Backed Securities*
 1. This interpretation is to address questions on the accounting and reporting for Freddie Mac “When-Issued K-Deal (WI Trust) Certificates” (WI Program). Ultimately, the question is whether the structure should be initially captured in scope of *SSAP No. 43R—~~Loan-Backed and Structured~~Asset-Backed Securities* or as a forward contract in scope of *SSAP No. 86—Derivatives*.

Summary of SAP Guidance Revisions:

SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities¹ of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All debt securities that do not qualify as bonds which are in scope of SSAP No. 21R.

~~a.c. , d~~ Derivative instruments in scope of SSAP No. 86 or SSAP No. 108 shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB.

d. Working capital finance investments in scope of SSAP No. 105R.

~~b.e.~~ Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All debt securities that do not qualify as bonds which are in scope of SSAP No. 21R.

c. ~~d~~ Derivative instruments in scope of SSAP No. 86 or SSAP No. 108 shall not be reported as short term investments and shall be reported as derivatives on Schedule DB.

d. Working capital finance investments in scope of SSAP No. 105R.

¹ Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

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

Issue: Conceptual Framework – Updates

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In December 2021, the Financial Accounting Standards Board (FASB) issued two new chapters of its conceptual framework. The conceptual framework is a body of interrelated objectives and fundamentals that provides the FASB with a foundation for setting standards and concepts to consider when it resolves questions or develops/modifies accounting and reporting guidance.

It is important to note that the Statements of Financial Accounting Concepts are not authoritative and do not establish new or change existing U.S. GAAP. Per the FASB chair, these concepts are “a tool for the Board to use in setting standards that improve the understandability of information entities provide to existing and potential investors, lenders, donors, and other resource providers.”

This agenda item reviews and summarizes each of the two newly issued concept chapters and reviews their potential impact on statutory accounting. Again, while the conceptual framework statements are not authoritative, they are the guiding principles for standard setting and these new updates have superseded chapters currently referenced in the *Accounting Practices and Procedures Manual (AP&P Manual)*. In addition, and most notably, in the case of one of these chapters, FASB changed certain key fundamental definitions, specifically the definition of an asset and a liability, which have historically been mirrored by statutory accounting.

Update 1:

FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements* introduced updated definitions of certain key elements used in financial reporting – the definition of an asset and liability. The chapter states that assets and liabilities have conceptual and definitional primacy because assets and liabilities (and changes in those elements) are foundational to all the other items reported in the financial statements. To correctly identify and represent an asset or liability is the beginning basis for all financial reporting and due to their importance, updates to both financial statement elements have been adopted. A summary of each, comparing the historical and current definitions, is provided below:

Changes regarding the definition of an ASSET:

- **Historical definition:** a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.
- **Historical Characteristics: Three essential characteristics:**
 1. it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows,
 2. a particular enterprise can obtain the benefit and control others' access to it, and
 3. the transaction or other event giving rise to the enterprise's right to or control of the benefit has already occurred.
- **New Definition:** a present right of an entity to an economic benefit.

➤ **Current Characteristics: Two essential characteristics:**

1. it is a present right, and
2. the right is to an economic benefit.

The combination of these two characteristics allows an entity to obtain the economic benefit and control others' access to the benefit. A present right of an entity to an economic benefit entitles the entity to the economic benefit and the ability to restrict others' access to the benefit to which the entity is entitled. For clarity, an "economic benefit" represents services or other items of economic value and generally result in net cash inflows to the entity.

Commentary regarding definitional changes:

The current definition of an asset no longer includes the term *probable* or the phrases *future economic benefit* and *past transactions or events*. The FASB concluded that the term *probable* has historically been misunderstood as implying that a future benefit must be probable to a certain threshold before the definition of an asset was met. Thus, if the probability of a future benefit was low, an asset could not be recognized. FASB also struck the phrase *future economic benefit* as this phrase often was interpreted that the asset must represent a certain future economic benefit (such as eventual cash inflows), however with this update, FASB clarified that the asset represents the rights to the benefit, not the actual benefit itself – nor the probability of realization.

Finally, FASB struck the phrase as the result of *past transactions or events*. It was concluded that if the asset represents a *present right*, by default, the right must have occurred as the result of a past transaction or event and thus this phraseology was deemed redundant and unnecessary.

Changes regarding **the definition of a LIABILITY:**

- **Historical definition:** are [certain or] probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
- **Historical Characteristics: Three essential characteristics:**
 1. it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand,
 2. the duty or responsibility obligates a particular enterprise, leaving it little or no discretion to avoid the future sacrifice, and
 3. the transaction or other event obligating the enterprise has already happened.
- **New Definition:** a present obligation of an entity to transfer an economic benefit.
- **Current Characteristics: Two essential characteristics:**
 1. it is a present obligation, and
 2. the obligation requires an entity to transfer or otherwise provide economic benefit to others. (For the purposes of this characteristic, *transfer* is typically used to describe obligations to pay cash or convey assets, while the term *provide* is used to describe obligations to provide services or stand by to do so).

Commentary regarding definitional changes:

The current definition of a liability no longer includes the term *probable* or the phrase *in the future as a result of past transactions or events*. The FASB concluded that the term *probable* has historically been understood as implying that a future obligation must meet a probability to a certain threshold before the definition of a liability was met. Thus, if the probability of a future transfer of an asset (or the requirement to provide a service) was low, a liability would likely not be recognized. In removing the term *probable* (and replacing it with "present

obligation”), FASB concluded that in almost all situations, the presence of an obligation will be apparent. It stated that most present obligations are legally enforceable, including obligations arising from binding contracts, agreements, statutes, or other legal or contractual means. Chapter 4 also discusses the prevalence of certain business risks and how to assess if they result in the recognition of a liability. It concluded that while certain businesses pose risk of future events occurring that will cause them to transfer an economic benefit (an asset), the risk itself does not represent a present obligation because exposure to a potential negative consequence does not constitute a present obligation.

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

FASB also struck the phrase as the result of *past transactions or events*. It was concluded that if the liability represents a *present right*, by default, the right must have occurred as the result of a past transaction or event and thus this phraseology was deemed redundant and unnecessary.

Update 2:

FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7, Presentation* identifies factors that the FASB will consider when deciding **how** items should be displayed on the financial statements. Chapter 7 describes the information to be included in the financial statements and how appropriate presentation can contribute to the objective of financial reporting – to communicate financial information about an entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources (goods and services) to the entity. These decisions typically involve buying or selling of goods/services or holding equity and debt instruments as well as providing or settling loans or other forms of credit. This chapter articulates that the financial statements meet a “general purpose” and should not be considered to meet all purposes for possible users – and thus a common set of conceptual standards is appropriate.

Chapter 7 also describes the importance of financial statement notes, or supplementary information so that financial statement users are provided with a more complete picture of an entity’s accounting policy or any particular unique circumstance or event. In terms of general reporting, the conceptual statement relays that a distinction between nonhomogeneous items should be depicted in the financial statements with different reporting line items and subtotals and that the information should be provided based on recognition and measurement standards. In essence, reporting should be sufficiently aggregated, but not aggregated to a level in which the information is too consolidated for general use and understanding. Once reported, then any significant accounting policy or circumstance would further be defined with accompanying notes.

The chapter broadly states that to meet the objectives of financial reporting, line items should be distinct based on the information being provided – as the information should distinguish between various types of transactions/events and should assist users in their estimates in the amounts and timing of future cash flows or the entity’s ability to provide other economic value. The financial statements should depict the results of different types of transactions, including changes in events or other circumstances that may vary the frequency or predictability of performance based on many items, including changes in economic conditions.

In summary, while Chapter 7 does supersede sections of *Statement of Financial Accounting Concept 5*, it did not result in fundamental changes to the principal concepts of financial reporting. The chapter articulates the need for complete financial reporting, describes the interconnectedness of a ‘complete set of financial statements’ and relays the importance of these documents as the information in the financial statements is the primary (and typically the sole) source for analyzing current and potential future performance of an organization and its ability to meet its long-term financial objectives. At a high level, the chapter discusses what information should broadly be categorized

as revenues, expenses, gains, and losses and to the extent equity is impacted by operations as well as changes in owners' equity through investments or distributions.

In terms of the impact to statutory accounting, the updated concepts in this chapter are not expected to modify current guidance, other than to update references to superseded accounting concepts.

Existing Authoritative Literature:

NAIC Staff Note – the Preamble contains reference to certain concept statements in footnotes 2 and 4 and have been bolded below for ease of identification. It is important to note that while these footnotes currently reference superseded conceptual statements, the conceptual statements noted do not represent adopted guidance - they are noted as reference for overarching guiding principles regarding financial reporting.

Preamble

IV. Statutory Accounting Principles Statement of Concepts

25. This document states the fundamental concepts on which statutory financial accounting and reporting standards are based. These concepts provide a framework to guide the National Association of Insurance Commissioners (NAIC) in the continued development and maintenance of statutory accounting principles ("SAP" or "statutory basis") and, as such, these concepts and principles constitute an accounting basis for the preparation and issuance of statutory financial statements by insurance companies in the absence of state statutes and/or regulations.

26. The NAIC and state insurance departments are primarily concerned with statutory accounting principles that differ from GAAP reflective of the varying objectives of regulation. Recodification of areas where SAP and GAAP are parallel is an inefficient use of limited resources.

27. SAP utilizes the framework established by GAAP. **FN2** This document integrates that framework with objectives exclusive to statutory accounting. The NAIC's guidance on SAP is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting outlined herein. Those GAAP pronouncements that are not applicable to insurance companies will not be adopted by the NAIC. For those principles that do not differ from GAAP, the NAIC must specifically adopt those GAAP Pronouncements to be included in statutory accounting. GAAP Pronouncements do not become part of SAP until and unless adopted by the NAIC.

28. The body of statutory accounting principles is prescribed in the statutory hierarchy of accounting guidance. This hierarchy provides the framework for judging the presentation of statutory financial statements in conformance with statutory accounting principles.

29. Statutory requirements vary from state to state. While it is desirable to minimize these variations, to the extent that they exist it is the objective of NAIC statutory accounting principles to provide the standard against which the exceptions will be measured and disclosed if material.

FN 2 - The GAAP framework applicable to insurance accounting is set forth in *Statements of Financial Accounting Concepts One, Two, Five, and Six*. These documents, promulgated by the Financial Accounting Standards Board, set forth the objectives and concepts which are used in developing accounting and reporting standards.

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification (FASB Codification or GAAP guidance)

Level 2

Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

NAIC Annual Statement Instructions

Purposes and Procedures Manual of the NAIC Investment Analysis Office

Level 4

*Statutory Accounting Principles Preamble and Statement of Concepts **FN4***

Level 5

Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*.

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

FN 4 - The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements One, Two, Five and Six to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

SSAP No. 4—Assets and Nonadmitted Assets

NAIC Staff Note – this SAP contains the definition of the financial statement element of an **Asset**. Relevant items have been bolded below for ease of identification.

2. For purposes of statutory accounting, **an asset shall be defined as: probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.** These assets shall then be evaluated to determine whether they are admitted. The criteria used is outlined in paragraph 3.
3. As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2, which is accorded limited or no value in statutory reporting, and is one which is:
- a. Specifically identified within the *Accounting Practices and Procedures Manual* as a nonadmitted asset; or
 - b. Not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*.

If an asset meets one of these criteria, the asset shall be reported as a nonadmitted asset and charged against surplus unless otherwise specifically addressed within the *Accounting Practices and Procedures Manual*. The asset shall be depreciated or amortized against net income as the estimated economic benefit expires. In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of furniture, fixtures, equipment, or supplies, shall be expensed when purchased.

4. Transactions which do not give rise to assets as defined in paragraph 2 shall be charged to operations in the period the transactions occur. Those transactions which result in amounts which may meet the definition of assets, but are specifically identified within the *Accounting Practices and Procedures Manual* as not giving rise to assets (e.g., policy acquisition costs), shall also be charged to operations in the period the transactions occur.
5. The reporting entity shall maintain a capitalization policy containing the predefined thresholds for each asset class to be made available for the department(s) of insurance.

FN1 - FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement No. 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

FN2 - If assets of an insurance entity are pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to paragraph 2(c), such assets shall not be recognized as an admitted asset on the balance sheet. Additional guidance for assets pledged as collateral is included in INT 01-31.

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets

NAIC Staff Note – this SAP contains the definition of the financial statement element of a **Liability**. Relevant items have been bolded below for ease of identification.

2. **A liability is defined as certain or probable FN1 future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).**

3. **A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable FN1 future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened.** This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

FN1 - FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

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): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): While slightly different, the updated FASB asset & liability definitions closely align with IFRS definitions. While IFRS retains the phrase “as a result of past events,” it also explicitly retains the term “control,” which is now implicit with the FASB updates. The elimination of the explicit term “control” was a deliberate action of the FASB as they noted that the notion of control has been historically misunderstood (control is to the right that gives rise to the economic benefit rather than to the economic benefits themselves). For reference *IFRS Chapter 4 – The Elements of Financial Statements*, defines an **asset** as a present economic resource controlled by the entity as a result of past events; with the economic resource representing a right that has the potential to produce economic benefits. Additionally, the chapter defines a **liability** as a present obligation of an entity to transfer an economic resource as a result of past events.

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 the Preamble, *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*, as illustrated below and in the issue papers, to incorporate updates from *Chapter 4, Elements of Financial Statements* and *Chapter 7, Presentation* of the FASB’s Conceptual Framework for Financial Reporting.

Proposed edits to the Preamble: proposed modifications reflect updates for superseded FASB Financial Accounting Concepts.

IV. Statutory Accounting Principles Statement of Concepts

25. This document states the fundamental concepts on which statutory financial accounting and reporting standards are based. These concepts provide a framework to guide the National Association of Insurance Commissioners (NAIC) in the continued development and maintenance of statutory accounting principles (“SAP” or “statutory basis”) and, as such, these concepts and principles constitute an accounting basis for the preparation and issuance of statutory financial statements by insurance companies in the absence of state statutes and/or regulations.

26. The NAIC and state insurance departments are primarily concerned with statutory accounting principles that differ from GAAP reflective of the varying objectives of regulation. Recodification of areas where SAP and GAAP are parallel is an inefficient use of limited resources.

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28. The body of statutory accounting principles is prescribed in the statutory hierarchy of accounting guidance. This hierarchy provides the framework for judging the presentation of statutory financial statements in conformance with statutory accounting principles.

29. Statutory requirements vary from state to state. While it is desirable to minimize these variations, to the extent that they exist it is the objective of NAIC statutory accounting principles to provide the standard against which the exceptions will be measured and disclosed if material.

FN 2 - The GAAP framework applicable to insurance accounting is set forth in *Statements of Financial Accounting Concepts* ~~One, Two, Five, and Six~~Eight. These documents, promulgated by the Financial Accounting Standards Board, set forth the objectives and concepts which are used in developing accounting and reporting standards.

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42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

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Statutory Accounting Principles Preamble and Statement of Concepts FN4

Level 5

Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

FN 4 - The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements ~~One, Two,~~ Five and ~~Six~~Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

Proposed edits SSAP No. 4—Assets and Nonadmitted Assets: proposed modifications reflect an updated definition of the term **Asset** – to match the newly issued definition in FASB Statement of Financial Accounting Concepts No. 8

2. For purposes of statutory accounting, an asset shall be defined as: a present right of an entity to an economic benefit. ~~probable FN1 future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.~~ An asset has ~~two~~three essential characteristics: (a) it is a present right~~embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows,~~ and (b) the right is to an economic benefit. ~~a particular entity can obtain the benefit and control others' access to it FN1 FN2, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.~~ These assets shall then be evaluated to determine whether they are admitted. The criteria used is outlined in paragraph 3.

3. As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2, which is accorded limited or no value in statutory reporting, and is one which is:

- a. Specifically identified within the *Accounting Practices and Procedures Manual* as a nonadmitted asset; or
- b. Not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*.

If an asset meets one of these criteria, the asset shall be reported as a nonadmitted asset and charged against surplus unless otherwise specifically addressed within the *Accounting Practices and Procedures Manual*. The asset shall be depreciated or amortized against net income as the estimated economic benefit expires. In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of furniture, fixtures, equipment, or supplies, shall be expensed when purchased.

4. Transactions which do not give rise to assets as defined in paragraph 2 shall be charged to operations in the period the transactions occur. Those transactions which result in amounts which may meet the definition of assets, but are specifically identified within the *Accounting Practices and Procedures Manual* as not giving rise to assets (e.g., policy acquisition costs), shall also be charged to operations in the period the transactions occur.

5. The reporting entity shall maintain a capitalization policy containing the predefined thresholds for each asset class to be made available for the department(s) of insurance.

FN1 - FASB Statement of Financial Accounting Concepts No. ~~86~~, *Elements of Financial Statements*, states that the combination of these two characteristics allows an entity to obtain the economic benefit and control others' access to the benefit. A present right of an entity to an economic benefit entitles the entity to the economic benefit and the ability to restrict others' access to the benefit to which the entity is entitled. ~~Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement No. 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.~~

FN2 - If assets of an insurance entity are pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to paragraph 2(c), such assets shall not be recognized as an admitted asset on the balance sheet. Additional guidance for assets pledged as collateral is included in INT 01-31.

Relevant Literature

9. This statement incorporates the definition of an asset from ~~adopts~~ FASB Statement of Financial Accounting Concepts No. ~~86~~, *Chapter 4, Elements of Financial Statements*, paragraphs ~~E16-E18~~25-33.

References

Relevant Issue Papers

Issue Paper No. 4—Definition of Assets and Nonadmitted Assets

Issue Paper No. 119—Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82

Issue Paper No. 166—Updates to the Definition of an Asset

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets: proposed modifications reflect an updated definition of the term **Liability** – to match the newly issued definition in FASB Statement of Financial Accounting Concepts No. 8

2. A liability is defined as a present obligation of an entity to transfer an economic benefit. ~~certain or probable FN1 future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).~~

3. A liability has ~~three~~two essential characteristics: (a) it is a present obligation ~~embodies a present duty or responsibility to one or more other entities that entails settlement by probable FN1 future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, and (b) the obligation requires an entity to transfer or otherwise provide economic benefit to others ~~duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and~~ (c) ~~the transaction or other event obligating the entity has already happened.~~ This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and~~

reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

~~FN1—FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.~~

Relevant Literature

39. This statement adopts *FASB Statement No. 5, Accounting for Contingencies* (FAS 5), *FASB Statement 114, Accounting by Creditors for Impairment of a Loan* only as it amends in part FAS 5 ~~and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements~~. *FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5* (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14. This statement adopts with modification *ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* with the same statutory modification adopted for FIN 14. [This statement incorporates the definition of a liability from FASB Statement of Financial Accounting Concepts No. 8, Chapter 4, Elements of Financial Statements, paragraphs E37 and E38.](#)

References

Relevant Issue Papers

Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets

Issue Paper No. 20—Gain Contingencies

Issue Paper No. 135—Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

[*Issue Paper No. 166—Updates to the Definition of an Asset*](#)

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Preamble, SSAP No. 4—Assets and Nonadmitted Assets and SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets, as illustrated in the agenda item and in the draft issue papers, to incorporate updates from Chapter 4, Elements of Financial Statements and Chapter 7, Presentation of the FASB's Conceptual Framework for Financial Reporting.

Staff Review Completed by: Jim Pinegar— NAIC Staff, January – 2022; Robin Marcotte, NAIC Staff, December – 2022

Status:

On April 4, 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 the Preamble, SSAP No. 4—Assets and

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

On August 10, 2022, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, 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 No. 166—Updates to the Definition of an Asset*, which documents the revisions to *SSAP No. 4*.

Additionally, on August 10, 2022, 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. These revisions are also shown above under the *SSAP No. 5R* heading.

On December 13, 2022, the Working Group re-exposed the proposed revisions and draft *Issue Paper No. 16X—Updates to the Definition of a Liability* 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. NAIC staff were directed to collaborate with interested parties on proposed clarifying language.

On March 22, 2023, the Working Group exposed additional revisions to *Issue Paper No. 16X—Updates to the Definition of a Liability* related to the definition change of a liability in *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*. The revisions to: 1) add an additional footnote to the definition of a liability in *SSAP No. 5R* which defers to more topic specific contradictory guidance 2) revise the relevant literature section of *SSAP No. 5R* to note the modification and 3) note the additional exposure action in the Issue Paper paragraph 18.

These clarifications were because of the authoritative treatment that statutory accounting provides to the definition of an asset and a liability in *SSAP No. 4* and *SSAP No. 5R*. For GAAP, the FASB Conceptual statements definitions are not authoritative, but rather are concepts to consider when developing and applying guidance. The FASB basis for conclusions noted that some existing authoritative FASB literature regarding liabilities is inconsistent with the updates to Concepts Statement No. 8. Therefore, a modification regarding topic specific liabilities guidance was incorporated to address variations from the definition of a liability. Examples of existing SAP variations from the definition of a liability include but are not limited to:

- a. *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserves – AVR and IMR* establish liabilities for regulatory objectives.
- b. *SSAP No. 62R—Property and Casualty Reinsurance* – contains the provision for reinsurance liability guidance which results in a liability that is a regulatory valuation allowance for overdue and slow paying reinsurance and also enforces Credit for Reinsurance (Model No. 785) collateral requirements.
- c. *SSAP No. 92—Post Retirement Benefits Other than Pensions*, provides liability recognition, which adopts several GAA P standards with modifications.

The additional exposed revisions to *SSAP No. 168* and *SSAP No. 5R* are reflected in the Issue Paper and also shown below.

- **Exposed revisions – Topic Specific Footnote** - This language is proposed for incorporation as a footnote to the liability definition in SSAP No. 5R and its related and *Issue Paper No. 16X—Updates to the Definition of a Liability*.

New Footnote to paragraph 3 of SSAP No. 5R:

The guidance in this Statement regarding the definition of a liability is applicable unless another authoritative statement of statutory accounting principles (SSAP) provides more topic specific contradictory guidance. In such cases the topic specific guidance shall apply.

- Exposed revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets* and *Issue Paper No. 16X—Updates to the Definition of a Liability* (New language shaded):

Relevant Literature

39. This statement adopts *FASB Statement No. 5, Accounting for Contingencies* (FAS 5), *FASB Statement 114, Accounting by Creditors for Impairment of a Loan* only as it amends in part FAS 5 ~~and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements~~. *FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5* (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14. This statement adopts with modification *ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* with the same statutory modification adopted for FIN 14. This statement incorporates the definition of a liability from *FASB Statement of Financial Accounting Concepts No. 8, Chapter 4, Elements of Financial Statements, paragraphs E37 and E38* with modification reflected in this Statement regarding topic specific guidance.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated in *Issue Paper No. 168—Updates to the Definition of a Liability*, to the Preamble and SSAP No. 5R which revises the definition of a liability under statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/21-22-01ConceptualFramework.docx>

Statutory Issue Paper No. 168

Updates to the Definition of a Liability

STATUS

Finalized August 13, 2023

Original and Current Authoritative Guidance: SSAP No. 5R

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. This issue paper documents the SAP clarification revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*. The intent of the revisions is to align current statutory accounting guidance, specifically the definition of a “liability,” with the term utilized by the Financial Accounting Standards Board (FASB).

SUMMARY CONCLUSION

2. The statutory accounting principle clarifications to SSAP No. 5R (illustrated in Exhibit A), reflect that for the purposes of statutory accounting, a liability shall be defined as: a present obligation of an entity to transfer an economic benefit. A liability has two essential characteristics: (1) it is a present obligation, and (2) the obligation requires an entity to transfer or otherwise provide economic benefit to others. For the purposes of these characteristics, *transfer* is typically used to describe obligations to pay cash or convey assets, while the term *provide* is used to describe obligations to provide services or stand by to do so. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity’s financial statements when incurred.

3. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies. (The definition and recognition requirements of loss contingencies under SSAP No. 5R are not proposed to be revised and will continue as statutory accounting guidance.)

DISCUSSION

4. In December 2021, FASB issued *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which introduced updated definitions of certain key elements used in financial reporting – most notably updating the fundamental definition of a liability. Through the FASB’s adoption of Concept Statement No. 8, the original Concept Statement No. 6 has been superseded. As statutory accounting currently reflects FASB’s historical definition, this issue paper is to review the prior concept definition (currently utilized by statutory accounting) and compare it to FASB’s updated concept definition and assess whether the revised concept definition shall be reflected in statutory accounting.

5. FASB concept statements do not reflect authoritative U.S. GAAP guidance. Rather concept statements are intended to set forth objectives and fundamental concepts that will be the basis for development of financial accounting and reporting guidance. The term “liability” is not captured or defined in the FASB Accounting Standards Codification (which is the source of authoritative U.S. GAAP.) Furthermore, although the concept statement is intended to be used as a guide in establishing authoritative

U.S. GAAP, the FASB is not restricted to the concepts when developing guidance, and the FASB may issue U.S. GAAP which may be inconsistent with the objectives and fundamental concepts set forth in Concept Statements. A change in a FASB Concept Statement does not 1) require a change in existing U.S. GAAP, 2) amend, modify or interpret the Accounting Standards Codification, or 3) justify either changing existing generally accepted accounting and reporting practices or interpreting the Accounting Standards Codification based on personal interpretations of the objectives and concepts in the concepts statement.

6. Under the prior FASB concept statement, which was reflected in SSAP No. 5R, a liability was defined as a probable future sacrifice of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of past transactions or events. In addition, the historical definition possessed three essential characteristics in that (1) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (2) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (3) the transaction or other event obligating the entity has already happened.

7. Pursuant to the prior concept statement, and as incorporated in SSAP No. 5R, *probable*, as referenced both in the definition and essential characters, was used in a usual general meaning, rather than in a specific accounting or technical sense and referred to which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

8. With the new FASB conceptual framework chapter, a liability is now defined as a present obligation of an entity to transfer an economic benefit. In addition, the current definition has two essential characteristics in that the liability is (1) a present obligation, and (2) the obligation requires an entity to transfer or otherwise provide economic benefits to others.

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

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

11. The FASB also struck the phrase *as the result of past transactions or events*. With this action, the FASB clarified that if the liability represents a *present obligation*, by default, the obligation must have occurred as the result of a past transaction or event and thus this phraseology was deemed redundant and unnecessary.

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

13. In general, the FASB did not anticipate that the liability definition revisions would result in any material changes in instrument reclassification (e.g., items now being classified as a liability when previously they were not considered liabilities). Again, FASB Concept Statements are not authoritative and thus the guidance in any specific standard will still be utilized for instrument measurement and classification. For statutory accounting purposes, the updated definition should be viewed similarly, that is it does not change fundamental concepts, change current practices, or introduce a new, original or a modified accounting principle. The revisions to the definition of a liability clarify the definitional language and do not modify the original intent of SSAP No. 5R and thus the changes are deemed to be a statutory accounting principle clarification.

14. The remaining concepts and guidance articulated in SSAP No. 5R (e.g., contingencies, impairments, guarantees, etc.) were not proposed for revision and thus are not further discussed in this issue paper.

Actions of the Statutory Accounting Principles (E) Working Group

15. During the 2022 Spring National Meeting, the Working Group exposed this issue paper for public comment.

16. During the 2022 Summer National Meeting, the Working Group re-exposed this issue paper for public comment.

17. At the 2022 Fall National Meeting, the Working Group re-exposed this 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. NAIC staff were directed to collaborate with interested parties on proposed clarifying language.

18. At the 2023 Spring National Meeting, the Working Group exposed this issue paper with revisions to: 1) add an additional footnote to the definition of a liability in SSAP No. 5R which defers to more topic specific contradictory guidance and 2) revise the relevant literature section of SSAP No. 5R to note the modification. These clarifications were because of the authoritative treatment that statutory accounting provides to the definition of an asset and a liability in SSAP No. 4 and SSAP No. 5R. For U.S. GAAP, the FASB Conceptual statements definitions are not authoritative, but rather are concepts to consider when developing and applying guidance. The FASB basis for conclusions noted that some existing authoritative FASB literature regarding liabilities is inconsistent with the updates to Concepts Statement No. 8. Therefore, a modification regarding topic specific liabilities guidance was incorporated to address variations from the definition of a liability. Examples of existing SAP variations from the definition of a liability include but are not limited to:

- a. *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserves – AVR and IMR* establish liabilities for regulatory objectives.
- b. *SSAP No. 62R—Property and Casualty Reinsurance* – contains the provision for reinsurance liability guidance which results in a liability that is a regulatory valuation allowance for overdue and slow paying reinsurance and also enforces credit for reinsurance (*Credit for Reinsurance Model Law (#785)*) collateral requirements.

- c. *SSAP No. 92—Post Retirement Benefits Other than Pensions*, provides liability recognition, which adopts several U.S. GAAP standards with modifications.

19. At the 2023 Summer National Meeting, the Working Group adopted the exposed revisions to SSAP No. 5R as documented in this issue paper and adopted this issue paper.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

20. Relevant excerpts of SSAP No. 5R, paragraphs 2-3 regarding the definition of a liability accounting are as follows:

2. A liability is defined as certain or probable¹ future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).

3. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable¹ future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

Generally Accepted Accounting Principles

21. Relevant paragraphs from *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements* have been included below:

Liabilities

E37. A liability is a present obligation of an entity to transfer an economic benefit

Characteristics of Liabilities

E38. A liability has the following two essential characteristics: a. It is a present obligation. b. The obligation requires an entity to transfer or otherwise provide economic benefits to others.²

E39. Liabilities commonly have features that help identify them. For example, many liabilities require the obligated entity to pay cash to one or more identified other entities. Liabilities may not require an entity to pay cash but may require the entity to convey other assets, provide services, or transfer other economic benefits or to be ready to do so. Liabilities are based on a foundation of legal rights and duties.

E40. Entities routinely incur liabilities in exchange transactions to acquire the funds, goods, and services they need to operate. For example, borrowing cash (acquiring funds) obligates an entity

¹ *FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements*, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in *FASB Statement 5, Accounting for Contingencies*, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

² This chapter continues the practice of describing liabilities as an obligation either to transfer or to provide economic benefits. For example, the term transfer has typically been used to describe obligations to pay cash or convey assets, and the term provide has typically been used to describe obligations to perform services or stand ready to do so.

to repay the amount borrowed, acquiring assets on credit obligates an entity to pay for the assets, and selling products with a warranty or guarantee obligates an entity to either pay cash or repair or replace any products that prove defective. Often, obligations incurred in exchange transactions are contractual based on written or oral agreements to pay cash or to provide goods or services to specified or determinable entities on demand at specified or determinable dates or on the occurrence of specified events.

Present obligation

E41. A liability requires that an entity be obligated to perform or act in a certain manner. In most cases it is apparent that liabilities are legally enforceable. Legally enforceable obligations include those arising from binding contracts, agreements, rules, statutes, or other requirements that would be upheld by a judicial system or government. Judicial systems vary in type and form, and the term judicial systems includes any such system that would enforce laws, statutes, and regulations. In the context most relevant to financial reporting, an obligation is any condition that binds an entity to some performance or action. In a financial reporting context, something is binding on an entity if it requires performance. Performance is what the entity is required to do to satisfy the obligation.

E42. Many obligations that qualify as liabilities stem from contracts and other agreements that are enforceable by courts or from governmental actions that have the force of law. Agreements, contracts, or statutory requirements often will specify or imply how an obligation was incurred and when and how the obligation is to be settled. For example, borrowing and lease agreements specify the amount of charges and the dates when the payments are due. The absence of a specified maturity date or event to require settlement may cast doubt that an obligation exists.

E43. Liabilities necessarily involve other parties, society, or law. The identity of the other party or recipient need not be known to the obligated entity before the time of settlement. An obligation of an entity to itself cannot be a liability. For example, in the absence of external requirements an entity is not obligated to repair the roof of its building or maintain its plant and equipment. Although those actions may be wise business moves, the entity may forgo or defer such activities because there is no present obligation to perform the activity.

E44. Certain obligations require nonreciprocal transfers from an entity to one or more other entities. Such obligations include taxes imposed by governments, donations pledged to charitable entities, and cash dividends declared but not yet paid.

E45. To have a liability, an entity must have a present obligation, that is, the obligation exists at the financial statement date. The settlement date of the liability may occur in the future, but the obligation must be present at the financial statement date. Transactions or other events or circumstances expected to occur in the future do not in and of themselves give rise to obligations today.

E46. An intention to purchase an item, for example, an asset, does not in and of itself create a liability. However, a contractual obligation that requires an entity to pay more than the fair value of the asset at the transaction date may create a liability before the asset is received, reflecting what the entity might have to pay to undo the unfavorable contract.

E47. Business risks result from the conduct of an entity's business activities. A business risk is not a present obligation, though at some point in the future an event may occur that creates a present obligation. Some businesses have the potential of carrying out activities and creating present obligations as a result of those activities. However, no present obligation exists even if it is virtually certain that an obligating event will occur, though at present no such event has occurred. The essence of distinguishing business risks from liabilities is determining the point in time when an entity has a present obligation.

E48. Some business risks result from an entity's transactions, for example, selling goods in overseas markets might expose an entity to the risk of future cash flow fluctuations because of changes in foreign exchange rates. Other business risks result from an entity's operating environment, for example, operating in a highly specialized industry might expose an entity to the

risk that it will be unable to attract sufficient skilled staff to sustain its operating activities. Those risks are not liabilities.

E49. To be presently obligated, an entity must be bound, either legally or in some other way, to perform or act in a certain way. Most liabilities are legally enforceable, including those arising from contracts, agreements, rules, and statutes. An entity also can become obligated by other means that would be expected to be upheld by a judicial process. However, the existence of a present obligation may be less clear in those circumstances.

E50. Some liabilities rest on constructive obligations, including some that arise in exchange transactions. A constructive obligation is created, inferred, or construed from the facts in a particular situation rather than contracted by agreement with another entity or imposed by government. An entity may become constructively obligated through customary business practice. In the normal course of business, an entity conducting certain activities may not create a clear contractual obligation but may nonetheless cause the entity to become presently obligated. For example, policies and practices for sales returns and those for warranties in the absence of a contract may create a present obligation because the pattern of behavior may create an enforceable claim for performance that would be upheld in the ultimate conclusion of a judiciary process.

E51. An entity's past behavior also may give rise to a present obligation. Repeated engagement in a certain behavior may obligate the entity to perform or act in a certain way on the basis of that pattern of behavior. For example, the entity may create a constructive obligation to employees for vacation pay or year-end bonuses by paying them every year even though it is not contractually bound to do so and has not announced a policy to do so.

22. The most notable changes regarding the definition of a liability included removal of the term *probable* and the phrase *as a result of past transactions or events*. Rationale for these changes were documented in *Chapter 4, Elements of Financial Statements* commentary as follows:

BC4.11. The definitions of both an asset and a liability in Concepts Statement 6 include the term *probable* and the phrases *future economic benefit* and *past transactions or events*. The term *probable* in the definitions in Concepts Statement 6 has been misunderstood as implying that a future economic benefit or a future sacrifice of economic benefit must be probable to a certain threshold before the definition of an asset or a liability is met. In other words, if the probability of future economic benefit is low, the asset definition is not met under that interpretation. A similar interpretation could be made for liabilities. The footnotes to the Concepts Statement 6 definition of assets and liabilities also were not helpful in clarifying the application of the term *probable* as used in the definitions of assets and liabilities. Accordingly, the Board decided to eliminate that term from the definitions of both assets and liabilities.

BC4.12. The term *future* in the definitions in Concepts Statement 6 focused on identifying a future flow of economic benefits to demonstrate that an asset exists or identifying a future transfer of economic benefits to demonstrate that a liability exists. The definitions in Concepts Statement 6 were often misunderstood as meaning that the asset (liability) is the ultimate future inflow (outflow). For example, in the instance of trade receivables, the definition in Concepts Statement 6 could be misunderstood to indicate that the asset is the successful collection of the receivable in the future. When applied appropriately, however, the definition would conclude that the asset is the present right to collection. Similar misunderstandings occurred in applying the liability definition. As a result, the Board concluded that a focus on the term *present* would appropriately shift the focus from identifying a future occurrence. Therefore, the Board decided to include the term *present right* to demonstrate that an asset exists and emphasize the term *present obligation* to demonstrate that a liability exists.

BC4.13. The definitions of assets and liabilities in Concepts Statement 6 both include the phrase *past transactions or events*. The Board concluded that if an entity has a present right or a present obligation, one can reasonably assume that it was obtained from some past transaction or event. Therefore, that phrase is considered redundant and has been eliminated from the definitions.

23. The other significant change to the definition of a liability included changing *future sacrifices* to a *present obligation*. Rationale for these changes were documented in *Chapter 4, Elements of Financial Statements* commentary as follows:

BC4.25. The term present obligation is included in the definition of a liability, both in this chapter and in Concepts Statement 6. Because the application of the liability definition under Concepts Statement 6 did not give sufficient emphasis to the term present obligation, the definition in this chapter more appropriately emphasizes that term. Assessing whether a present obligation exists is the primary criterion in the definition of a liability in this chapter. The primacy of the term present obligation is made more evident through the removal of many of the problematic terms in the definition of a liability in Concepts Statement 6, as discussed in paragraphs BC4.11–BC4.13.

BC4.26. Almost always, the existence of a present obligation will be apparent. Most present obligations are legally enforceable, including obligations arising from binding contracts, agreements, statutes, or other legal or contractual means. However, situations lacking clear legal or contractual evidence of a present obligation pose particular challenges that may make it difficult to discern whether a present obligation exists.

BC4.27. Determining when a present obligation exists has caused confusion with the existence of business risks. Business risks result from the nature of the business and where, when, and how an entity conducts its business. While certain businesses pose risks of future events occurring that will cause a transfer of economic benefits, the Board decided that the risks themselves are not present obligations because exposure to a potential negative consequence does not constitute a present obligation. Rather than viewing all business risks as liabilities, the Board decided that an entity has a present obligation only after an event occurs that demonstrates that the inherent business risk has created a present obligation. Thus, distinguishing when a business risk makes an entity presently obligated requires analysis of the facts and circumstances at the standards level.

BC4.28. Determining the existence of a present obligation is particularly challenging in evaluating constructive obligations. Interpreting constructive obligations too narrowly will tend to exclude significant actual obligations of an entity, while interpreting them too broadly will effectively nullify the definition by including items that lack an essential characteristic of liabilities.

BC4.29. Given that constructive obligations and other noncontractual obligations are created by circumstance rather than explicit agreement, it can be unclear whether a present obligation exists. In the absence of an explicit agreement, sufficient information to distinguish a present obligation is likely only available at the specific standards level. Thus, the Board decided that specific facts and circumstances at the standards level must be assessed to determine whether an entity has created a constructive obligation.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy

Generally Accepted Accounting Principles

- FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting – Chapter 4, Elements of Financial Statements

Effective Date

24. As issue papers are not authoritative and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 5R by the Working Group on August 13, 2023.

EXHIBIT A – SAP Clarification Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets the other paragraphs of SSAP No. 5R are unchanged.

Statement of Statutory Accounting Principles No. 5 - Revised

Liabilities, Contingencies and Impairments of Assets

SCOPE OF STATEMENT

1. This statement defines and establishes statutory accounting principles for liabilities, contingencies and impairments of assets.

SUMMARY CONCLUSION

Liabilities

2. A liability is defined as a present obligation of an entity to transfer an economic benefit. ~~certain or probable FNI future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).~~

3. A liability¹ has three two essential characteristics: (a) it is a present obligation ~~embodies a present duty or responsibility to one or more other entities that entails settlement by probable FNI future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, and~~ (b) the obligation required an entity to transfer or otherwise provide economic benefit to others ~~duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and~~ (c) ~~the transaction or other event obligating the entity has already happened.~~ This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

~~FN1—FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.~~

Relevant Literature

39. This statement adopts *FASB Statement No. 5, Accounting for Contingencies* (FAS 5), *FASB Statement 114, Accounting by Creditors for Impairment of a Loan* only as it amends in part FAS 5 ~~and~~

¹ The guidance in this statement regarding the definition of a liability is applicable unless another authoritative statement of statutory accounting principles (SSAP) provides more topic specific contradictory guidance. In such cases the topic specific guidance shall apply.

~~paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements.~~ FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5* (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14. This statement adopts with modification ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* with the same statutory modification adopted for FIN 14. [This statement incorporates the definition of a liability from FASB Statement of Financial Accounting Concepts No. 8, Chapter 4, Elements of Financial Statements, paragraphs E37 and E38 with modification reflected in this Statement regarding topic specific guidance.](#)

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- *Issue Paper No. 20—Gain Contingencies*
- *Issue Paper No. 135—Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
- [Issue Paper No. 168—Updates to the Definition of a Liability](#)

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/22-01B-IPNo.168-Liabilityfinal.docx>

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

Issue: Negative IMR

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to discuss the interest maintenance reserve (IMR) within statutory accounting, specifically the current guidance for the nonadmittance of disallowed negative IMR. Although the statutory accounting guidance has been in place for several years, the rising interest rate environment has created an increased likelihood for reporting entities to move to a negative IMR position. This agenda item intends to provide information on the background of IMR, current accounting guidance, recent discussions of the Life Actuarial (A) Task Force and some broad financial results from year-end 2021 and interim 2022 financial statements. The intent is to provide this information to facilitate Working Group discussion.

The following provides a high-level overview of the use of the terms positive IMR and negative IMR for entities filing the Life, Accident & Health / Fraternal annual statement blank:

- A positive IMR means that the net realized interest related gains which are amortized in the IMR calculation are greater than net realized interest related losses which are being amortized in the IMR calculation. A positive IMR is reported as a statutory liability and amortized to income over time.
- A negative IMR means that net realized interest related losses which are amortized in the IMR calculation are greater than net realized interested related gains which are amortized in the IMR calculation. A disallowed negative IMR is reported as a nonadmitted asset and amortized to income as a loss over time.

As IMR occurs in the general and separate account, there are specific guidelines in determining whether the IMR reflects a net disallowed negative or position in the annual statement instructions. These are on page 5.

A letter from the American Council of Life Insurers (ACLI) dated Oct. 31, 2022, raised concerns with existing statutory accounting requirements on the nonadmittance of disallowed negative IMR noting negative ramifications for insurers. Key summarized positions from this ACLI letter include:

- In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.
- Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity’s financial health or its policyholders.

Background of IMR

The IMR was first effective in statutory accounting in 1992 and requires that a realized fixed income gains or losses attributable to changes in interest rates (excluding gains/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.

Minutes, including adopted materials – in the Blue Book (Life Statement), from the 2002 4th Quarter NAIC Proceedings discussing IMR are provided below. Please note the last section that includes “Future Directions” which identifies recognition of negative IMR as a major area of effort.

Description and other components of IMR from the Blue Book, captured in the 2002 4th Quarter NAIC Proceedings, provides the following definition and other details: (*Only key excerpts included.*)

The Interest Maintenance Reserve (IMR): captures for all types of fixed income investments, all of the realized capital gains and losses which result from changes in the overall level of interest rates as they occur. Once captured, these capital gains or losses are amortized into income over the remaining life (period to maturity) of the investments sold. Realized gains and losses on derivative investments, which alter the interest rate characteristics of assets/liabilities, also are allocated to the IMR and are to be amortized into income over the life of the associated assets/liabilities. Note: certain significant unusual transactions may require immediate recognition of any realized capital gains or losses, as described in a later section. This reserve is not subject to any maximum.

VII. IMR MINIMUMS/MAXIMUMS: A. Minimums: **The IMR can be negative for any line of business as long as the aggregate IMR for the Company is not less than zero. Any otherwise negative IMR value is carried over to subsequent years.** B. Maximums: There is no maximum of the IMR

VIII. BACKGROUND/PERSPECTIVE: To insure solvency of a company, its assets should be invested so that the company has a very high probability of paying its contractual liabilities when they become due. In order to assess whether a company is able to fulfill its obligations, it must present its liabilities and assets on a financially integrated basis. Since the accounting practices prescribed for the life insurance annual statement are an important element in this discipline, it is imperative that the accounting practices be consistent for assets and liabilities. If they are inconsistent, then the annual statement will not reveal whether assets exceed liabilities; more importantly, neither regulators nor management can determine the risk of insolvency for the company.

The Valuation Actuary’s Opinion includes a statement that the assets backing the liabilities make adequate provision for the company’s liabilities. That is, the Actuary must look beyond the statutory valuation formulas and satisfy himself that the cash flows generated by the assets will probably be sufficient to discharge the liabilities. Prior to the AVR and IMR, there were many circumstances under which the statutory formula valuation methods gave rise to inappropriate results. Some examples were:

- Changes in values due to interest rate swings were recognized inconsistently on the asset and liability sides of the balance sheet. Liabilities are valued using interest rates fixed at issue while some assets may be valued using current interest rates through trading activity.
- When the assets are poorly matched to the liabilities, a significant adverse swing in the interest rates will reduce financial strength and could lead to insolvency even though the balance sheet value of the assets exceeds the balance sheet value of the liabilities. Using long term assets to back demand liabilities is dangerous if there is a significant upswing in interest rates. In addition, individual insurance premiums are received and invested for many years after the issue date on which the reserve interest rate is determined, creating a potential for inadequate yields that is not reflected in standard accounting procedures.
- The potential for future asset losses was not well reflected in the balance sheet or earnings statement.

It is desirable that the valuation of the assets and liabilities be made as consistent as possible to 1) minimize the instances where, in order to render a clean opinion, the actuary must establish extra reserves due to interest rate gains or potential for defaults and 2) increase the likelihood that assets supporting liabilities are sufficient even in the absence of an Actuarial Opinion. The development of an AVR and IMR will correct many of these deficiencies in consistency.

XII. AVR AND IMR BUILT ON AND COMPLEMENT EXISTING VALUATION PRACTICES: The existing framework of asset and liability valuation practices, as augmented by the NAIC Model Standard Valuation Law, played a key role in designing the AVR and IMR, including:

A. Reserve valuation standards should contain a provision for future losses. Although it is well understood that in cash flow testing provision must be made for future asset losses, it may not be as well understood that historically the minimum valuation standards implicitly contained such a provision.

B. Interest assumptions in reserve valuation generally recognize the potential for mismatch. Dynamic valuation rates are lower for ordinary life than for guaranteed investment contracts, for example, because the mismatch is almost inevitable on the former. In addition, it is required in other regulations, and in the NAIC Model Standard Valuation Law, that cash flow testing should be used and may result in the adoption of lower than the dynamic valuation rates if mismatch exists. Hence, with the one exception noted in section (c), there is no need for the IMR reserves to make provision for the risk of mismatch.

C. Asset valuations for fixed interest securities usually reflect the outlook at the time of purchase of an asset. In particular, bond amortization tends to reflect the yields available at time of purchase and the expected cash flow. Liabilities are established at the same time, and the interest rate assumptions on them are those appropriate to the outlook at that time. **But if securities are traded, a new amortization schedule is established that may be based on an entirely different yield environment, which may not be consistent with the liabilities that have been established. Using the IMR to absorb trading gains is desirable and appropriate to eliminate this subsequently created mismatch.**

D. Equities present special valuation problems. Common stocks are valued at market rather than amortized value; hence they require different treatment. Real estate and similar investments, although usually valued at depreciated value, require special consideration because of the great likelihood of major changes in yield and yield expectation after purchase.

XXII. RESERVE MAXIMUM AND MINIMUM LEVELS: No maximum is placed on the Interest Maintenance Reserve. The aggregate minimum value for the IMR for the Company is zero. The IMR may be negative for any Line of Business as long as the aggregate for all lines equals zero. Provision is made in the accounting rules that if an aggregate negative IMR is developed in the absence of the zero minimum, that negative value is carried over to subsequent years.

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 than 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.

XXVIII. EXCESSIVE WITHDRAWALS:

A. Background: Major book-value withdrawals or increases in policy loans can occur at a time of elevated interest rates. If these withdrawals or increases are far in excess of the withdrawals provided for in the company's reserving and cash flow testing, and **if asset sales at this point are, in effect, forced sales to fund liabilities that are no longer on the books, the allocation of a negative amount to the IMR is not correct.**

A company may also experience a "run on the bank" due to adverse publicity. This could occur even during a period of low interest rates, and the sale of assets to meet a run would conceivably produce gains. It is appropriate to register the gains immediately.

If the withdrawals were scheduled payments under a GIC, then there is a presumption that any gains or losses that might occur at the time of withdrawal should be added to the IMR since the gains or losses would be spurious if the company has followed a policy of matching its assets to its liabilities.

Note that many of the situations where an upsurge in withdrawal activity generates real losses arise when a company has a severe mismatch between its assets and its liabilities. Such losses can be present even in the absence of any realized gains or losses. The primary protection as to the adequacy of reserves in these circumstances is the requirement for an actuary's opinion.

- B. IMR Exclusions: All realized interest-related gains or losses which arise from the sale of investments required to meet "Excess Withdrawal Activity" as defined below will be excluded from the IMR and will be reflected in net income.

STANDARDS FOR ACTUARIAL RESERVES WITH AN IMR AND AN AVR

LXX. IMR RESERVE STANDARD The Interest Maintenance Reserve is a true actuarial reserve, and actuaries should use the assets supporting the Interest Maintenance Reserve when opining that the assets supporting the company's reserves make adequate provision for the company's obligations. **In the case of a negative IMR, the actuarial opinion should include an explicit statement that the impact of the negative IMR on reserve adequacy has been considered and that the reserves after deduction of the negative IMR still make adequate provision for the liabilities.**

LXXI. GENERAL EXPLANATION The IMR is designed to work with minimum statutory reserves based on formulas contained in laws or regulations. Where, for example, the valuation rate is based on the interest rate conditions prevailing in the year of deposit, the assets supporting the liabilities will be consistent with the liability assumptions. Disposal of the assets during a period of declining interest rates will produce interest-related gains, but these gains will be needed to support the liabilities that are still valued at the interest rate levels prevailing at time of deposit. Thus, it is appropriate in the case of positive IMR to treat the IMR as an additional reserve requirement above and beyond formula minimums.

In cash-flow-testing actuaries take future cash flows into account from existing assets. In an example such as described above, existing assets may well have been purchased at rates below those prevailing at the time reserves were established. The positive IMR that has been built up has captured the gains and not allowed them to be available for distribution. The IMR is recognized as part of the reserves available to meet future obligation cash flows.

Thus from either point of view a positive IMR is treated as a true actuarial reserve. The same arguments should apply equally well in the case of a negative IMR, but some concern has been expressed that in this case the net reserves are in effect lower than statutory formulas minimums, and therefore special considerations are required.

FUTURE DIRECTIONS

In late 2002, the interested persons (as its name had become) considered refinements of the AVR/IMR for the next several years, from that vantage point, some of the major areas of effort appear to be as follows:

- 1. There should be recognition of negative values of the IMR. The group had long recognized that the philosophical basis for the IMR supports negative values of the reserve as well as positive. There is a need to have investment return match the liabilities associated with the investment; and a need to remove the incentive for a company to make investment decisions based on the short term balance sheet effect; and these needs exist also on the negative side of the IMR.**

No doubt there are concerns that a negative reserve of this type could somehow lead to an unsound condition, so there has been appended to this report a discussion entitled "Why Are Negative Values For the IMR Necessary?" It also seems as though there should be additional safeguards in the case of a negative IMR. Rather than put arbitrary limits on the amount of the negative reserve, however, consideration is being given to an actuary's statement that an asset adequacy analysis has been carried out that demonstrates the soundness of the reserves.

(Staff Note: The NAIC library does not have a record of the report noted in the above paragraph.)

Current Accounting Guidance

The statutory accounting guidance for IMR (and the Asset Valuation Reserve – AVR) is within *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, but the guidance within that SSAP is very limited. It provides a general description, identifies that IMR/AVR shall be calculated and reported per the guidance in the applicable SSAP, and if not explicit in the SSAP, in accordance with the Annual Statement Instructions. The SSAPs most often simply direct allocation to (or between) IMR and AVR, with the bulk of the guidance within the Annual Statement Instructions.

The guidance in the Annual Statement instructions provides information on the net IMR balance, which takes into consideration both the positive and negative balances in the general and separate accounts. As detailed, disallowed negative IMR is reported so that it is a direct reduction to surplus on the Summary of Operations, page 4, line 41 change in nonadmitted assets:

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 a 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.

The Statutory Accounting Statement of Concepts in the Preamble to the AP&P provides the following on Recognition:

Recognition

35. The principal focus of solvency measurement is determination of financial condition through analysis of the balance sheet. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise's ability to maintain itself as a going concern. Accordingly, the income statement is a secondary focus of statutory accounting and should not be diminished in importance to the extent contemplated by a liquidation basis of accounting.

36. The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.

37. Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities may also be required to arrive at conservative estimates of liabilities and probable loss contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

Life Actuarial (A) Task Force 2022 Guidance

The Life Actuarial (A) Task Force considered comments from the ACLI that the inclusion of a negative IMR balance in asset adequacy testing, the disallowance of a negative IMR could result in double counting of losses (i.e., through the disallowance on the balance sheet and the potential AAT-related reserve deficiency). The Task Force identified that VM-20 Section 7.D.7.b notes that "...the company shall use a reasonable approach to allocate any portion of the total company balance that is disallowable under statutory accounting procedures (i.e., when the total company balance is an asset rather than a liability)." Question 22 of the AAA's Asset Adequacy Practice Note (Attachment 2) states that "... a negative IMR is not an admitted asset in the annual statement. So, some actuaries do not reflect a negative value of IMR in the liabilities used for asset adequacy analysis." However, Question 22 also notes a 2012 survey data that showed varying practices across companies, including some companies that allocated negative IMR.

On Nov. 17, 2022, in order to assist state regulators in achieving uniform outcomes for year-end 2022, the Task Force exposed guidance until November 30, 2022:

Recommendation In order to assist state regulators in achieving uniform outcomes for year-end 2022, we have the following recommendation: the allocation of IMR in VM-20, VM-21, and VM-30 should be principle-based, "appropriate", and "reasonable". Companies are not required to allocate any non-admitted

portion of IMR (or PIMR, as applicable) for purposes of VM-20, VM-21, and VM-30, as being consistent with the asset handling for the nonadmitted portion of IMR would be part of a principle-based, reasonable and appropriate allocation. However, if a company was granted a permitted practice to admit negative IMR as an asset, the company should allocate the formerly non-admitted portion of negative IMR, as again a principle-based, reasonable and appropriate IMR allocation would be consistent with the handling of the IMR asset. This recommended guidance is for year-end 2022, to address the current uncertainty and concerns with the “double-counting” of losses. This recommended guidance will help ensure consistency between states and between life insurers in this volatile rate environment. Refinement of this guidance may be considered beyond year-end 2022.

The Oct. 31, 2022 ACLI Letter also identified the following 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.

Assessment of 2020-2022 IMR Balances:

Note – The following amounts reflect the general account IMR Reserve balance. (This is the amount shown as a liability and shows the decrease in the positive IMR reported since 2020.) This detail does not show the disallowed negative IMR reported as an asset and nonadmitted. Also, information on the separate account IMR, which is a factor in determining in disallowed negative IMR, will not be known until the year-end financial statements are filed (March 1, 2023).

	GA 2022 – Q3	GA 2022 – Q2	GA 2022 – Q1	GA YE – 2021	GA YE – 2020
Aggregate IMR	27,601,001,445	31,859,274,989	37,697,176,149	40,598,068,038	35,229,578,726
Change from Prior	(4,258,273,544)	(5,837,901,160)	(2,900,891,889)	5,368,489,312	
% Change	(13.4%)	(21.5%)	(7.1%)	15.2%	

Review of GA IMR Reserve Decrease:

- From the first quarter (Q1) to second quarter (Q2), 25 companies had decreases in the IMR reserve balance over \$50M totaling \$4,717,657,986, representing 80% of the overall change. 13 of these companies had decreases of IMR over \$100M, totaling \$3,959,569,339, representing 68% of the change. Four of these companies had decreases of IMR over \$400M. One of these companies reported a zero IMR liability and reported a disallowed IMR on the asset page of approx. \$570M.
- From the first quarter (Q1) to second quarter (Q2), 49 companies increased their prior reported positive IMR by \$61,390,564. From the second quarter (Q2) to third quarter (Q3), 56 companies increase their prior reported positive IMR by \$60,316,403
- From the second quarter (Q2) to third quarter (Q3), 16 companies had decreases in the IMR reserve balance over \$50M totaling \$3,161,570,362, representing 74% of the change. 8 of these companies had decreases of IMR over \$100M, totaling \$2,580,832,015, representing 60% of the change. All of these companies were still in a net positive IMR position.
- For the 30 companies that reflected the largest decline in reported IMR between the first to second quarter and then the second to third quarter, the following key details are noted.
 - From the first (Q1) to second quarter (Q2), the top 30 companies reflected a decrease in \$4,923,166,733, which is 84% of the total decrease.
 - From the second (Q2) to third quarter (Q3), the top 30 companies reflected a decrease in \$3,642,088,165, which is 85.5% of the total decrease.
 - 19 companies were noted as being in the population for both periods. 29 of the 30 companies reported a net positive IMR in the third quarter. One company reported a zero IMR in Q3.
- For the 15 companies that had the largest declines between the first quarter (Q1) to second quarter (Q2), eight of those companies also had the largest declines from second quarter (Q2) to third quarter (Q3).
- A limited number of companies are reporting a negative IMR on the liabilities side. Seven companies reported a net negative IMR balance in the third quarter (Q3) for a total of 11,031,998. One company made up \$10.5M of the aggregate balance and this company initially went negative in the second quarter (Q2). Six companies reported a net negative IMR balance for Q2 for a total of \$9,815,594. (The other companies with negative IMR were immaterial amounts.) *(Under the guidance in the A/S instructions, these companies should stop at zero and report the negative as disallowed nonadmitted asset.)*

Review of Disallowed IMR:

Although the assessment of the liability balance shows the decrease in positive IMR, it no longer tracks the decline for companies that go negative, as the reserve balance on the liability page should stop at zero. (This info may be identifiable from the IMR schedule, but not within the quarterly financials from a review of the IMR reported on the liability page.) As such, NAIC staff completed a review of the data to identify the companies that moved to a zero balance (from a prior positive balance) at year-end 2021 or in the 2022 quarters:

Companies that moved from a positive IMR (liability) to a zero balance:

- Initially went to zero in 2022 – Q3: 20 companies
- Initially went to zero in 2022 – Q2: 20 companies
- Initially went to zero in 2022 – Q1: 11 companies
- Initially went to zero YE 2021 – 20 companies (This is a comparison to YE 2020.)

For these 71 companies, NAIC staff has completed a manual review to the 2022 third quarter financial statements to determine if a disallowed IMR was reported as an aggregate write-in on the asset page. For these companies, 60 were identified with a disallowed IMR for a total of \$1 Billion as of the third quarter 2022.

Existing Authoritative Literature:***SSAP Authoritative Guidance:***

- *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*
- Life Annual Statement Instructions

(Guidance included as part of discussion.)

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):

- Nov. 17, 2022, Discussion by Life Actuarial (A) Task Force as discussed above.

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 recommend that the Working Group include this item on their maintenance agenda as a New SAP Concept for discussion to assess the current guidance for disallowed negative IMR. NAIC staff recommend that at the Working Group's conclusion, documentation of the discussion, and resulting decisions, be captured for historical purposes in an Issue Paper.

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

Status:

On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a New SAP Concept and exposed the agenda item 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.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group 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. Draft 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. Draft 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 RBC ratio is less than 300.
- d. Review and provide updates on any annual statement instructions for excess withdraws, 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 sales of bonds are reinvested in other bonds.
- g. Develop a footnote disclosure for quarterly and annual reporting.

On April 10, 2023, the Working Group exposed a limited-time, optional INT to allow admittance of net negative (disallowed) IMR in the general account up to 5% of adjusted capital and surplus. The exposed INT proposed restrictions on what is permitted to be captured in the net negative IMR balance eligible for admittance as well as reporting and disclosure requirements.

On June 28, 2023, the Working Group discussed comments received on the exposed INT and directed NAIC staff to incorporate several revisions to the INT. The revised INT reflects the following:

- Requirement for RBC over 300% after adjustment to remove admitted positive goodwill, EDP equipment and operating system software, DTAs and admitted IMR.
- Allowance to admit up to 10% of adjusted capital and surplus – first in the GA, and then if all disallowed IMR in the GA is admitted and the percentage limit is not reached, then to the SA account proportionately between insulated and non-insulated accounts. *(The adjustments are the same that occur for the RBC adjustment and reduce capital and surplus before applying the 10% percentage limit.)*
- There is no exclusion for derivatives losses included in negative IMR if the company can demonstrate historical practice in which realized gains from derivatives were also reversed to IMR (as liabilities) and amortized.
- Inclusion of a new reporting entity attestation.

- Effective date through Dec. 31, 2025, with a note that it could be nullified earlier or extended based on WG actions to establish specific guidance on net negative (disallowed) IMR.
- Application guidance for admitting / recognizing IMR in both the general and separate accounts.

On July 5, 2023, the Working Group exposed via evote the revised INT for a shortened comment period ending July 21, 2023.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed INT 23-01 which provides optional, limited-time guidance, which allows the admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus. INT 23-01 is effective through December 31, 2025.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Adoptions/22-19 - Negative IMR.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2023/8-13-23%20Summer%20National%20Meeting/Adoptions/22-19%20-%20Negative%20IMR.docx)

Interpretation of the Statutory Accounting Principles (E) Working Group

Net Negative (Disallowed) Interest Maintenance Reserve

INT 23-01 Dates Discussed

April 10, 2023, June 28, 2023, August 13, 2023

INT 23-01 References

Current:

*SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve
Annual Statement Instructions*

INT 23-01 Issue

1. The statutory accounting guidance for interest maintenance reserve (IMR) and the asset valuation reserve (AVR) is within *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, but the guidance within *SSAP No. 7* is very limited. It provides a general description, identifies that IMR/AVR shall be calculated and reported per the guidance in the applicable SSAP, and if not explicit in the SSAP, in accordance with the annual statement instructions. The SSAPs most often simply direct allocation to (or between) IMR and AVR, with the bulk of the guidance residing within the annual statement instructions.
2. As detailed in *SSAP No. 7*, paragraph 2, the guidance for IMR and AVR applies to life and accident and health insurance companies and focuses on IMR and AVR liability recognition and distinguishing between IMR and AVR:
 2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.
3. The IMR guidance in the annual statement instructions provides information on the net balance. A positive IMR represents net interest rate realized gains and is reported as a liability on a dedicated reporting line. A negative disallowed IMR represents net interest rate realized losses and is reported as a miscellaneous other-than-invested write-in asset in the general account and nonadmitted.
4. IMR balances between the general account and separate accounts are separate and distinct. Meaning, a net negative IMR in the general account only represents activity that occurred in the general account that was allocated to IMR. However, the net positive or negative balance of the general account influences how the net positive or negative balances are reported in separate account statements (and vice versa). (A net negative IMR balance in the general account may not be disallowed if there is a covering net positive IMR in the separate account. Negative IMR that is not disallowed is reported as a contra-liability.) The instructions for reporting the net negative and positive balances are detailed in the 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 a 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.

5. In October 2022, the ACLI requested the Statutory Accounting Principles (E) Working Group to reassess the guidance for net negative (disallowed) IMR, with a request to consider admittance of those

amounts. The ACLI noted that the nonadmittance of disallowed negative IMR can have adverse negative ramifications for insurers with two key themes:

- a. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.
- b. Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity's financial health or its policyholders.

6. In considering the request, the Working Group concluded that, for year-end 2022, there would be no change to statutory accounting guidance and deviations from statutory accounting principles would need to be approved via a permitted or prescribed practice. The Working Group then held company-specific educational sessions in January 2023 to receive detailed information regarding negative IMR and received a subsequent comment letter from the ACLI.

7. During the 2023 Spring National Meeting, the Working Group further discussed the topic of negative IMR and directed NAIC staff to proceed with drafting guidance for a 2023 solution and to begin work towards a long-term solution.

INT 23-01 Discussion

8. This interpretation prescribes limited-time, optional, statutory accounting guidance, as an exception to the existing guidance detailed in SSAP No. 7 and the annual statement instructions that requires nonadmittance of net negative (disallowed) IMR as a short-term solution. Specifically, this interpretation impacts the annual statement instruction rules regarding disallowed negative IMR detailed in rules 'b,' 'd' and 'f' shown in paragraph 4.

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

- a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account¹ capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted² net negative (disallowed) IMR.
- b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all

¹ The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

² As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

- c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination³ unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.
10. Reporting entities that admit net negative (disallowed) IMR shall follow the following process:
 - a. All net negative (disallowed) IMR in the general account shall first be admitted until the capital and surplus percentage limit, as detailed in paragraph 9.a., is reached.
 - b. If all general account net negative (disallowed) IMR has been fully admitted, and the reporting entity is still below the paragraph 9.a. capital and surplus limit, then the reporting entity can report net negative (disallowed) IMR as an asset in the separate accounts. Reporting entities that have both insulated and non-insulated separate accounts shall recognize IMR assets proportionately between the insulated and non-insulated statements until the aggregated amount recognized as an admitted asset in the general account and as an asset in the insulated and non-insulated statements reaches the percentage limit of capital and surplus detailed in paragraph 9.a.
 11. Reporting entities that admit net negative (disallowed) IMR in the general account shall report the admittance in the balance sheet as follows:
 - a. Reporting entities shall report the net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 25) (named as “Admitted Disallowed IMR”) on the asset page. The net negative (disallowed) IMR shall be admitted to the extent permitted per paragraph 9.a., with the remaining net negative (disallowed) IMR balance nonadmitted.
 - b. Reporting entities shall allocate an amount equal to the general account admitted net negative (disallowed) IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as “Admitted Disallowed IMR”). Although dividends are

³ Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

12. Reporting entities that record net negative (disallowed) IMR as an asset in the separate account shall report the recognition in the balance sheet as follows:

- a. Reporting entities shall report the permitted net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 15) (named as “Recognized Disallowed IMR”) on the asset page.
- b. Reporting entities shall allocate an amount from surplus equal to the asset recognized as disallowed IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR) on the liabilities and surplus page.

13. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the annual and quarterly financial statements for IMR:

- a. Reporting entities that have allocated gains/losses to IMR from derivatives that were reported at fair value prior to the termination of the derivative shall disclose the unamortized balances in IMR from these allocations separately between gains and losses.
- b. Reporting entities shall complete a note disclosure that details the following:
 - i. Net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,
 - ii. Amounts of negative IMR admitted in the general account and reported as an asset in the separate account insulated and non-insulated blank,
 - iii. The calculated adjusted capital and surplus per paragraph 9.a., and
 - iv. Percentage of adjusted capital and surplus for which the admitted net negative (disallowed) IMR represents (including what is admitted in the general account and what is recognized as an asset in the separate account).
- c. Reporting entities shall include a note disclosure that attests to the following statements:
 - i. Fixed income investments generating IMR losses comply with the reporting entity’s documented investment or liability management policies,
 - ii. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity’s derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.
 - iii. Any deviation to 13.c.i was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.

- iv. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

INT 23-01 Status

14. The consensuses in this interpretation were adopted on August 13, 2023, to provide limited-time exception guidance to SSAP No. 7 and the annual statement instruction for the reporting of net negative (disallowed) IMR. The provisions within this interpretation are permitted as a short-term solution until December 31, 2025, and will be automatically nullified on January 1, 2026.

15. The effective date of this interpretation may be adjusted (nullified earlier or with an extended effective date timeframe) in response to Statutory Accounting Principles (E) Working Group actions to establish statutory accounting guidance specific to net negative (disallowed) IMR.

16. No further discussion is planned.

Application Guidance for Admitting / Recognizing Net Negative (Disallowed) IMRGeneral Account:

1. Net negative IMR in the general account that exceeds net positive IMR in the separate accounts is considered “disallowed” general account IMR. (Determination of the disallowed IMR in the general account shall be compared against the aggregate IMR balance in all separate accounts.)
2. Net negative disallowed IMR in the general account shall be reported as an aggregate write-in for other-than-invested assets as “Admitted Disallowed IMR” on line 25 of the asset page and nonadmitted. The change in nonadmittance shall be reported on line 41 in the summary of operations.
3. To the extent the reporting entity is permitted to admit net negative disallowed IMR pursuant to the provisions in this interpretation, the reporting entity shall admit the disallowed IMR reported on line 25 of the asset page to the extent permitted, with the change in nonadmittance reflected on line 41 in the summary of operations.
4. Reporting entities shall report an amount equal to the general account admitted net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 34 of the Liabilities, Surplus and Other Funds page) named as “Admitted Disallowed IMR.”
5. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

Separate Account:

6. Net negative IMR in the separate account (aggregated IMR in both insulated and non-insulated separate accounts) that exceeds net positive IMR in the general account is considered “disallowed” separate account IMR. If the aggregate separate account IMR is positive, with a negative IMR in the insulated separate account and positive IMR in non-insulated separate account (or vice versa), then the negative IMR in the insulated separate account is not permitted to be reported as an asset. In those situations, the separate account has an aggregate positive IMR balance.
7. Net negative (disallowed) IMR in the separate account permitted to be recognized as an asset, as the admittance in the general account did not utilize the full percentage of adjusted capital and surplus permitted within this interpretation, shall be proportionately divided between insulated and non-insulated separate accounts if both separate accounts are in a negative position. If the separate account IMR is an aggregate net negative, but only one separate account blank is in a negative position, then only the separate account blank with a net negative position can recognize disallowed IMR as an asset.
8. If negative IMR in the separate account has previously been recognized as a direct charge to surplus, the reporting entity shall recognize an asset as an aggregate write-in for other-than-invested assets as “Recognized Disallowed IMR” on line 15 of the separate account asset page, with an offsetting credit to surplus. This credit to surplus shall reverse the charge previously recognized. This process shall continue in subsequent quarters if additional separate account IMR is permitted as an asset to the extent IMR was previously taken as a direct charge to surplus. Once prior surplus impacts have been fully eliminated, then the entity shall follow the guidance for new net negative (disallowed) IMR as detailed in the following paragraph. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.

9. If the reporting entity enters a net negative (disallowed) IMR position (meaning, there has not been a prior charge to surplus for net negative (disallowed) IMR), then the entity shall recognize the asset as an aggregate write-in for other-than-invested assets as “Disallowed IMR” on line 15 of the separate account balance sheet, with an offsetting credit to IMR (line 3 of the liability page) until the IMR liability equals zero. This process shall continue in subsequent quarters if additional net negative IMR is generated from operations and is permitted as an asset under the provisions of this interpretation. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.
10. Reporting entities shall report an amount equal to the asset recognized reflecting net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR.” This shall be included in each separate account statement (insulated and non-insulated) if net negative disallowed IMR is recognized as an asset in that statement.
11. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

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

Issue: SSAP No. 43R – CLO Financial Modeling

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item proposes revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to incorporate edits to reflect changes adopted by the Valuation of Securities (E) Task Force on Feb. 21, 2023, to include collateralized loan obligations (CLOs) in the SVO financial modeling process.

This agenda item has been drafted to ensure the financial modeling guidance summarized in *SSAP No. 43R—Loan-Backed and Structured Securities* reflects the practices as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)*. (Note, while the *Accounting Practices and Procedures Manual* is higher than the P&P manual in the statutory hierarchy, the primary source of authoritative guidance for financial modeling is the P&P manual. Only a general description of the modeling process is included in SSAP No. 43R). The methodology to model CLOs is still being developed, but guidance that permits the SVO to model CLOs has been adopted and should be followed once CLOs begin to be financially modeled.

Existing Authoritative Literature:

SSAP No. 43R—Loan-Backed and Structured Securities

Designation Guidance

27. For RMBS/CMBS securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:

- a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating the insurers' carrying value. For a modeled non-legacy security, meaning one which closed after December 31, 2012, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those legacy securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. The three-step process for modeled legacy securities is as follows:
 - i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to each NAIC designation and NAIC designation category for each CUSIP to establish the **initial** NAIC designation.
 - ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then

determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.

- iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the NAIC designation and NAIC designation category for each CUSIP or is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).
- b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26.

Specific Interim Reporting Guidance Financially Modeled Securities

28. For securities that will be financially modeled under paragraph 27, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 27, regardless of the quarterly methodology used.

- a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 27.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.
- b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 27.a.) for these securities acquired subsequent to year-end.
- c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPS, and are not captured within paragraphs 28.a. or 28.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate). Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.
- d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate).

SSAP No. 43R - EXHIBIT A – Question and Answer Implementation Guide Index to Questions

Questions 8-10 are specific to securities subject to the financial modeling process. (This process is limited to qualifying RMBS/CMBS securities reviewed by the NAIC Structured Securities Group.) The guidance in questions 8-10 shall not be inferred to other securities in scope of SSAP No. 43R.	
8	Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?
9	The NAIC Designation process for LBSS may incorporate loss expectations that differ from the reporting entity's expectations related to OTTI conclusions. Should the reporting entities be required

	to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?
10	For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

8. Question – Do LBSS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the “final” NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

9. Question – The NAIC Designation process for LBSS subject to the financial modeling process may incorporate loss expectations that differ from the reporting entity’s expectations related to OTTI conclusions. Should the reporting entities be required to incorporate recovery values obtained from data provided by the service provider used for the NAIC Designation process for impairment analysis as required by SSAP No. 43R?

9.1 In accordance with *INT 06-07: Definition of Phrase “Other Than Temporary,”* reporting entities are expected to “consider all available evidence” at their disposal, including the information that can be derived from the NAIC designation.

10. Question - For companies that have separate accounts, can the NAIC designation be assigned based upon the total legal entity or whether it needs to be calculated separately for the general account and the total separate account?

10.1 The financial modeling process for qualifying RMBS/CMBS securities is required for applicable securities held in either the general or separate account.

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 following edits have previously been reflected in the financial modeling guidance:

- Agenda Item 2018-19: To be consistent with the prior SVO P&P Manual revisions, eliminated the multi-step designation guidance for modified filing exempt (MFE) securities. The elimination of MFE was effective March 31, 2019, with early application permitted for year-end 2018. With the elimination of MFE, for securities that are filing exempt, the NAIC designation reported will correspond to the Credit Rating Provider (CRP) rating without adjustment based on carrying value.
- Agenda Item 2018-03: Clarified that securities acquired in lots shall not be reported with weighted average designations. With the adopted guidance, if a SSAP No. 43R security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. With the

elimination of MFE, the instances of different designations by lot are not expected to be prevalent, but could still occur with the financial modeling process for residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS).

- Agenda Item 2020-21: Edits incorporated adopted guidance to the P&P manual detailing the use and mapping of NAIC designations to NAIC designation categories. Reporting entities were to then utilize the new NAIC designation categories for accounting and reporting purposes.
- Agenda Item 2021-23: Adopted changes to summarize the financial modeling guidance in SSAP No. 43R. This guidance continues to refer users to the detailed financial modeling guidance in the P&P Manual.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): Not Applicable

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. 43R—Loan-backed and Structured Securities* to incorporate changes to add CLOs to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities. These revisions reflect the guidance adopted for the P&P Manual in February 2023.

Proposed Revisions to *SSAP No. 43R—Loan-Backed and Structured Securities*

Designation Guidance

27. For [Residential Mortgage-Backed Securities \(RMBS\)](#), [Commercial Mortgage-Backed Securities \(CMBS\)](#) and [Collateralized Loan Obligations \(CLOs\)](#), ~~RMBS/CMBS~~ securities within the scope of this statement, the initial NAIC designation used to determine the carrying value method and the final NAIC designation for reporting purposes is determined using a multi-step process or the NAIC designation assigned by the NAIC Securities Valuation Office. The P&P Manual provides detailed guidance. A general description of the processes is as follows:
 - a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled [RMBS/CMBS](#) legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating the insurers' carrying value. For a modeled [RMBS/CMBS](#) non-legacy security, meaning one which closed after December 31, 2012, [or modeled CLO](#) the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those [RMBS/CMBS](#) legacy securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. The three-step process for modeled [RMBS/CMBS](#) legacy securities is as follows:
 - i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of a loan-backed or structured security is compared to the modeled breakpoint values assigned to each NAIC designation and NAIC designation category for each CUSIP to establish the initial NAIC designation.

- ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 26 based upon the initial NAIC designation from Step 1.
 - iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 27.a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the NAIC designation and NAIC designation category for each CUSIP or is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 27.a.ii.).
- b. All Other Loan-Backed and Structured Securities: For securities not subject to paragraph 27.a. (financial modeling) follow the established designation procedures according to the appropriate section of the P&P Manual. The NAIC designation shall be applicable for statutory accounting and reporting purposes (including determining the carrying value method and establishing the AVR charges). The carrying value method is established as described in paragraph 26.

Specific Interim Reporting Guidance Financially Modeled Securities

28. For securities that will be financially modeled under paragraph 27, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior-year end methodology for the current-year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 27, regardless of the quarterly methodology used.

- a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 27.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.
- b. Reporting entities that acquired identical securities (identical CUSIP) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 27.a.) for these securities acquired subsequent to year-end.
- c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPS, and are not captured within paragraphs 28.a. or 28.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate) [until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities \(paragraph 27.a., as appropriate\)](#). Reporting entities that do acquire the individual CUSIP information from the prior-year financial modeling database shall use that information for interim reporting.
- d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 27.b. as appropriate) [until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities \(paragraph 27.a., as appropriate\)](#).

Staff Review Completed by: Julie Gann, NAIC Staff – February 2023

Status:

On March 22, 2023, 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. 43R to incorporate changes to add CLOs to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP No. 43R which incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-02-43R-CLOFM.docx>

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

Issue: ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

The Financial Accounting Standards Board (FASB) issued *ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848* to extend the sunset date of the reference rate reform guidance that was included in *ASU 2020-04, Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and *ASU 2021-01, Reference Rate Reform (Topic 848), Scope*.

As background, reference rate reform refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it would no longer require banks to continue rate submissions after 2021 – thus, likely sunsetting both the use and publication of LIBOR. An important item to note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform. For simplicity, LIBOR will be the sole IBOR referenced throughout this agenda item.

With a significant number of financial contracts referencing LIBOR, its discontinuance will require organizations to reevaluate and modify any contract which does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.

To address ASU 2020-04 the Working Group issued *INT 20-01: Reference Rate Reform*, and this interpretation was then revised to incorporate guidance from ASU 2021-01. This agenda item intends to again revise INT 20-01 to include the revised sunset date of December 31, 2024.

Existing Authoritative Literature:

The Working Group adopted INT 20-01 to address ASU 2020-04, and further revised that interpretation to address ASU 2021-01. The modifications in ASU 2020-04 address hedge accounting and the allowance for a reporting entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the hedging relationship. Alternative benchmark interest rates were previously addressed in agenda item 2018-46 – Benchmark Interest Rate.

ASU 2021-01 increased the scope of the optional, expedient accounting guidance for derivative instruments in ASU 2020-04 which would primarily affect *SSAP No. 86—Derivatives*. While detailed in the original agenda item (Ref #2020-12), additional SSAPs impacted by ASU 2020-04 were *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 22R—Leases*.

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 has taken several actions related to reference rate reform; each are summarized below.

1. Agenda item 2018-46 – Benchmark Interest Rate, incorporated revisions to SSAP No. 86, adding the Securities Industry and Financial Markets (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as acceptable benchmark interest rates for hedge accounting. Prior to this change, only LIBOR and the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) were considered acceptable benchmark interest rates.
2. Agenda item 2020-12 reviews ASU 2020-04, the foundation of which this agenda item and related ASU (2021-01) are based. Agenda item 2020-12 resulted in the Working Group adopting INT 20-01.
3. *INT 20-01: ASU 2020-04 - Reference Rate Reform*, adopted by the Working Group in April 2020, broadly adopted ASU 2020-04 for statutory accounting stating that for statutory accounting:
 - For all contracts within scope of ASU 2020-04, modifications due to reference rate reform are afforded an optional expedient to be accounted for as a continuation of the existing contract.
 - Debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as *SSAP No. 15—Debt and Holding Company Obligations* states such liabilities should only be derecognized if extinguished.
 - Lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under *SSAP No. 22R—Leases*.
 - For derivative transactions within scope of ASU 2020-04, a change to the critical terms of the hedging relationship (due to reference rate reform), shall be afforded similar treatment in that the hedging relationship can continue the original hedge accounting rather than dedesignate the hedging relationship.
4. *INT 20-09: Basis Swaps as a Result of the LIBOR Transition*, adopted by the Working Group in July 2020, provided statutory accounting and reporting guidance for basis swaps issued by CCPs. This INT designated that basis swaps, issued by CCPs, in response to reference rate reform (i.e., the discounting transition), shall be classified as a derivative used for hedging. This categorization allowed for the basis swap derivatives to be admitted under SSAP No. 86. Additionally, the INT directed that basis swap derivatives shall not be reported as “effective” unless the instrument qualifies, with the required documentation, as highly effective under SSAP No. 86.
5. Agenda item 2021-09 further revised INT 20-01 and increased the scope of the optional, expedient accounting guidance for derivative instruments in ASU 2020-04.

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 SAP clarification and expose temporary (optional) expedient and exception interpretative guidance, to revise the expiration date of the guidance in *INT 20-01: ASU 2020-04 & 2021-01 - Reference Rate Reform* to be December 31, 2024.

The proposed modifications to INT 20-01 temporarily override SSAP No. 15, SSAP No. 22R and SSAP No. 86 guidance, therefore the policy statement in Appendix F requires 2/3rd (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

Staff Review Completed by: Jake Stultz—February 2023

Status:

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed temporary (optional) expedient and exception interpretative guidance, to revise the expiration date of the guidance in *INT 20-01: 2020-04, 2021-01 & 2022-06 - Reference Rate Reform* to be December 31, 2024, as reflected in INT 20-01.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as reflected in *INT 20-01: ASUs 2020-04, 2021-01 & 2022-06 - Reference Rate Reform* which revises expiration date of the interpretation to December 31, 2024.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-05a-ASU2022-06-LIBOR.docx>

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-01: ~~ASUs 2020-04, & 2021-01~~ ASU 2022-06 – Reference Rate Reform

INT 20-01 Dates Discussed

March 26, 2020; April 15, 2020; March 15, 2021, May 20, 2021, [March 22, 2023](#), [August 13, 2023](#)

INT 20-01 References

Current:

SSAP No. 15—Debt and Holding Company Obligations

SSAP No. 22R—Leases

SSAP No. 86—Derivatives

This INT applies to all SSAPs with contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.

INT 20-01 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of *ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, ~~and ASU 2021-01, Reference Rate Reform (Topic 848)~~, and ASU 2022-06, Reference Rate Reform (Topic 848) for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued ~~both~~ ASU 2020-04, ~~and~~ ASU 2021-01 and ASU 2022-06 to provide optional, transitional and expedient guidance as a result of reference rate reform.
2. “Reference rate reform” typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it will no longer require banks to continue LIBOR submissions after 2021 – likely sunseting both the use and publication of LIBOR. An important note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform.
3. With a significant number of financial contracts solely referencing IBORs, their discontinuance will require organizations to reevaluate and modify any contract that does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.
4. The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing such contracts and treating the modified contract as an entirely new contract or hedging relationship would 1) not provide decision-useful information to financial statement users and 2) require a reporting entity to incur significant costs in the financial

statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

5. Guidance in ASU 2020-04 allows a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or dedesignation if certain criteria are met.

6. Guidance in ASU 2021-01 expanded the scope of ASU 2020-04 by permitting the optional, transitional, expedient guidance to also include derivative contracts that undergo a similar transition but do not specifically reference a rate that is expected to be discontinued. While these contract modifications do not reference LIBOR (or another reference rate expected to be discontinued), the changes are the direct result of reference rate reform and were deemed to be eligible for similar exception treatment. ASU 2021-01 allows for modifications in interest rates indexes used for margining, discounting or contract price alignment, as a result of reference rate reform initiatives (commonly referred to as a “discounting transition”) to be accounted for as a continuation of the existing contract and hedge accounting. [On August 13, 2023, the Working Group added the guidance in ASU 2022-06 which only acts to defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief from the prior ASUs.](#)

7. The optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04, ~~and~~ ASU 2021-01 ~~and~~ ASU 2022-04 are applicable for all entities. However, they are only effective as of March 12, 2020 through December 31, ~~2024~~2022. This is because the amendments are intended to provide relief related to the accounting requirements in generally accepted accounting principles (GAAP) due to the effects of the market-wide transition away from IBORs. The relief provided by the amendments is temporary in its application in alignment with the expected market transition period. However, the FASB will monitor the market-wide IBOR transition to determine whether future developments warrant any changes, including changes to the end date of the application of the amendments in this ASU. If such an update occurs, the Working Group may also consider similar action. It is not expected that the Working Group will take action prior to or in the absence of a FASB amendment.

8. The accounting issues are:

- a. Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?
- b. Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?
- c. Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?
- d. Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?
- e. Issue 5: Should the optional, expedient and exception guidance in ASU 2021-01 apply to derivative transactions addressed in SSAP No. 86?

INT 20-01 Discussion

9. For Issue 1, the Working Group came to the consensus that ASU 2020-04 shall be adopted, to include the same scope of applicable contracts or transactions for statutory accounting with the only modification related to a concept not utilized by statutory accounting, as noted below. The Working Group agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:

- a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.

- i. All contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.
- b. Allows hedging relationships to continue without dedesignation upon a change in certain critical terms.
- c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.
- e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.
- f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

10. For Issue 2, the Working Group came to the consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

11. For Issue 3, the Working Group came to the consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a consensus that if an eligible lease affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

12. For Issue 4, the Working Group came to the consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:

- a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than dedesignate the hedging relationship.
- b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.
- c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.
- d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

13. For Issue 5, the Working Group came to a consensus on May 20, 2021, that ASU 2021-01 shall be applied to derivative transactions for statutory accounting. Accordingly, derivative instruments that are modified to change the reference rate used for margining, discounting, or contract price alignment that is a result of reference rate reform (regardless of whether the reference rate that is expected to be discontinued) are eligible for the exception

guidance afforded in ASU 2020-04 in that such a modification is not considered a change in the critical terms that would require dedesignation of the hedging relationship. In addition, for all derivatives (those qualifying for hedge accounting, those that do not qualify for hedge accounting and replication (synthetic asset) transactions (RSAT)), a reporting entity may account for and report modifications (that are within the scope of INT 20-01) as a continuation of the existing contract even when the legal form of the modification is a termination of the original contract and its replacement with a new reference rate reform contract. This includes in-scope modifications of centrally cleared swap contracts whether they are automatically transitioned at a cessation date or voluntarily executed prior to cessation.

14. Additionally, for GAAP purposes, if an entity has not adopted the amendments in *ASU 2017-12, Derivatives and Hedging*, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.

INT 20-01 Status

15. ~~No further~~Further discussion is planned.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-05b-INT20-01-ReferenceRateReform.docx>

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

Issue: Additional Updates on ASU 2021-10, Government Assistance

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

On August 10, 2022, the Statutory Accounting Principles (E) Working Group adopted, revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* in agenda item 2022-04: ASU 2021-10, Government Assistance. The revisions incorporate certain disclosures, adopted with modification from ASU 2021-10, to supplement existing disclosures regarding unusual or infrequent items.

This agenda item is to provide additional clarifications to SSAP No. 24, regarding follow-up questions, that NAIC staff received regarding the adoption of the disclosures about government assistance in ASU 2021-10. The primary questions were regarding whether the adoption with modification of the ASU disclosures intended to allow insurers to use the grant and contribution model. If the intent was not to allow for the use of the grant and contribution model, then the question becomes in what situation would these disclosures be required. Because NAIC staff understanding is that the grant and contribution model is not intended to be permitted for statutory accounting, additional modifications to clarify this point have been proposed which reject ASU 2021-10 but still incorporate government assistance disclosures.

In November 2021, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance* to increase financial statement transparency regarding certain types of government assistance by increasing the disclosure of such information in the notes to the financial statements.

The new disclosure aims to increase transparency by enhancing the identification of 1) the types of assistance received, 2) an entity’s accounting for said assistance, and 3) the effects of the assistance in an entity’s financial statements. The disclosures will contain information about the nature of the transactions, which includes a general description of the transaction and identification of the form (cash or other) in which the assistance was received. In terms of the effects on the financial statement, disclosure will include identification of the specific line items in both the balance sheet and income statement and a description of the extent to which they have been impacted by any government assistance. In addition, an entity will be required to disclose information about any significant terms of the transaction with a government entity, with items including durations of such agreements and any provisions for potential recapture.

ASU 2021-10 defines “government assistance,” in a comprehensive manner to capture most types of assistance from governmental entities and includes examples of tax credits, cash grants, or grants of other assets. ASU 2021-10 does not apply to not-for-profit entities or benefit plans, and only applies to government assistance transactions analogizing either a grant or contribution model.

With the specificity of these additional disclosures only applying in certain circumstances (only applicable in cases where the government assistance is not accounted for in accordance with other accounting standards – i.e., revenue in the normal course of business or debt), NAIC staff believe the occurrence of such items requiring disclosure per ASU 2021-10 will likely be relatively infrequent.

NAIC Staff Note – as mentioned above, NAIC staff believe that as these additional disclosures are not applicable for transactions that are in scope of other accounting standards, and only apply when the transaction is accounted for by analogy using the grant or contribution model, the prevalence of such items will be infrequent. As such, the most appropriate location for these items is reflected in SSAP No. 24.

Existing Authoritative Literature:

The following revisions were adopted to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* in agenda item 2022-04

Disclosures [Unusual/Infrequent Items]

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. 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. If the unusual or infrequent item is as the result of government assistance (as defined in ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance) disclosure shall additionally include the form in which the assistance has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies.

Relevant Literature

24. This statement adopts ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance, with modification to require disclosure by all entity types.

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 2022-04: ASU 2021-10, Government Assistance was adopted on August 10, 2022.

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 Review Completed by: Robin Marcotte – NAIC Staff

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. 24 as illustrated below. These revisions will clarify the rejection of ASU 2021-10, Government Assistance and the incorporation of disclosures regarding government assistance.

17. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. 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. If the unusual or infrequent item is as the result of government assistance, ~~(as defined in ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance)~~ disclosure shall additionally include the form in which the assistance has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies.

Relevant Literature

24. This statement ~~adopts~~ rejects ASU 2021-10, *Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. ~~, with modification to require disclosure by all entity types.~~

Status:

On March 22, 2023, 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. 24 to specify rejection of ASU 2021-10, *Government Assistance* but that the statutory guidance does incorporate general disclosures regarding government assistance for all entity types.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP No. 24 which specifies the rejection of ASU 2021-10 but incorporates general disclosures regarding government assistance for all entity types.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-06-ASU2021-10GovtAssistance.docx>

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

Issue: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In November 2019, FASB issued *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*, which includes amendments to Topics 718 and 606. The changes to Topic 718 include share-based payment transactions for acquiring goods and services from nonemployees and in doing so superseded guidance in Subtopic 505-50, *Equity—Equity-Based Payments to Non-Employees*. The changes to Topic 606 expand the scope of the codification to include share-based payment awards granted to a customer in conjunction with selling goods or services.

The amendments in ASU 2019-08 require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer.

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104R—Share-Based Payments*. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts. (For example, statutory reporting lines, nonadmittance of prepaid assets, etc.)

Existing Authoritative Literature:

Stock Compensation is covered by *SSAP No. 104R—Share-Based Payments* and *SSAP No. 95—Nonmonetary Transactions*.

The ASUs related to ASC Topic 606 have been rejected in *SSAP No. 47—Uninsured Plans*.

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 2018-35 adopted with modification *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting* and incorporated the U.S. GAAP amendments from that project into SAP.

Agenda items 2016-19 and 2017-37 address the main ASUs related to *ASC Topic 606* and there have been several other agenda items for minor updates to revenue recognition guidance, all of which have been rejected in *SSAP No. 47*.

Per the comment letter received on June 9, 2023, interested parties had no comments on Agenda item 2023-07.

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:

Staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose 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* for statutory accounting. These revisions would add language to include share-based consideration payable to customers under SSAP No. 104R guidance in the same manner as U.S. GAAP. With the revisions proposed to SSAP No. 104R, revisions are also proposed to *SSAP No. 95—Nonmonetary Transactions* to update previously adopted U.S. GAAP guidance. In addition, proposed revisions to *SSAP No. 47—Uninsured Plans*, reject Topic 606 guidance in ASU 2019-08. The proposed revisions to SSAP No. 95, SSAP No. 104R, and *SSAP No. 47—Uninsured Plans*, are illustrated in the Form A.

Proposed Revisions to SSAP No. 95—Nonmonetary Transactions

Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or Services and Cash (in combination or individually), or ~~a Combination of Goods or Services and Cash~~ as Consideration Payable to a Customer

17. The guidance in paragraph 18 addresses a convertible instrument that is issued or granted to a nonemployee in exchange for goods or services or a combination of goods or services and cash or consideration payable to a customer. The convertible instrument contains a nondetachable conversion option that permits the holder to convert the instrument into the issuer's stock.

19. To determine the fair value of a convertible instrument granted as part of a share-based payment transaction to a nonemployee in exchange for goods or services or as consideration payable to a customer that is equity in form or, if debt in form, that can be converted into equity instruments of the issuer, the entity shall first apply SSAP No. 104R.

Proposed Revisions to SSAP No. 104R—Share-Based Payments**SUMMARY OF ISSUE**

2. The objective of accounting for transactions under share-based payment arrangements is to recognize in the financial statements the goods or services received in exchange for equity instruments granted or liabilities incurred and the related cost to the entity as those goods or services are received. This statement uses the terms “compensation” and “payment” in their broadest senses to refer to the consideration paid for goods, ~~or~~ services, or the consideration paid to a customer.

Scope and Scope Exceptions

4. This statement applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor’s own operations or provides consideration payable to a customer by issuing (or offering to issue) its shares, share options, or other equity instruments or by incurring liabilities to an employee or nonemployee that meet either of the following conditions:

- a. The amounts are based, at least in part, on the price of the entity’s shares or other equity instruments.
- b. The awards require or may require settlement by issuing the entity’s equity shares or other equity instruments.

5. Share-based payments awarded to a grantee by a related party or other holder of an economic interest in the entity as compensation for goods or services provided to the reporting entity are share-based payment transactions to be accounted for under this statement unless the transfer is clearly for a purpose other than compensation for goods or services to the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to the grantee in exchange for services rendered or goods received. An example of a situation in which such a transfer is not compensation is a transfer to settle an obligation of the economic interest holder to the grantee that is unrelated to goods or services to be used or consumed in a grantor's own operations.

6. The guidance in this statement does not apply to:

- a. Equity instruments held by an employee stock ownership plan. Such equity instruments shall follow the guidance in SSAP No. 12—Employee Stock Ownership Plans.
- b. Transactions involving equity instruments granted to a lender or investor that provides financing to the issuer.
- c. Transactions involving equity instruments granted in conjunction with selling goods or services to customers as part of a contract (for example, sales incentives). If consideration payable to a customer is payment for a distinct good or service from the customer, then the entity shall account for the purchase of the good or service in the same way it accounts for other purchases from suppliers. Therefore, share-based payment awards granted to a customer for a distinct good or service to be used or consumed in the grantor's own operations are accounted for under this statement.

Recognition

11. This guidance does not address the period(s) or the manner (that is, capitalize versus expense) in which an entity granting the share-based payment award (the purchaser or grantor) to a nonemployee shall recognize the cost of the share-based payment award that will be issued, other than to require that a nonadmitted prepaid asset or expense be recognized (or previous recognition reversed) in the same period(s) and in the same manner as if the grantor had paid cash for the goods or services instead of paying with or using the share-based payment award.

Initial Measurement

35. An entity shall account for the compensation cost from share-based payment transactions in accordance with the fair-value-based method set forth in this statement. That is, the cost of goods obtained or services received in exchange for awards of share-based compensation generally shall be measured based on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred. The cost of goods obtained or services received by an entity as consideration for equity instruments issued or liabilities incurred in share-based compensation transactions with employees shall be measured based on the fair value of the equity instruments issued or the liabilities settled. The portion of the fair value of an instrument attributed to goods obtained or services received is net of any amount that a grantee pays (or becomes obligated to pay) for that instrument when it is granted. For example, if a grantee pays \$5 at the grant date for an option with a grant-date fair value of \$50, the amount attributed to goods or services provided by the grantee is \$45.

Measurement Objective – Fair Value at Grant Date

38. The measurement objective for equity instruments awarded to grantees is to estimate the fair value at the grant date of the equity instruments that the entity is obligated to issue when grantees have delivered the good or rendered the service and satisfied any other conditions necessary to earn the right to benefit

from the instruments (for example, to exercise share options). That estimate is based on the share price and other pertinent factors, such as expected volatility, at the grant date.

- a. Measurement Objective and Measurement Date for Awards Classified as Liabilities: At the grant date, the measurement objective for liabilities incurred under share-based compensation arrangements is the same as the measurement objective for equity instruments awarded to grantees as described in paragraph 38. However, the measurement date for liability instruments is the date of settlement.
- b. Intrinsic Value Option for Awards Classified as Liabilities: A reporting entity shall make a policy decision of whether to measure all of its liabilities incurred under share-based payment arrangements (for employee and nonemployee awards) issued in exchange for goods or services at fair value or ~~to measure all such liabilities~~ at intrinsic value. However, the reporting entity shall initially and subsequently measure awards determined to be consideration payable to a customer at fair value.

52. A reporting entity may not be able to reasonably estimate the fair value of its equity share options, nonemployee awards and similar instruments because it is not practicable for the reporting entity to estimate the expected volatility of its share price. In that situation, the entity shall account for its equity share options, nonemployee awards and similar instruments based on a value calculated using the historical volatility of an appropriate industry sector index instead of the expected volatility of the entity's share price (~~the calculated-permitted~~ value). A reporting entity's use of ~~calculated-permitted~~ value shall be consistent between employee share-based payment transactions and nonemployee share-based payment transactions. Throughout the remainder of this statement, provisions that apply to accounting for share options, nonemployee awards and similar instruments at fair value also apply to calculated value.

Staff Note: Paragraph 98 references "permitted value in accordance with paragraph 52", but terminology was not consistent between paragraphs. NAIC staff changed "calculated value" to "permitted value" to allow for easier cross-referencing.

54. A reporting entity that elects to apply the practical expedient in paragraph 53 shall apply the practical expedient to a share option or similar award that has all of the following characteristics:

- a. The share option or similar award is granted at the money.
- b. The grantee has only a limited time to exercise the award (typically 30-90 days) if the grantee no longer provides goods~~or~~, terminates service after vesting, or ceases to be a customer.
- c. The grantee can only exercise the award. The grantee cannot sell or hedge the award.
- d. The award does not include a market condition.

Subsequent Measurement

68. The total amount of compensation cost recognized for share-based payment awards to nonemployees shall be based on the number of instruments for which a good has been delivered or a service has been rendered. To determine the amount of compensation cost to be recognized in each period, an entity shall make an entity-wide accounting policy election for all nonemployee share-based payment awards, including share-based payment awards granted to customers, to do either of the following:

- a. Estimate the number of forfeitures expected to occur. The entity shall base initial accruals of compensation cost on the estimated number of nonemployee share-based payment awards for which a good is expected to be delivered or service is expected to be rendered.

The entity shall revise that estimate if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimates shall be recognized in compensation cost in the period of the change.

- b. Recognize the effect of forfeitures in compensation cost when they occur. Previously recognized compensation cost for a nonemployee share-based payment award shall be reversed in the period that the award is forfeited.

80. A freestanding financial instrument issued to a grantee ~~in exchange for goods or services received (or to be received)~~ that is subject to initial recognition and measurement guidance within this statement shall continue to be subject to the recognition and measurement provisions of this statement throughout the life of the instrument, unless its terms are modified after a ~~nonemployee grantee~~ vests in the award and is no longer providing goods or services, a grantee vests in the award and is no longer a customer, or a grantee is no longer an employee. Only for purposes of this paragraph, a modification does not include a change to the terms of an award if that change is made solely to reflect an equity restructuring provided that both of the following conditions are met:

- a. There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole) or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring.
- b. All holders of the same class of equity instruments (for example, stock options) are treated in the same manner.

81. Other modifications of that instrument that take place after a ~~nonemployee grantee~~ vests in the award and is no longer providing goods or services, is no longer a customer, or ~~a grantee~~ is no longer an employee shall be subject to the modification guidance in paragraph 83. Following modification, recognition and measurement of the instrument shall be determined through reference to other applicable statutory accounting principles.

Subsequent Measurement - Awards Classified as Liabilities

97. Changes in the fair value (or intrinsic value for a reporting entity that elects that method) of a liability incurred under a share-based payment arrangement issued in exchange for goods or services that occur during the employee's requisite service period or the nonemployee's vesting period shall be recognized as compensation cost over that period. The percentage of the fair value (or intrinsic value) that is accrued as compensation cost at the end of each period shall equal the percentage of the requisite service that has been rendered for an employee award or the percentage that would have been recognized had the grantor paid cash for the goods or services instead of paying with a nonemployee award at that date. Changes in the fair value (or intrinsic value) of a liability issued in exchange for goods or services that occur after the end of the employee's requisite service period or the nonemployee's vesting period are compensation costs of the period in which the changes occur. Any difference between the amount for which a liability award issued in exchange for goods or services is settled and its fair value at the settlement date as estimated in accordance with the provisions of this statement is an adjustment of compensation cost in the period of settlement.

98. Reporting entities shall measure a liability award under a share-based payment arrangement based on the award's fair value (or permitted value in accordance with paragraph 52) remeasured at each reporting date until the date of settlement. Compensation costs for each period until settlement shall be based on the change (or a portion of the change, depending on the percentage of the requisite service that has been rendered for an employee award or the percentage that would have been recognized had the grantor paid cash for the goods and services instead of paying with a nonemployee award at the reporting date) in the

fair value of the instrument for each reporting period. [A reporting entity shall subsequently measure awards determined to be consideration payable to a customer at fair value.](#)

Effective Date and Transition

132. Since the initial adoption of SSAP No. 104, subsequent revisions were effective as follows:

- b. [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.](#)

REFERENCES

Other

- *SSAP No. 12—Employee Stock Ownership Plans*

Proposed Revisions to SSAP No. 47—Uninsured Plans

RELEVANT LITERATURE

15. This statement rejects *ASU 2014-09, Revenue from Contracts with Customers*; *ASU 2015-14, Revenue From Contracts With Customers*; *ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; *ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*; *ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*; *ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*; *ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606, [the Topic 606 guidance included in ASU 2019-08, Codification Improvements to Stock Compensation \(Topic 718\) and Share-Based Consideration Payable to a Customer \(Topic 606\)](#)*, *ASU 2021-02, Franchisors—Revenue from Contracts with Customers*, *ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

Staff Review Completed by:

NAIC Staff – William Oden, February 2023

Status:

On March 22, 2023, 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. 95, SSAP No. 104R, and SSAP No. 47 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*, as illustrated above.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP Nos. 47, 95, and 104R to adopt, with modification, ASU 2019-08 which expands the scope of stock compensation guidance to share-based consideration payable to customers.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-07-ASU2019-08-StockComp.docx>

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

Issue: ASU 2019-07, Codification Updates to SEC Sections

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

FASB issued *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*, which primarily effects the codifications of Financial Services—Depository and Lending (Topic 942), Financial Services—Insurance (Topic 944), and Financial Services—Investment Companies (Topic 946). The update amends and supersedes certain SEC sections in Topic 942, 944, and 946 to align codification guidance with SEC Releases No. 33-10532, 33-10231, and 33-10442. These SEC Releases amend a wide range of disclosure requirements which were determined to be redundant, duplicative, overlapping, outdated, or superseded by other relevant literature. Additionally, the SEC Releases include several miscellaneous updates and corrections intended to clarify SEC guidance.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Debt is covered in *SSAP No. 15—Debt and Holding Company Obligations*, surplus is covered in *SSAP No. 72—Surplus and Quasi-Reorganizations*, and consolidation guidance is discussed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

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): None.

Per the comment letter received on June 9, 2023, interested parties had no comments on Agenda item 2023-08.

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 *Appendix D—Nonapplicable GAAP Pronouncements to reject 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* as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as ASU 2019-07 is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

Staff Review Completed by: William Oden – February 2023

Status:

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to Appendix D to reject *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* as not applicable to statutory accounting.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2019-07 as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-08-ASU2019-07-SECUpdates.docx>

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

Issue: *ASU 2020-09—Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

FASB issued *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*, which effects the codification in Debt (Topic 470). The update amends and supersedes certain SEC sections in Topic 470 to align codification guidance with SEC Release No. 33-10762. No. 33-10762 amends the SEC financial disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered, and issuers' affiliates whose securities collateralize securities registered or being registered in Regulation S-X to improve those requirements for both investors and registrants. The changes are intended to provide investors with material information given the specific facts and circumstances, make the disclosures easier to understand, and reduce the costs and burdens to registrants.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Debt is covered in *SSAP No. 15— Debt and Holding Company Obligations*. Basic discussion of the nature of liabilities is covered in *SSAP No. 5R— Liabilities, Contingencies and Impairments of Assets*.

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):

Per the comment letter received on June 9, 2023, interested parties had no comments on Agenda item 2023-09.

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 *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)* as not applicable to statutory accounting. This guidance is not applicable as it pertains to an exception of issuers or guarantors filing financial statements with the SEC when the issuer or guarantor is included in filed consolidated financial statements and other conditions are met.

Staff Review Completed by: William Oden – February 2023

Status:

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to Appendix D to reject *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)* as not applicable to statutory accounting.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2020-09 as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-09-ASU2020-09-SECUpdates.docx>

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

Issue: *ASU 2022-05, Transition for Sold Contracts*

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been drafted to consider *ASU 2022-05, Transition for Sold Contracts* (ASU) for statutory accounting. The FASB issued the ASU in December 2022 to amend specific sections of *ASU 2018-12, Targeted Improvements for Long-Durations Contracts* (LDTI). The amendments made by the ASU are intended to reduce implementation costs and complexity associated with the adoption of LDTI for contracts that have been derecognized in accordance with the ASU before the LDTI effective date. The revisions captured in the ASU are summarized as follows:

The amendments in the ASU amend the LDTI transition guidance to allow an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts that meet certain criteria from applying the amendments in the LDTI. To qualify for the accounting policy election, as of the LDTI effective date both of the following conditions must be met:

- a. The insurance contracts must have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities.
- b. The entity has no significant continuing involvement with the derecognized contracts.

ASU 2018-12, as amended by 2022-05, is effective for public entities for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For nonpublic entities, the LDTI is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. The LDTI includes different transition provisions as follows:

- For the liability for future policyholder benefits and deferred acquisition costs, insurance entities should apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in accumulated other comprehensive income. Insurance entities are permitted to apply the amendments retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings), using actual historical experience information as of contract inception. (Estimates of historical experience may not be substituted for actual historical experience.) If electing retrospective application, it must be applied entity-wide for the same contract issue year, and all subsequent contract issue years. (Meaning, it must be used to all products and contracts issued in the first year in which retrospective application will be applied, and all subsequent products and contracts issued in later years.)
- For market risk benefits, insurance entities should apply the amendments retrospectively as of the beginning of the earliest year presented. An insurance entity may use hindsight in instances in which assumptions in a prior period are unobservable or otherwise unavailable and cannot be independently substantiated. The difference between fair value and the carrying value at the transition date, excluding the effect of changes in the instrument-specific credit risk, requires an adjustment to the opening balance of retained earnings.

Existing Authoritative Literature:

The key changes reflected in ASU 2018-12 revised U.S. GAAP guidance previously rejected for statutory accounting. (In a couple instances, the prior U.S. GAAP guidance was not reviewed for SAP - as the guidance was not Board Directed or was still pending SAP review.)

References from Appendix D – Cross-Reference to SAP:

U.S. GAAP	SAP Accounting Provisions
<i>FAS 60, Accounting and Reporting by Insurance Entities</i>	Rejected in SSAP No. 40R, SSAP No. 50, SSAP No. 51R, SSAP No. 52, SSAP No. 53, SSAP No. 54R, SSAP No. 57, SSAP No. 59, and SSAP No. 71
<i>FAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments</i>	Rejected in SSAP No. 50, SSAP No. 51R, SSAP No. 52 and SSAP No. 71
<i>FSP FAS 97-1, Situations in Which Paragraphs 17(b) and 20 of FAS 97 Permit or Require Accrual of an Unearned Revenue Liability</i>	Not Board Directed
<i>SOP 95-1, Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises</i>	Rejected in SSAP No. 51R and SSAP No. 52
<i>SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts</i>	Rejected in SSAP No. 56
<i>SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchange of Insurance Contracts</i>	Rejected in SSAP No. 71
<i>SOP 00-3, Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts</i>	Pending SAP
<i>AICPA Practice Bulletin 8, Application of FAS 97 to Insurance Enterprises</i>	Rejected in SSAP No. 51R and SSAP No. 52R
<u>ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts</u>	<u>Rejected in Preamble, SSAP No. 50, SSAP No. 51R, SSAP No. 52, SSAP No. 54R, SSAP No. 55, SSAP No. 56, SSAP No. 71, and SSAP No. 86</u>

Other U.S. GAAP revised as a result of the ASU include:

- FAS 133, Accounting for Derivative Instruments and Hedging Activities* (and related DIGs) – The framework of FAS 133 was adopted with modification in *SSAP No. 86—Derivatives*. The revisions from ASU 2018-12 indicate that contracts with market risk benefits do not need to be bifurcated as embedded derivatives, as the guidance in ASU 2018-12 requires market risk benefits to be measured at fair value. The ASU revisions also delete or revise related implementation guidance for assessing whether embedded derivatives shall be bifurcated under U.S. GAAP. **This guidance will not impact the FAS 133 guidance adopted with modification, as SSAP No. 86 specifies that embedded derivatives shall not be separated from the derivative instrument.**

- *FAS 130, Other Comprehensive Income* – FAS 130 was rejected as not applicable under statutory accounting. The revisions from ASU 2018-12 modify FAS 130 to specify the additional components (e.g., changes in discount rate assumptions) that are recognized through OCI. These modifications will not impact the prior statutory accounting decision to reject FAS 130 for statutory accounting.

The following relevant SAP guidance is noted:

- ***SSAP No. 51—Life Contracts:*** This SSAP establishes statutory accounting principles for income recognition and policy reserves for life contracts. This SSAP identifies that policy reserves shall be established as required in *Appendix A-820, Minimum Life and Annuity Reserves* and *Appendix A-822, Asset Adequacy Analysis Requirements* or the *Valuation Manual*.
- ***SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses:*** This SSAP establishes statutory accounting principles for recording liabilities for unpaid claims and claim adjustment expenses for life insurance contracts and accident and health contracts. (It also addresses unpaid losses and LAE for property and casualty contracts.) Pursuant to the guidance in paragraph 12, for each line of business, and for all lines of business in the aggregate, management shall record its best estimate of its liabilities for unpaid claims, unpaid losses and loss/claim adjustment expenses. This guidance identifies that management shall follow the concept of conservatism when determining estimates, but there is not a specific requirement to include a provision for adverse deviation in claims. With the revisions reflected in ASU 2018-12, the U.S. GAAP guidance has been revised to specify that the assumptions used in determining a liability for future policy benefits shall not include a provision for the risk of adverse deviation. Prior to these revisions, the guidance in ASC 944-40-30-7 specifically stated that the assumptions shall include a provision for the risk of adverse deviation. (*Note, as detailed in the proposed statutory accounting modifications, reference to the old U.S. GAAP guidance for adverse deviation is included in the Preamble and is proposed to be deleted.*)
- ***SSAP No. 71—Policy Acquisition Costs and Commissions:*** This SSAP establishes statutory accounting principles for policy acquisition costs and commissions. Pursuant to SSAP No. 71, all policy acquisition costs and commissions shall be expensed when incurred. Although the ASU is streamlining the amortization of capitalized deferred acquisition costs, this revision will not impact statutory accounting. (*Note, as detailed in the proposed statutory accounting modifications, reference to the old U.S. GAAP guidance is included in the Preamble and is proposed to be modified to reflect the new guidance.*)

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):

Per the comment letter received on June 9, 2023, interested parties support the conclusion reached on Agenda item 2023-07.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

None

Convergence with International Financial Reporting Standards (IFRS):

In 2008, the FASB undertook an insurance contracts project jointly with the International Accounting Standards Board (IASB). In 2013, after considering comments from the exposure of a 2010 Discussion Draft and a 2013 Proposed Update, the FASB decided to separate from the IASB project, and instead focus on targeted improvements to existing U.S. GAAP concepts. The decision to focus on targeted improvements to existing U.S. GAAP guidance, with the continued limitation of the guidance to insurance companies, was strongly supported by commenters in lieu of introducing a completely new accounting model that would apply to all entities that issued “insurance contracts.”

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose proposed revisions to reject *ASU 2022-05, Transition for Sold Contracts* as not applicable for statutory accounting in *SSAP No. 50—Classifications of Insurance or Managed Care Contracts*; *SSAP No. 51R—Life Contracts*; *SSAP No. 52—Deposit-Type Contracts*; *SSAP No. 56—Separate Accounts*; *SSAP No. 71—Policy Acquisition Costs and Commissions* and *SSAP No. 86—Derivatives*. The guidance in *ASU 2022-05* provides updated transition guidance for *ASU 2018-12*, which had previously been rejected for statutory accounting. The proposed revisions are illustrated below:

SSAP No. 50—Classifications of Insurance or Managed Care Contracts

46. This statement rejects the U.S. GAAP classifications (i.e., short-duration and long-duration) found in [ASU 2022-05 Transition for Sold Contracts](#), *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and *FASB Statement No. 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long Duration Participating Contracts*.

SSAP No. 51R—Life Contracts

56. This statement rejects [ASU 2022-05 Transition for Sold Contracts](#), *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, *FASB Statement 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, *AICPA Practice Bulletin No. 8, Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments*, *to Insurance Enterprises*, the *AICPA Audit and Accounting Guide—Audits of Stock Life Insurance Companies*, *AICPA Statement of Position 95-1, Accounting for Certain Activities of Mutual Life Insurance Enterprises* relating to accounting and reporting for policy reserves for short and long duration contracts, and *FASB Interpretation No. 40, Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises*, an interpretation of *FASB Statements No. 12, 60, 97, and 113*.

SSAP No. 52—Deposit-Type Contracts

25. This statement rejects [ASU 2022-05 Transition for Sold Contracts](#), *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, *FASB Statement 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, *AICPA Practice Bulletin No. 8, Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments*, *to Insurance Enterprises*, the *AICPA Audit and Accounting Guide—Audits of Stock Life Insurance Companies*, *AICPA Statement of Position 95-1, Accounting for Certain Activities of Mutual Life Insurance Enterprises* relating to accounting and reporting for policy reserves for short and long duration contracts, and *FASB Interpretation No. 40, Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises*, an interpretation of *FASB Statements No. 12, 60, 97, and 113*.

SSAP No. 56—Separate Accounts

41. This statement rejects [ASU 2022-05 Transition for Sold Contracts](#), *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*, *AICPA Statement of Position 03-1,*

Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1). The disclosure elements included within this SSAP are derived from the criteria for separate account reporting under SOP 03-1; however, this SSAP does not restrict separate account reporting pursuant to the criteria established in SOP 03-1.

SSAP No. 71—Policy Acquisition Costs and Commissions

6. This statement rejects [ASU 2022-05 Transition for Sold Contracts](#), ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts*, ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and *Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*.

SSAP No. 86—Derivatives

73. This statement rejects [ASU 2022-05 Transition for Sold Contracts](#), 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*, *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, ASU 2020-01, *Investments—Equity Securities (Topic 321)*, *Investments—Equity Method and Joint Ventures (Topic 323)*, and *Derivatives and Hedging (Topic 815)*, *Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*, ASU 2018-03, *Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2016-03, *Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging*.

Staff Review Completed by:

William Oden, NAIC Staff – December 2022

Status:

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification to reject *ASU 2022-05, Transition for Sold Contracts* in *SSAP No. 50—Classifications of Insurance or Managed Care Contracts*; *SSAP No. 51R—Life Contracts*; *SSAP No. 52—Deposit-Type Contracts*; *SSAP No. 56—Separate Accounts*; *SSAP No. 71—Policy Acquisition Costs and Commissions* and *SSAP No. 86—Derivatives*, which is consistent with prior agenda items related to this topic.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to reject ASU 2022-05 in SSAP Nos. 50, 51R, 52, 56, 71, and 86.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Hearing/13-23-10-ASU2022-05-SoldContracts.docx>

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

Issue: PIK Interest Disclosure Clarification

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to further clarify, and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure adopted in *SSAP No. 34—Investment Income Due and Accrued* for year-2023. In response to questions received on how paydowns / disposals would impact PIK interest included in the cumulative balance, it was noted that clarifying guidance would assist with consistent application. Furthermore, without clarification it was identified that companies and investment software vendors may interpret the need to detail the retrospective PIK allocations and paydowns / disposals as evidence for the resulting amount.

To eliminate the potential inconsistent application on how paydowns / disposals impact PIK interest included in cumulative principal / par balance, as well as to streamline the calculation, this agenda item proposes the following clarifications:

- Any decreasing amounts to principal balances (paydowns / disposals / sales, etc.,) shall first be applied to any PIK interest included in the principal balance. For example, if original par was \$100, PIK interest received overtime was \$50 and paydowns received were \$30, the resulting PIK included in the cumulative balance would be \$20 - (\$50 less \$30). No reduction to the original principal would occur until the PIK interest had been fully eliminated from the balance. If in this scenario paydowns of \$70 had occurred, the company would report zero in the disclosure for cumulative PIK interest, as the amount received would have fully eliminated the \$50 in PIK interest.
- The determination of PIK interest in cumulative balance can be calculated through a practical expedient calculation of original par / principal value to current par / principal value, not to go less than zero. This calculation will determine the resulting balance from PIK interest over time as well as paydowns / disposals, etc. The intent of this calculation is to prevent companies and investment software vendors from creating a schedule that details PIK interest and paydowns received retroactively since the origination of the investment. The practical expedient calculation from the original to current par / principal value shall result with the same resulting PIK interest amount included in the cumulative balance without the retroactive scheduling required.

The adopted disclosure in SSAP No. 34 is not intended to change, but the proposed clarification and practical expedient guidance is intended to be captured in the annual statement instructions. This agenda item is being exposed at the SAPWG, as the source of the adopted disclosure, and will be used to subsequently provide a memo to blanks for year-end 2023 application and to revise the formal instructions for 2024.

Existing Authoritative Literature:

- **SSAP No. 34—Investment Income Due and Accrued**

Disclosures

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

- The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
- Disclose total amount excluded;
- Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued;
- Disclose aggregate deferred interest;
- Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

7. Investment Income Instruction:

Disclose the following for investment income due and accrued in the financial statements:

- The bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued,
- The total amount excluded.
- The gross, nonadmitted and admitted amounts for interest income due and accrued. (1) Gross amount for interest income due and accrued. (2) Nonadmitted amount for interest income due and accrued. (3) Admitted amount for interest income due and accrued.
- The aggregate deferred interest.
- The cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

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 2022-17: Interest Income Disclosure update was adopted March 22, 2023. This disclosure data-captured existing and incorporated new disclosures, to SSAP No. 34, which included the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance. The revisions were adopted for year-end 2023 and are shown in the authoritative literature section above.
- Blanks Proposal 2023-11BWG intends to adopt instructions and illustrations for the revised disclosures in May 2023.

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 recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this agenda item to clarify and incorporate a practical expedient, to the paid-in-kind (PIK) interest aggregate disclosure for SSAP No. 34 and annual statement instruction purposes. For annual statement purposes, this instruction will be an editorial change only and can be provided by the SAPWG in a memo posted on the Blanks Working (E) Group page if adopted after the deadline to incorporate into the annual statement instructions for 2023. Comments on this exposure are requested by June 30, 2023, to allow for adoption consideration at the 2023 Summer National Meeting.

Proposed Revisions to SSAP No. 34

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

- a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
- b. Disclose total amount excluded;
- c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued;
- d. Disclose aggregate deferred interest;
- e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance. / par value^{FN}.

New Footnote: In disclosing the cumulative amount of PIK interest, identify the specific amounts of PIK interest by lot and aggregate the amounts by CUSIP/PPN that have a net increase to the original par value. The net increase includes PIK interest added to the par value less disposals (i.e., repayments; sales) that are first applied to any PIK interest outstanding. As a practical expedient, an insurer may calculate the cumulative amount of PIK interest on a bond by subtracting the original principal / par value from the current principal / par value, but not less than \$0.

Proposed instruction for inclusion in the Annual Statement Instructions (or 2023 memo to Blanks):

7. Investment Income Instruction:

Disclose the following for investment income due and accrued in the financial statements:

- A. The bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued,
- B. The total amount excluded.
- C. The gross, nonadmitted and admitted amounts for interest income due and accrued. (1) Gross amount for interest income due and accrued. (2) Nonadmitted amount for interest income due and accrued. (3) Admitted amount for interest income due and accrued.
- D. The aggregate deferred interest.
- E. The cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

For the PIK interest included in the current principal balance, include the amount of reported interest in which the terms permit “paid in kind” (PIK) instead of cash. The amount reported shall reflect the cumulative amount of PIK interest included in the current principal balance / par value. In disclosing the cumulative amount of PIK interest, identify the specific amounts of PIK interest by lot and aggregate the amounts by CUSIP/PPN that have a net increase to the original par value. The net increase includes PIK interest added to the par value less disposals (i.e., repayments; sales) that are first applied to any PIK interest outstanding. As a practical expedient, an insurer may calculate the cumulative amount of PIK interest on a bond by subtracting the original principal / par value from the current principal / par value, but not less than \$0.

Staff Review Completed by: Julie Gann - NAIC Staff, May 2023

Status:

On May 16, 2023, 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. 34 and the Annual Statement Instructions to clarify and incorporate a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure. These SSAP No. 34 revisions, when adopted, will also result in editorial changes to the annual statement instructions.

August 13, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP No. 34 and directed that the proposed updates to the Annual Statement Instructions be forwarded to the Blanks (E) Working Group. These revisions provide a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/8-13-23SummerNationalMeeting/Adoptions/23-13-PIKInterest.docx>

**Revisions to the
As of March 2023, Accounting Practices and Procedures Manual**

On **September 21, 2023**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
INT 23-02	SSAP No. 9 SSAP No. 101	<p><i>INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax SAP Clarification</i></p> <p>Effective immediately for third quarter 2023 reporting (September 21, 2023); Automatically nullifies on November 16, 2023</p>	Adoption provides guidance for third quarter 2023 CAMT reporting and requires disclosures, but not accrual of a liability.
2023-04	INT 23-03 SSAP No. 4 SSAP No. 9 SSAP No. 101	<p><i>INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax SAP Clarification</i></p> <p>Effective for reporting on or after December 31, 2023</p>	Adoption provides guidance for CAMT reporting on or after year-end 2023 and addresses accounting, the statutory valuation allowance, admissibility, disclosures, and year-end 2023 transition.
2023-12	SSAP No. 43R SSAP No. 48	<p>Residuals in SSAP No. 48 Investments</p> <p><i>SAP Clarification</i></p> <p>Effective for year-end December 31, 2023</p>	Adoption includes revisions to <i>SSAP No. 43R—Loan-Backed and Structured Securities</i> , <i>SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies</i> , and the annual statement instructions for the reporting of residual interests, so that all residuals are captured on the dedicated Schedule BA – Other Long-Term Invested Assets reporting lines.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/9-21-23/adoptions/00 - adoptions 09.21.2023 toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2023/9-21-23/adoptions/00%20-%20adoptions%2009.21.2023%20toc.docx)

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax

INT 23-02 Dates Discussed

August 13, 2023; September 21, 2023

INT 23-02 References

Current:

SSAP No. 9— Subsequent Events

SSAP No. 101—Income Taxes

INT 23-02 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 CAMT is effective 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 high-level summary of the CAMT is below.

- a. The tentative CAMT is 15% of the corporation’s “adjusted financial statement income” for the tax year, reduced by the corporate alternative minimum foreign tax credit.
- b. The CAMT differs from the previous traditional alternative minimum tax (AMT) that applied under pre-2018 tax law in that it starts at a financial statement measure (book income) – not an Internal Revenue Code taxable income calculation. Adjusted financial statement income does not include other comprehensive income including unrealized gains and losses on available for sale securities. The determination of whether the CAMT applies is made on a tax-controlled group basis (scope determination), the tentative CAMT is based on the group’s adjusted financial statement income (not adjusted regular taxable income), and any tax due (liability determination) is based on a comparison of consolidated tentative CAMT to consolidated regular tax.
- c. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes, this could include standalone unaffiliated entities which meet the specified income thresholds) with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The threshold is reduced to \$100 million in the case of certain foreign-owned corporations. A corporation that meets the applicable threshold is an “applicable corporation.” Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular tax liability.
- d. 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.

- e. The Act includes references to the tax code 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 are acceptable. If the taxpayer is part of a tax-controlled group of corporations, the group’s applicable financial statement is the applicable financial statement for each member of the group.
- f. 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 sum of the regular corporate income tax plus base erosion and anti-abuse tax (BEAT) liability.
- g. Any CAMT paid is available indefinitely as a credit carryover that would reduce future regular tax in future years when the regular tax liability is in excess of CAMT tax liability. That is, the CAMT tax credit can be used to reduce the regular tax but not below CAMT liability.
- h. A foreign tax credit (FTC) may reduce the tentative minimum CAMT. Note that unused FTCs may be carried forward for 5 years. General business credits can generally offset up to 75% of the sum of regular and minimum tax.

2. The Working Group previously issued *INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* which addressed third quarter 2022 through second quarter 2023. INT 22-02 noted that a reasonable estimate of the CAMT was not possible for those reporting periods and required disclosures.

3. This interpretation is focused on addressing accounting and reporting aspects of the CAMT for third quarter 2023 reporting (reporting period July 1 through September 30, 2023). While most insurers will not be applicable corporations, this interpretation provides temporary third quarter 2023 statutory accounting guidance for all reporting entities that are or expect to be applicable entities with respect to the CAMT. A separate interpretation is being developed for year-end 2023 and periods thereafter.

4. Although it is likely that most insurers that are applicable corporations will be members of a tax-controlled group of corporations and included in a consolidated federal income tax return with other members of the group, this interpretation applies to all applicable reporting entities. For reporting entities subject to the CAMT, this includes an unaffiliated corporation¹ that files a separate tax return, a member of a tax-controlled group not included in the common parent company’s consolidated tax return that files a separate company tax return or a separate consolidated tax return with other members of the group, or as a member of the common parent’s consolidated return group.

Interpretation Issues

5. *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.

¹ As used herein, an “unaffiliated” corporation is one that is not a member of a tax-controlled group.

6. 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.

7. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II² 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 reporting date (example September 30) but before the statements are filed (example, November 15), reporting entities are generally required by their domestic state to reflect estimates in their filed statutory financial statements. 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 2023 Financial Statements

8. Under statutory accounting guidance, reporting entities filing statutory financial statements would have to consider the applicability of the CAMT and if applicable, attempt to 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.” Exceptions to these calculations impacted by the CAMT have previously been provided under INT 22-02 through second quarter 2023.

9. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for third quarter 2023 (July 1 through September 30, 2023, financial statements.)

Issue 2 – Consideration of Subsequent Events for Third Quarter 2023 Financial Statements

10. 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. An exception to this requirement has previously been provided under INT 22-02 through second quarter 2023.

11. For reporting entities that materially revise or establish calculations impacted by the CAMT during the third quarter 2023 or immediately subsequent to the third quarter (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of the CAMT and any related liabilities), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2023 financial reporting.

INT 23-02 Discussion

² 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.

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

Response: Issue 1 – Consideration of the Act for Third Quarter 2023 Financial Statements

13. Reporting entities that are aware they will be subject to the CAMT would normally have to reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for the third quarter 2023. The Act was adopted in August 2022; however, entities may continue to have a considerable number of unknown variables for September 30, 2023, reporting. As such, the Working Group has determined that a reasonable estimate might not be determinable for third quarter 2023 interim financial statements for the calculations impacted by the CAMT for some entities.

14. If a reporting entity is an applicable corporation and has determined a reasonable estimate, it shall be disclosed. If a reporting entity is an applicable corporation and cannot determine a reasonable estimate, the reporting entity shall disclose that they expect to be an applicable corporation but have not determined a reasonable estimate.

15. Because reasonable estimates of calculations impacted by the CAMT might not be determinable, reporting entities shall only disclose impacts related to CAMT for third quarter 2023 financial statements for which reasonable estimates are possible. If the reporting entity is an applicable corporation, they shall make the following disclosures regarding the CAMT and the Act:

- a. 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 2023 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 2023 financial statements shall disclose the estimated impact of the CAMT.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2023 Financial Statements

16. For third quarter 2023 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, third quarter financial statements are not required to reflect updated estimates subsequent to the third quarter reporting date and prior to the filing of 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.

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

INT 23-02 Status

18. The tentative consensuses in this interpretation were adopted on September 21, 2023 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, 2023, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for the third quarter 2023.

19. This interpretation will be automatically nullified on November 16, 2023, and as additional guidance for year end 2023 reporting is being separately developed.

20. No further discussion is planned.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/9-21-23/adoptions/int 23-02 3q camt final.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2023/9-21-23/adoptions/int%2023-02%203q%20camt%20final.docx)

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

Issue: Corporate Alternative Minimum Tax Guidance

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). In December 2022, the Working Group adopted temporary guidance to address the CAMT in *INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*.

This agenda item is to begin the project of providing guidance regarding the CAMT for periods after the first quarter 2023. Interested parties of the SAPWG have submitted initial informal recommendations to assist with preparing the guidance.

The Act and the CAMT go into effect for tax years beginning after 2022. A high-level summary 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. The CAMT differs from the previous traditional alternative minimum tax (AMT) in that it starts at a financial statement measure (book income) – not an Internal Revenue Code tax calculation.
- b. The CAMT will only apply to corporations (determined on an affiliated group basis) with an 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 subject to the calculation 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 tax.
- 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.
- 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. The tentative corporate alternative minimum tax will be the excess of the tentative corporate alternative minimum tax over regular income tax + base erosion and

anti-abuse tax (BEAT) liability. A foreign tax credit (FTC) will reduce the tentative minimum CAMT. Note that unused FTCs can be carried forward 5 years.

- f. General business credits can generally offset up to 75% of regular and minimum tax.
- g. Any CAMT paid is available indefinitely as a tax credit carryover that could reduce future regular tax if the regular tax liability plus the base erosion and anti-abuse tax (BEAT) exceeds the tentative minimum tax is in excess of CAMT tax liability. That is, the CAMT tax credit (CAMT DTA) can be used to reduce the regular tax but not below CAMT liability.
- h. The Act directs the Treasury to issue regulations and other guidance relate to implementing the CAMT. As of February 2023, several issues are pending detailed clarifications from the Treasury.

The CAMT presents several accounting challenges including:

1. Financial Projections - There will be challenges estimating future applicable financial statement income for a group of companies outside of the reporting entity. In addition, there are challenges related to projecting partnership/alternative investment income for applicable financial statement income projections.
2. Payment of the CAMT creates a deferred tax asset which can be carried forward indefinitely. Determining the future period when the CAMT credit can be used will require projections of future regular tax and CAMT, which may also require information external to the reporting entity.
3. Tax sharing agreements and allocation of the CAMT liability which is determined on a consolidated basis.
4. The CAMT DTA (tax credit) can be used to reduce the general tax liability but not below the CAMT. Therefore, the Working Group will need to review treatment under the statutory valuation allowance and also the interaction of the realizability of the CAMT DTA on other DTAs. That is, use of the CAMT DTA, may reduce the realizability of other DTAs. Related topics are as follows:
 - a. Is an estimate of future CAMT required for the determination of DTA realization under the “with and without” calculation? CAMT DTAs would reduce realization under the with and without approach,
 - b. Under GAAP, for the analysis of realizably of non-AMT credit deferred tax assets, the company may elect to consider or disregard its AMT status as long as it is consistent. If the company elects to consider AMT, must book the valuation allowance in the period of enactment (period that includes August of 2022). If material, the company has to disclose the accounting policy election.
 - c. Admissibility of CAMT DTAs under SSAP No. 101, particularly for the paragraph 11b admissibility calculation, presents challenges.

Existing Authoritative Literature:

SSAP No. 101—Income Taxes provides the federal income tax guidance 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): In December 2022, the Working Group adopted *INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax*.

In addition, *INT 22-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* was exposed for comment in October 2022, but not finalized.

In 2019 the Working Group revised the *SSAP No. 101—Income Taxes-Implementation Q&A* to update examples and guidance in response to the federal Tax Cuts and Jobs Act which repealed of the Alternative Minimum Tax in agenda item 2019-09: SSAP No. 101 – Q&A Updates – TCJA.

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 Review Completed by: Robin Marcotte– NAIC Staff, February 2023

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification and direct NAIC staff, to continue to work with industry on developing guidance for the reporting of the CAMT for future Working Group discussion.

The CAMT presents several accounting challenges, Working Group input will be needed on several decisions points including: treatment of tax sharing agreements, consideration regarding the CAMT DTA in the statutory valuation allowance, and the treatment of CMATs DTAs, in the overall DTA admissibility calculation. Staff will also need Working Group input on whether to maintain an RBC threshold for the SSAP No. 101, paragraph 11b admissibility test and the overall extent of admissibility of the CAMT DTAs.

Status:

On March 22, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and directed staff to work with industry on developing guidance for CAMT for interim discussion.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group exposed *INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* for comment with a proposed effective date of year-end 2023. After discussion, the Working Group also directed that the exposed INT 23-03T, including guidance which provides for the admissibility of CAMT credits under SSAP No. 101, paragraph 11c. should be consistent with the treatment of other DTAs under this step (see exposure paragraph 34).

On September 21, 2023, the Statutory Accounting Principles (E) Working Group adopted *INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax*, which incorporated the majority of the revisions proposed by interested parties. However, these revisions did not change the overall principles exposed. This interpretation applies for reporting periods on or after December 31, 2023

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/8-13-23 Summer National Meeting/Exposures/23-04 - CAMT.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2023/8-13-23%20Summer%20National%20Meeting/Exposures/23-04%20-%20CAMT.docx)

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax

INT 23-03 Dates Discussed

August 13, 2023; September 21, 2023

INT 23-03 References

Current:

SSAP No. 4—Assets and Nonadmitted Assets

SSAP No. 9— Subsequent Events

SSAP No. 101—Income Taxes

INT 23-03 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 CAMT is effective 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 high-level summary of the CAMT is below.

- a. The tentative 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 differs from the previous traditional alternative minimum tax that applied under pre-2018 tax law in that it starts at a financial statement measure (book income) – not an Internal Revenue Code taxable income calculation. Adjusted financial statement income does not include other comprehensive income including unrealized gains and losses on available for sale securities. The determination of whether the CAMT applies is made on a tax-controlled group basis (scope determination), the tentative CAMT is based on the group’s adjusted financial statement income (not adjusted regular taxable income), and any tax due (liability determination) is based on a comparison of consolidated tentative CAMT to consolidated regular tax (non-CAMT).
- c. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes, this could include standalone unaffiliated entities which meet the specified income thresholds – see paragraph 3) with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The threshold is reduced to \$100 million in the case of certain foreign-owned corporations. A corporation that meets the applicable threshold is an “applicable corporation.” Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular (non-CAMT) tax liability.
- d. 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.

INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax

- e. The Act includes references to the tax code 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 are acceptable. If the taxpayer is part of a tax-controlled group of corporations, the group's applicable financial statement is the applicable financial statement for each member of the group.
- f. 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 sum of the regular corporate income tax plus base erosion and anti-abuse tax (BEAT) liability.
- g. Any CAMT paid is available indefinitely as a credit carryover that would reduce future regular tax in future years when the regular tax liability is in excess of the tentative CAMT liability. That is, the CAMT credit can be used to reduce the regular tax but not below tentative CAMT liability.
- h. A foreign tax credit (FTC) may reduce the tentative minimum CAMT. Note that unused FTCs may be carried forward for 5 years. General business credits can generally offset up to 75% of the sum of regular and minimum tax.

2. This interpretation is focused on addressing accounting and reporting aspects of the CAMT. As most reporting entities will not be above the applicable corporation threshold and will not be subject to the CAMT calculation, this guidance has been developed as an interpretation. While most insurers will not be applicable corporations, this interpretation provides comprehensive statutory accounting guidance for all reporting entities with respect to the CAMT. This interpretation incorporates a principles-based approach for purposes of statutory accounting for the CAMT.

3. Although it is likely that most insurers that are applicable corporations will be members of a tax-controlled group of corporations and included in a consolidated federal income tax return with other members of the group, this interpretation applies to all reporting entities subject to the CAMT, whether an unaffiliated corporation¹ that files a separate tax return, a member of a tax-controlled group not included in the common parent company's consolidated tax return that files a separate company tax return or a separate consolidated tax return with other members of the group, or as a member of the common parent's consolidated return group.

4. For reporting entities that are included in a consolidated tax return, the fundamental statutory tax accounting issue for the CAMT is how to reflect in the reporting entity's separate company financial statements a portion of what is essentially an add-on tax for a consolidated tax return group that is based on the group's financial statement income and group tax rate. Even if a member of a tax-controlled group of corporations files its own separate federal income tax return, the tax law does not provide for a separate company scope determination, but rather looks to the tax-controlled group for applicable corporation status and determination of the applicable financial statement.

INT 23-03 Discussion

5. The discussion along with the Statutory Accounting Principles (E) Working Group tentative consensuses are included below.

¹ As used herein, an "unaffiliated" corporation is one that is not a member of a tax-controlled group.

Categories of Reporting Entities

6. In an annual determination of applicable corporation status, all reporting entities are separated into one of the following categories:

- a. Nonapplicable reporting entities
- b. Applicable reporting entities
- c. Applicable reporting entities with tax allocation agreement (also called tax sharing agreements) exclusions.

Nonapplicable Reporting Entities

7. Nonapplicable reporting entities are reporting entities that do not reasonably expect to be an applicable corporation either as a member of a tax-controlled group of corporations² or individually as an unaffiliated corporation, for the taxable year that includes the current reporting period. Nonapplicable reporting entities are not required to calculate or recognize a payable for CAMT. If a reporting entity is not subject to pay CAMT, then they will have no CAMT credit carryforward. For nonapplicable reporting entities, further assessment of the CAMT is not required for current or deferred tax computations, and the remaining accounting components of the interpretation do not apply. Applicable disclosures are required.

8. A reporting entity that was an applicable corporation for the preceding taxable year shall reasonably expect to be an applicable corporation for the current taxable year, unless one of the tax law exceptions to continued applicable corporation status applies.

Applicable Reporting Entities

9. Applicable reporting entities are reporting entities that reasonably expect to be applicable corporations for the taxable year that includes the current reporting period, either individually as an unaffiliated corporation or as a member of a tax-controlled group of corporations³. Applicable reporting entities are required to consider CAMT in current and deferred tax computations in the manner set forth in this interpretation.

10. Because CAMT is not payable by an applicable corporation unless it is in excess of regular tax liability, the CAMT calculations for applicable reporting entities within this interpretation may or may not result in different current and deferred income taxes than if the CAMT was not taken into account. (Applicable reporting entities with tax allocation agreement exclusions that meet the requirements of paragraph 11 of this interpretation shall follow the guidance in paragraph 12 of this interpretation.)

Applicable Reporting Entities with Tax Allocation Agreement Exclusions

11. Applicable reporting entities with tax allocation agreement exclusions are reporting entities that qualify as an applicable corporation as a member of a tax-controlled group of corporations pursuant to

² A reporting entity that is a member of a tax-controlled group that does not reasonably expect to be applicable corporation on a group basis is not required to make a separate company determination as the CAMT is determined on a group basis.

³ Determination of applicable reporting entity within a tax-controlled group is subject to the tax law. A reporting entity within a tax-controlled group is captured with the group's applicable corporation status regardless of if they were excluded from the consolidated tax return and filed their own separate return. For example, if the reporting entity is a life insurance company and i) the group has not made a "life-nonlife" consolidated return election, or ii) the reporting entity has been recently acquired and is excluded from the life-nonlife consolidated return for a period of 5 years.

paragraphs 9 and 10 of this interpretation, and is a party to a tax allocation agreement that is in effect for the reporting period that has all of the following terms:

- a. The reporting entity is excluded from charges for any portion of the group's CAMT, and
- b. The reporting entity is not allocated any portion of the group's CAMT credit carryover.

12. Reporting entities with tax allocation agreement exclusions which qualify under paragraph 11 of this interpretation, are not required to calculate, or recognize CAMT in their current or deferred tax computations. Even with the tax allocation agreement exclusions, the general current tax liability guidance pursuant to *SSAP No. 101—Income Taxes*, paragraph 3 continues to apply. This guidance requires the reporting entity to recognize the amount the reporting entity has paid or is payable, which includes any additional amount the reporting entity expects to pay on behalf of its co-obligors.

Accounting for Applicable Reporting Entities

Impact of Tax Allocation Agreements

13. This interpretation is based on the principle that the statutory accounting for the CAMT for reporting entities included in a consolidated tax return should be matched to the CAMT charges reasonably estimated to be paid by the reporting entity and the corresponding CAMT credits reasonably estimated to be received by the reporting entity. For such reporting entities, this interpretation applies the provisions of the intercompany tax allocation agreement⁴ (also referred to as a tax sharing agreement) that governs allocation of consolidated taxes to individual members of the group.

14. SSAP No. 101, paragraph 16 provides that in the case of a reporting entity that files a consolidated income tax return with one or more affiliates, income tax transactions between the affiliated parties shall be recognized if such transactions are economic transactions as defined in *SSAP No. 25—Affiliates and Other Related Parties*; are pursuant to a written tax allocation agreement; and income taxes incurred are accounted for in a manner consistent with the principles of FAS 109 the predecessor of what is now ASC 740, as modified by SSAP No. 101.

15. For a reporting entity that is included in a consolidated tax return and is subject to a qualifying tax allocation agreement which is consistent with paragraphs 16 and 17 of SSAP No. 101, the amount of CAMT payable (expense) or CAMT credit carryforward is recognized in accordance with the tax allocation agreement.

Recognition of CAMT Payable

16. Reporting entities that are applicable corporations, excluding those having qualifying tax allocation agreement exclusions per paragraph 11 of this interpretation, are required to take CAMT payable into account in the calculation of current income tax expense pursuant to SSAP No. 101. Reporting entities shall accrue the CAMT owed, reflecting the amount owed as a separate return filer or in accordance with the amount allocated through the consolidated tax return group's tax sharing agreement pursuant to paragraph 15 of this INT.

⁴ SSAP No. 101, paragraphs 16 and 17 provide requirements for tax allocation agreement recognition. Tax allocation agreements are also subject to internal revenue service requirements and are subject to domiciliary regulator review under the Insurance Holding Company System Regulatory Act (Model #440), which also requires that the terms of intercompany agreements be fair and reasonable. In assessing fair and reasonable, state insurance regulators are encouraged to assess the terms of the TSA for allocations to the insurance reporting entity for both CAMT payables and CAMT credit carryforwards.

17. Consistent with SSAP No. 101, paragraph 8, changes in deferred tax assets (DTAs) and deferred tax liabilities (DTLs), including changes attributable to changes in tax rates and changes in tax status, if any, shall be recognized as a separate component of gains and losses in unassigned funds (surplus) as “change in net deferred income tax,” excluding any change reflected in unrealized capital gains.

18. Paragraph 8.3 of SSAP No. 101 Exhibit A – Implementation Questions and Answers (Q&A) is not applicable to reporting entities subject to CAMT through a tax-controlled group structure. This exclusion is provided due to the consolidated nature of the CAMT calculation. Any theoretical separate entity calculation of the CAMT liability may be unrelated to the actual consolidated tax return computations and to the tax allocation agreement allocation of liability.

Recognition of CAMT Credit Deferred Tax Asset

19. Reporting entities shall recognize a corresponding DTA which represents the non-expiring tax credit carryforward equal and offsetting to the current CAMT accrued. The CAMT credit can be used to reduce regular tax in future years when the regular tax liability is in excess of the tentative CAMT liability as permitted under the tax law. The CAMT credit carryforward is a type of deferred tax asset.

Impact of CAMT to the Statutory Valuation Allowance

20. *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.

21. The determination of a statutory valuation allowance⁵ for CAMT credit deferred tax assets depends on whether the reporting entity is part of a consolidated tax return group or a separate tax return filer:

- a. Consolidated Tax Return Group: A reporting entity that is an applicable entity and a member of consolidated tax return group shall utilize the statutory valuation assessment for the CAMT credit deferred tax assets completed at the consolidated tax return group level. A reporting entity is not required to adjust the group statutory valuation allowance for CAMT credit deferred tax assets. Rather, the group determined statutory valuation allowance and the resulting credit deferred tax asset deemed to be more likely than not to be realized, is permitted to be allocated (consistent with tax allocation agreement) to the reporting entity and reflected as an CAMT credit adjusted gross DTA. The reporting entity shall continue to have a separate statutory valuation allowance calculation for non-CAMT deferred tax assets as required under SSAP No. 101. The combination of the CAMT credit adjusted gross deferred tax asset (as received from the group) and the adjusted gross deferred tax assets from non-CAMT deferred tax assets shall equal the total adjusted gross deferred tax assets reviewed for admittance within the scope of this interpretation.
- b. Separate Tax Return Filer: A reporting entity that is an applicable entity and files a separate tax return, is required to complete a statutory valuation allowance for all deferred tax assets, including CAMT credit deferred tax assets, in determining their total adjusted gross DTAs. (The CAMT credit deferred tax assets can be assessed separately from non-

⁵ Although reporting entities may conclude that the non-expiring CAMT DTA more likely than not will ultimately be realized, reporting entities will not be able to utilize the tax credit until the reporting entity if a separate tax return filer, or the tax consolidated group of corporations if the reporting entity is a member of such group, are no longer CAMT payors and have sufficient tax liability that permits the group the ability to use the CAMT credits.

CAMT deferred tax assets in determining whether the deferred tax asset is more likely than not to be realized.) The total adjusted gross deferred tax assets are then reviewed for admittance within the scope of this interpretation.

22. A reporting entity is allowed an accounting policy election to either consider or disregard CAMT when evaluating the need for a valuation allowance for its non CAMT deferred tax assets.⁶ The accounting policy election applies for valuation allowance purposes only – that is, in the determination of adjusted gross deferred tax assets other than the CAMT credit deferred tax assets. This accounting policy election cannot be used to avoid a valuation allowance analysis for CAMT credit DTAs. The accounting policy election must be disclosed in the notes to the financial statements and applied consistently in subsequent reporting periods.

Admissibility

Admittance - Implications of Group Tax Assessment (Related Parties)

23. For reporting entities that are applicable corporations as they are a member of a tax-controlled group of corporations, the reporting entity may be subject to the CAMT, or be hindered from utilizing the CAMT credit, through the actions of their consolidated tax return group related parties. (As noted in footnote 5, although a reporting entity may have earned a non-expiring tax credit through payment of CAMT, the reporting entity is not eligible to utilize that tax credit until the consolidated tax return group has sufficient tax liability that allows the members of the group to utilize their tax credit. This means that on a group basis they are no longer CAMT payors.) SSAP No. 4—*Assets and Nonadmitted Assets* requires assets that are restricted by the action of a related party to be nonadmitted assets.

SSAP No. 4, Footnote 2: If assets of an insurance entity are pledged **or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to paragraph 2, such assets shall not be recognized as an admitted asset on the balance sheet.** Additional guidance for assets pledged as collateral is included in INT 01-31.

24. A key focus of this interpretation is the admittance of the CAMT deferred tax assets (credits). However, it is recognized that under the existing statutory accounting guidance in SSAP No. 4 a reporting entity recognizing CAMT credit deferred tax assets would not be permitted to admit those deferred tax assets if as part of a consolidated tax return group the ability to receive those CAMT credits is explicitly linked to the actions of other entities within the group. If the group on a collective basis does not incur enough tax to allow utilization of the tax credits, then the reporting entity cannot use the tax credits, regardless of the income or tax paid by the reporting entity. This aspect is not impacted by the tax sharing agreement. Although the tax sharing agreement may specify how the CAMT credits will be allocated among the group, such tax credits allocated to the reporting entity can only be realized when the group qualifies for the credit.

25. For the CAMT credit adjusted gross deferred tax assets allocated to the reporting entity to be eligible to be admitted, this interpretation provides an exception to the guidance in SSAP No. 4, footnote 2, recognizing that the impact to ultimately utilize the allocated tax credits is dependent on the actions of the other parties within the group.

Admittance – Adjusted Gross DTAs

⁶ SSAP No. 101, FAS 109 and ASC 740 do not specifically address whether future years' CAMT should be anticipated in a valuation allowance assessment for non-CAMT DTAs. Accordingly, an accounting policy election is allowed for GAAP purposes as to whether to consider or disregard CAMT when evaluating the need for a valuation allowance for non-CAMT DTAs.

26. The guidance in SSAP No. 101 allows admittance of adjusted gross DTAs (gross DTAs reduced by the statutory valuation allowance) pursuant to 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 to realization 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 (SSAP No. 101, paragraph 11.c.) admits DTAs which can be offset by DTLs.

27. Due to the following aspects regarding the CAMT credits, specific admittance guidance for the CAMT credit DTAs has been established:

- a. The CAMT credit is a tax credit DTA that does not expire. As long as the reporting entity is a CAMT payor or is part of a tax-consolidated group that is a CAMT payor, the reporting entity cannot utilize the tax credit.
- b. The ability to utilize the CAMT credit is contingent on the actions and tax paying behaviors of the consolidated tax return group. Although the reporting entity may be paying sufficient tax above the CAMT threshold, if other parties within the group do not act in a similar manner, putting the group below the CAMT threshold, then the CAMT credit cannot be utilized by the reporting entity.

28. With these noted limitations in utilization of the earned tax credits, reporting entities are only permitted to admit CAMT credits if the reporting entity tax projections (if a separate tax return filer) or projections of the tax-consolidated group (if a member of such group) indicate that the CAMT credit will be realizable within the stated timeframes using the applicable SSAP No. 101, paragraph 11 realization table thresholds⁷. This means that the tax projections will have sufficient tax liability that permits utilization of the CAMT credits. For example, a reporting entity with greater than 300% ExDTA ACL RBC can only admit CAMT credits that are expected to be realized (consistent with the tax allocation agreement) in three years. Reporting entities that have ExDTA ACL RBC between 200-300% can only admit CAMT credits that are expected to be realized in one year. If a reporting entity cannot project (either on its own if a separate return filer or at the group if a consolidated tax return group member) sufficient tax liability that allows them to utilize the CAMT credit within the applicable realizable timeframes for admittance, then the portion of CAMT credits that cannot be utilized are required to be nonadmitted under SSAP No. 101, paragraph 11.b.

29. CAMT credits included in the SSAP No. 101, paragraphs 11 and 11.b. calculation as they are expected to be realized within the applicable 1 or 3 year permitted timeframes shall then be combined with non-CAMT adjusted gross deferred tax assets and admitted to the extent that the total DTAs admitted under paragraph 11.b. do not exceed the capital and surplus percentage limit for the company type. All references to SSAP No. 101, paragraph 11.b. include the modifications in this Interpretation.

30. Reporting entities shall use the Realization Threshold Limitations Tables in SSAP No. 101, paragraph 11.b. as applicable to the entity for determination of the admissibility of the CAMT credits. The percentage limitations of capital and surplus of and the projected realization periods continue to apply to admitted adjusted gross DTAs, including the adjusted gross DTA for any CAMT credit DTA.

31. A reporting entity which meets or exceeds the top line of the applicable of the Realization Threshold Limitation Table (Ex. 3 years and 15%) is **not required** to take the CAMT into account in calculating the

⁷ The examples in this paragraph reference Ex-DTA ACL RBC, however, SSAP No. 101, paragraph 11.b. also includes realization threshold tables which apply to non-RBC filers.

“with and without⁸” tax liability for purposes of determining the amount expected to be realized under SSAP No. 101, paragraph 11.b. for non-CAMT DTAs. Specifically, the reporting entity’s “with and without” regular tax liability is not reduced by CAMT, if any, reasonably expected to be incurred during the SSAP No. 101, paragraph 11.b. applicable period. In the case of a reporting entity included in a consolidated federal income tax return, the amount expected to be incurred refers to the portion of the consolidated CAMT, if any, reasonably expected to be allocable to the reporting entity pursuant to the group’s tax allocation agreement. However, any admitted CAMT credits in this step must be realizable within the applicable time period specified in the applicable Realization Threshold Limitation Table (Ex, top line - 3 years), determined consistent with the tax allocation agreement. The post-valuation allowance adjusted gross DTA for any CAMT credit DTA is admitted following the guidance in SSAP No. 101, paragraph 11.b.i. as modified by this Interpretation. The 15% limitation of capital and surplus which is provided in SSAP No. 101, paragraph 11.b.ii. continues to apply to admitted adjusted gross DTAs, including the adjusted gross DTA for any CAMT credit DTA.

32. A reporting entity which meets the second line of the applicable Realization Threshold Limitation Table (Ex. 1 year and 10%), the amount expected to be realized under SSAP No. 101, paragraph 11.b.i. within the applicable period determined under paragraph 11.b. **is based** on the reporting entity’s “with and without” regular tax liability reduced by CAMT, if any, reasonably expected to be incurred during the paragraph 11.b. applicable period. In the case of a reporting entity included in a consolidated federal income tax return, the amount expected to be realized is reduced by the portion of the consolidated CAMT, if any, reasonably expected to be allocable to the reporting entity pursuant to the group’s tax allocation agreement. CAMT credit utilization during the applicable period is recognized based on the same principles, – that is, as an admitted DTA. The purpose of these computations is to account for CAMT in deferred taxes in the same manner as CAMT would be reflected in current taxes.

33. A reporting entity which meets or is below the third line of the applicable Realization Threshold Limitation Table (Ex. 0 years and 0%), is not permitted to admit either CAMT credit DTAs or non-CAMT DTAs under SSAP No. 101, paragraph 11.b.

34. The adjusted gross DTA for any CAMT credit carryforward which does not qualify for admission under SSAP No. 101, paragraph 11.b. is permitted to be recognized as an offset against DTLs in accordance with SSAP No. 101, paragraph 11.c. The reporting entity shall admit the remaining amount of adjusted gross DTAs, after application of paragraphs 11.a. and 11.b. that can be offset against existing gross DTLs. The reporting entity shall consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations.

Admittance - Projections

35. Projections of CAMT liability, if any, (and CAMT credit utilization) during the applicable period involve forward-looking data, groupings, of assets and liabilities, estimates and other adjustments for both the reporting entity and the group of which it is a member. The manner in which this is done shall be conducted in a reasonable and consistent manner. A reporting entity shall retain internal documentation to support these computations and the methodologies so employed. Modifications to the estimation methodology are permitted should events or circumstances change from a previous period – such as a change in materiality or administrative costs associated with the computations, or system changes that affect the level of detail available. Entities that make such modifications should be prepared to rationalize the

⁸ “With and without” is further described in SSAP No. 101.

changes. Disclosure of material modifications, and the general reason for such, should be made in the notes to the financial statements.⁹

Admittance - Tax Planning Strategies

36. SSAP No. 101 provides that tax-planning strategies are required to be considered in the valuation allowance analysis and may be considered in determining the admission of DTAs under SSAP No. 101, paragraph 11. For reporting entities that are part of a consolidated tax return group, tax planning strategies impacting the CAMT are determined at a group level, as long as the tax planning strategies at the group level do not conflict with tax planning strategies at the reporting level and vice versa. For reporting entities that are separate tax return filers, a reporting entity must consider tax-planning strategies in making the valuation allowance analysis required under this interpretation.

Transition Guidance

37. Even though the CAMT was enacted in 2022 and generally became effective January 1, 2023, the requirements for statutory tax accounting for the CAMT have effectively been deferred by INT 22-02. This paragraph provides the applicable transition rules for year-end 2023 statutory accounting for requests for a timely-filed tax allocation agreement amendment or a new tax allocation agreement for the 2023 taxable year.

- a. Because the CAMT was newly enacted effective for 2023, tax allocation agreements in effect for periods prior to the 2023 taxable year include no explicit provisions relating to the CAMT. Thus, applicable reporting entities (with and without tax allocation agreement exclusions) may need to amend tax allocation agreements to deal with the CAMT effective for the entire 2023 taxable year. A reporting entity would file a request for amendment to a tax allocation agreement or a new tax allocation agreement on Form D – Prior Notice of a Transaction as required under the *Insurance Holding Company System Regulatory Act* (Model #440) and the related regulation, (Model #450) with its applicable domiciliary regulator(s) and commercial domiciliary regulator(s).
- b. Time is of the essence in both requesting and approving tax allocation agreement amendments or a new tax allocation agreement relating to the CAMT for the 2023 taxable year to be applicable to the 2023 reporting period. Accordingly, if a reporting entity files the applicable Form D request(s) for tax allocation agreement amendment or a new tax allocation agreement prior to the end of 2023 to address the CAMT for 2023 and subsequent taxable years, and the domiciliary regulator has confirmed in writing that they have no objections to using the new tax allocation agreement amendment or new tax allocation agreement, while under review. The reporting entity shall be allowed to account for the tax allocation agreement as applicable for the entire 2023 reporting period.
- c. If the final approved tax allocation agreement differs in its treatment of the CAMT allocation from the tax allocation agreement originally requested on the Form D, the difference shall be recorded as follows:
 - i. If Form D approval occurs subsequent to the balance sheet date, but before the issuance of the statutory financial statements and before the date the audited financial statements are issued, or available to be issued, such approval shall be considered a Type I subsequent event within the meaning of *SSAP No. 9— Subsequent Events*.

⁹ See paragraph 2.9 of the *SSAP No. 101 Q&A* for similar requirements in the context of grouping of assets and liabilities for measurement.

- ii. If the Form D approval occurs after the period which defines a subsequent event in SSAP No. 9, the difference created by such approval shall be recognized and disclosed in the period in which the approval is given.
- d. The transition guidance in paragraph 37 does not apply to a reporting entity that does not file a Form D request for a CAMT-related tax allocation agreement amendment or a new tax allocation agreement prior to the end of 2023.

38. Consistent with *SSAP No. 3—Accounting Changes and Corrections of Errors*, paragraph 4, initial application of this interpretation shall not be considered a change in accounting principle, but instead application of a new principle for the first time.

Disclosures

39. The reporting entity shall disclose whether it is a nonapplicable reporting entity; an applicable reporting entity with tax allocation agreement exclusions or an applicable reporting entity.

40. Additionally, the following disclosures shall be made in the notes to the financial statements of applicable reporting entities (which do not have tax allocation agreement exclusions in accordance with paragraph 11 of this interpretation):

- a. If the reporting entity has made an accounting policy election to either consider or disregard CAMT when evaluating the need for a valuation allowance for its non-CAMT DTAs described in paragraph 22 of this interpretation.
- b. Any disclosure of material modifications to the methodology used to project CAMT as required by paragraph 35 of this interpretation.

41. Relevant disclosures required by SSAP No. 101 also apply including but not limited to, the following:

- a. The disclosure of the statutory valuation allowance as required by SSAP No. 101, paragraph 21.
- b. The disclosure of tax planning strategies is required by SSAP No. 101. In the disclosure required by SSAP No. 101, paragraph 28.b., a statement as to whether the reporting entity may be charged with a portion of CAMT incurred by the consolidated group (or credited with a portion of the consolidated group's CAMT credit utilization).
- c. Inclusion of CAMT credit DTAs, if any, in the disclosure required by SSAP No. 101, paragraph 26.a. regarding the origination dates and expiration of tax credit carry forwards.
- d. The impact of CAMT -planning strategies, if any, in the disclosure required by SSAP No. 101, paragraph 22.f.

INT 23-03 Status

42. The consensuses in this interpretation are effective beginning with year-end 2023 financial statements and periods thereafter.

43. No further discussion is planned.

Examples

Basic Facts Used in All Examples

44. The reporting entity is a member of a tax-affiliated group of corporations that files consolidated federal income tax returns which reasonably expects to be an applicable corporation for 20X3.
- a. Reporting entity also has \$200x of non-CAMT adjusted gross DTAs (i.e., has already reduced by any required valuation allowance of \$40x). Of this \$200x of which \$150x reverses over the 3-year applicable period 20X4-20X6 and is expected to be realized.
 - b. At the end of 20X3, reporting entity has a \$50x CAMT credit DTA (pursuant to the consolidated group's tax allocation agreement, reporting entity was allocated a portion of the group's expected 20X3 current CAMT expense, which reporting entity included in its 20X3 current tax expense).
 - c. The consolidated group of which the reporting entity is a member establishes a \$20x valuation allowance against its \$50x CAMT credit DTA, resulting in a CAMT adjusted gross DTA of \$30x that is more likely than not to be realized.
 - d. The reporting entity makes an accounting policy election to disregard CAMT when evaluating the need for a valuation allowance for its non-CAMT DTAs.
 - e. Reporting entity's capital and surplus for purposes of calculating the limitation under SSAP No. 101, paragraph 11.b. ii. is \$2,000. Therefore, the 15% of surplus limitation is \$300 (based on the top line of the applicable SSAP No. 101 paragraph 11.b. realization threshold limitation table), the 10% limitation is \$200 (based on the second line of the applicable SSAP No. 101 paragraph 11.b. realization threshold limitation table).
 - f. For the purposes of these examples any DTA admittance under SSAP No. 101, paragraphs 11.a. and 11.c. is ignored.

Example 1 – Applicable reporting entity meets or exceeds the top line of the relevant SSAP No. 101, paragraph 11.b. Realization Threshold Limitation table (Ex. 3 years, 15%).

45. The basic facts above apply with the following additional information:
- a. For 20x3, the reporting entity exceeds the first line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 3-year applicable period and the limitation of capital and surplus is 15%. Pursuant to paragraph 31 of this interpretation, the reporting entity would not have to take the CAMT into account in calculating the “with and without” tax liability for purposes of determining the amount expected to be realized under SSAP No. 101, paragraph 11.b.i.
 - b. The consolidated tax return group has assessed and determined that the CAMT credit DTA amounts after the valuation allowance of \$30x is expected to be utilized in 20x4 and 20x5 but \$15x of CAMT would be incurred in 20x6.

46. The reporting entity admits the \$30x adjusted gross DTA for its portion of the allocated CAMT credit DTA expected to be utilized within three years and admits the \$150x non-CAMT adjusted gross DTA after valuation allowance than can be utilized within three years. Therefore, the admitted non-CAMT DTA and admitted CAMT credit DTA would total \$180x (\$150 + \$30 = \$180).

47. Although the consolidated group is expecting to incur CAMT during the 3-year period, the reporting entity does not reduce its non-CAMT admitted DTAs by the \$15x the CAMT expected to be allocated under the tax allocation agreement to the reporting entity during the three years (pursuant to paragraph 31 of this Interpretation). Note that if the consolidated tax return group had assessed and determined that only a portion of the CAMT credit DTA after the valuation allowance was expected to be utilized in 20x4, 20x5 and 20x6 then the reporting would only admit its allocation (per its tax allocation agreement) of the amount of CAMT credit DTA that will be utilized by the consolidated group during the 3 years.

48. The \$180 is less than the \$300 15% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor. (However, if reporting entity’s 15% of surplus limitation under paragraph 11.b.ii. was \$175x, the reporting entity’s admitted adjusted gross DTA would be further reduced to \$175).

	DTA	Valuation Allowance	Not Recoverable Within 3 Years	DTA Admitted Standalone	Impact of Consol. DTA	Admitted DTA under 11bi	15% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150		150		50
CAMT credit DTA	50	-20	0		30	30	-	-
totals	290	-60	-50	150	30	180	300	50

Example 2. Applicable entity, that meets level 2 on the relevant SSAP No. 101, paragraph 11.b. Realization Threshold Limitation table (Ex.-1 year 10%).

49. The basic facts above apply with the following additional information:

- a. For 20x3, the reporting entity meets the second line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 1-year applicable period and the limitation of capital and surplus is 10%. Pursuant to paragraph 32 of this interpretation, the reporting entity would have to also apply the with and without calculation of the determination of the impact of the CAMT on the realization of DTAs.
- b. The consolidated group of which the reporting entity is a member expects to incur CAMT in 20x4, of which \$10 is expected to be allocated under the tax allocation agreement to reporting entity. The reporting entity reduces its \$150x of non-CAMT admitted adjusted gross DTAs by its \$10x share of the consolidated CAMT expected to be incurred in 20x4.

50. The reporting entities admitted DTA would be \$140x. The result is an adjusted gross non-CAMT DTA of \$150x, minus the \$10 impact of the consolidated CAMT (with and without) equals 140 admitted DTA.

51. The resulting \$140x of DTA admitted under paragraph 11.b.i., which is less than the \$200x paragraph is less than the \$200 10% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor.

	DTA	Valuation Allowance	Not Recoverable Within 1 Year	DTA Admitted Standalone	Impact of Consol. DTA and VA	Admitted DTA under 11bi	10% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150	-10	140		60
CAMT credit DTA	<u>50</u>	<u>-20</u>	<u>-30</u>					<u>30</u>
totals	290	-60	-80	150	-10	140	200	90

Example 3 Applicable entity with qualifying tax allocation agreement exclusions

52. The basic facts situation applies.

- a. Similar to Example 1, the reporting entity meets the exceeds the first line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 3-year applicable period and the limitation of capital and surplus is 15%.
- b. The reporting entity is excluded pursuant to the tax allocation agreement from any allocation of CAMT or CAMT credit utilization in a qualifying tax allocation agreement as described in paragraph 11 of this interpretation.

53. Accordingly, the reporting entity for 20x3, would be excluded from the CAMT calculations, and the reporting entity’s admitted adjusted gross DTA would be \$150x. which is the amount after the valuation allowance of \$40 and the \$50 reduction for the amount not recoverable within 3 years.

54. The \$150 is less than the \$300 15% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor.

	DTA	Valuation Allowance	Not Recoverable Within 3 Years	DTA Admitted Standalone	Impact of Consol. DTA and VA	Admitted DTA under 11bi	15% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150		150		50
CAMT credit DTA	0							
totals	240	-40	-50	150		150	300	50

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/9-21-23/adoptions/int 23-03 camt ref 23-04 final.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2023/9-21-23/adoptions/int%2023-03%20camt%20ref%2023-04%20final.docx)

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

Issue: Residuals in SSAP No. 48 Investments

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item proposes revisions to clarify the scope and reporting for investment structures that represent residual interests or a residual security tranche (collectively referred to as residuals) within statutory accounting principles. Previously, revisions have been incorporated in *SSAP No. 43R—Loan-Backed and Structured Securities* to address the reporting of residual interests within securitization structures. With these revisions, residual interests, as defined within SSAP No. 43R, were required to be reported on Schedule BA on designated reporting lines beginning year-end 2022. After reviewing the 2022 reporting results, it was identified that the information for residuals may be underrepresented as a result of the various legal forms that residual investments can take. For example, a reporting entity could hold investments that have the substance of residual interests in the form of limited partnerships, joint ventures, or other equity fund investments. To ensure collective and consistent reporting of all residual interests, this agenda item proposes guidance to clarify the reporting of in-substance residuals regardless of the structure of the investment vehicle.

The discussion of residual interests often compares those securities to equity interests. These two investment structures are not synonymous, and it should not be perceived that all equity interests reflect residuals. A residual interest or a residual security tranche exists in investment structures that are backed by a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. These collateral assets generate cash flows that provide interest and principal payments to debt holders, and once those contractual requirements are met, the resulting excess funds generated by (or with the sale of) the collateral assets are provided to the holder of the residual interest. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent cash flows will be generated and distributed. The residual interest holder absorbs these losses (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal, so long as there are enough collateral cash flows to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform.

The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive ‘residual’ cash flows after all debt holders receive contractual interest and principal payments. The list below provides common characteristics in residuals, but with varying (and often changing structures), this list should not be used as rules governing whether a security reflects a residual interest. Determining whether a security reflects a residual interest or tranche for reporting purposes shall be based on the substance of the investment held rather than its legal form.

Common Characteristics of Residual Interests/Residual Security Tranches:

- Residuals often do not have contractual principal or interest.
- Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

- Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.
- Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.
- Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Existing Authoritative Literature:

SSAP No. 43R—Loan-Backed and Structured Securities defines residuals specific to securitizations or beneficial interests and requires these securities to be reported on dedicated Schedule BA reporting lines. (This guidance was effective for year-end 2022 and detailed in agenda item 2022-15.)

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:
- For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.
 - For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
 - For residual tranches or interests^{FN} captured in scope of this statement, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

Footnote: Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures captured in scope of this statement that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Annual Statement Instructions also detail specific reporting lines for residuals with instructions for reporting in Schedule BA:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated.....	4699999
Affiliated	4799999

Common Stock	
Unaffiliated.....	4899999
Affiliated.....	4999999
Preferred Stock	
Unaffiliated.....	5099999
Affiliated.....	5199999
Real Estate	
Unaffiliated.....	5299999
Affiliated.....	5399999
Mortgage Loans	
Unaffiliated.....	5499999
Affiliated.....	5599999
Other	
Unaffiliated.....	5699999
Affiliated.....	5799999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

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):

- Under the principles-based bond project, revisions have been proposed to incorporate guidance for residuals in *SSAP No. 21R—Other Admitted Assets*. With the Spring 2023 National Meeting exposure, information was requested from industry on how amortized cost for residuals was determined as well as how other-then-temporary assessments were completed.
- The Investment Risk and Evaluation (IRE) Risk Based-Capital (E) Working Group is considering a structural change and a potential factor change for residuals reported on Schedule BA. The year-end 2022 data was reviewed and was noted to underrepresent the full scope of residual tranche securities held by insurance reporting entities as the current guidance in SSAP No. 43R is specific to securitizations or beneficial interests.
- A March 31, 2023, Valuation of Securities (E) Task Force referral to the Statutory Accounting Principles (E) Working Group identified other structures that could contain residual tranche securities that may not be captured within the year-end 2022 Schedule BA dedicated residual reporting lines.

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 recommend that the Working Group move this item to the active listing, as a SAP clarification, and expose revisions to clarify that investments structures captured in scope of *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*, that represent residual interests or that predominantly hold residual interests, shall be reported on the dedicated residual reporting line on Schedule BA. As these investments are already reported on Schedule BA, this revision results in a reporting classification change within the same schedule. These investments are still considered to be in scope of SSAP No. 48 and they are only permitted to be admitted if they qualify as admitted assets pursuant to requirements of SSAP No. 48. (Under SSAP No. 48, investments in scope must be supported by an audit to qualify for admittance.)

Proposed revisions to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies:

New header and paragraphs 18-20. All other paragraphs will be renumbered accordingly.

Residual Interests and Reporting

18. Investments in scope of this statement are reported on Schedule BA: Other Long-Term Assets. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests, captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that are backed by a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. These collateral assets generate cash flows that provide interest and principal payments to debt holders, and once those contractual requirements are met, the resulting funds generated by (or with the sale of) the collateral assets are provided to the holder of the residual security / residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual security holder absorbs these losses first (as it reduces what they could receive as a residual holder) while the holders of

the debt securities continue to receive interest and principal so long as there are enough collateral cash flows to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive ‘residual’ cash flows after all debt holders receive contractual interest and principal payments. Determining whether a security reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Corresponding revisions are also proposed to SSAP No. 43R—Loan-Backed and Structured Securities:

Revisions are proposed to pull the residual guidance into a new section, after paragraph 26, rather than a footnote. Remaining paragraphs will be renumbered accordingly.

Reporting Guidance for All Loan-Backed and Structured Securities

26. Loan-backed and structured securities shall be valued and reported in accordance with this statement, the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), and the designation assigned in the NAIC Valuations of Securities product prepared by the NAIC Securities Valuation Office or equivalent specified procedure. The carrying value method shall be determined as follows:

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed and structured securities, excluding residual tranches or interests, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value.
- b. For reporting entities that do not maintain an AVR, loan-backed and structured securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), excluding residual tranches or interests, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

- c. For residual tranches or interests⁺ captured in scope of this statement, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures (including securitizations, beneficial interests and other structures captured in scope of this statement) that are backed by a discrete pool of collateral assets. These collateral assets generate cash flows that provide interest and principal payments to debt holders, and once those contractual requirements are met, the resulting funds generated by (or with the sale of) the collateral assets are provided to the holder of the residual security / residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual security holder absorbs these losses first (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal so long as there are enough collateral cash flows to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform.

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive ‘residual’ cash flows after all debt holders receive contractual interest and principal payments. Determining whether a security reflects a residual interest or tranche for reporting purposes shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence of absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Proposed revisions to Annual Statement Instructions:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests ~~captures from~~ securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities*, ~~that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive 'residual' cash flows after all debt holders receive contractual interest and principal payments. Determining whether a security reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence of absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may have stated principal or interest, but with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they provide the subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other tranche holders receive contractual principal and interest payments.

e. Frequently, there are contractual triggers that divert cash flows from the residual tranche to the debt tranches if the structure becomes stressed.

Staff Note: With adoption of guidance to define a residual, corresponding revisions will also be proposed to the SSAPs proposed to be updated under the principles-based bond definition (e.g., *SSAP No. 43R—Asset-Backed Securities* and *SSAP No. 21R—Other Admitted Assets*.)

Staff Review Completed by: Julie Gann - NAIC Staff, April 2023

Status:

On May 16, 2023, 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. 48 which clarify that investments structures captured in scope of SSAP No. 48 that represent residual interests or that predominantly hold residual interests, shall be reported on the dedicated residual reporting line on Schedule BA. Corresponding edits to ensure consistent language in SSAP No. 43R and revisions to the Schedule BA Annual Statement Instructions were also exposed.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions as shown below in the updated July 2023 recommendation with a shortened comment deadline ending September 12, 2023. The updated recommendation was based on interim discussions and coordination with industry representatives.

Updated Recommendation - July 12, 2023

NAIC staff has been working directly with regulators and industry on the proposed revisions to ensure consistent reporting classification for residuals. As a result of this coordination, updated revisions are proposed. Changes from the prior proposal are shaded:

SSAP No. 48 - New header and paragraphs 18-20. All other paragraphs will be renumbered accordingly.

Residual Interests and Reporting

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests, captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of ~~are backed by~~ a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. These collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). ~~and~~ Once those contractual requirements are met, the ~~resulting funds~~ remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. ~~security holder absorbs these losses first (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal so long as there are enough collateral cash flows in excess of the debt obligations to cover them. The residual holder may ultimately receive nothing, a reduced amount from~~

original projection, or large returns, based on how the underlying collateral assets perform. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive ~~residual~~ the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure ~~a security~~ reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be ~~have~~ stated principal or interest but that lack substance, and ~~with terms that~~ result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide ~~the~~ subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after ~~other debt~~ tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual ~~tranche holders~~ to the debt tranches if the structure becomes stressed.

Corresponding revisions are then proposed to SSAP No. 43R and the Schedule BA Annual Statement Instructions:

SSAP No 43R:

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of ~~are backed by~~ a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. These collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). ~~and~~ Once those contractual requirements are met, the ~~resulting funds~~ remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. ~~security holder absorbs these losses first (as it reduces what they could receive as a residual holder) while the holders of the debt securities continue to receive interest and principal so long as there are enough collateral cash flows in excess of the debt obligations to cover them. The residual holder may ultimately receive nothing, a reduced amount from original projection, or large returns, based on how the underlying collateral assets perform. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive 'residual' the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure a security reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be have-stated principal or interest but that lack substance, and with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide the subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual tranche holders to the debt tranches if the structure becomes stressed.

Schedule BA Annual Statement Instructions:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests, as defined within SSAP No. 43R—Loan-Backed and Structured Securities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies, should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests ~~captures from~~ securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities*, ~~that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies that represent residual interests, or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive 'residual' the remaining cash flows after all debt holders receive contractual interest and principal

~~payments. Determining whether an investment in a structure a security reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests / residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

- a. ~~Residuals often do not have contractual principal or interest.~~
- b. ~~Residuals may be structured with terms that appear to be have stated principal or interest but that lack substance, and with terms that result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.~~
- c. ~~Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide the subordination to support the credit quality of the typically rated debt tranches.~~
- d. ~~Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after other debt tranche holders receive contractual principal and interest payments.~~
- e. ~~Frequently, there are contractual triggers that divert cash flows from the residual tranche holders to the debt tranches if the structure becomes stressed.~~

On September 21, 2023, the Statutory Accounting Principles (E) Working Group adopted the revisions as exposed on August 13, 2023, to *SSAP No. 43R—Loan-Backed and Structured Securities* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and adopted revisions to the Annual Statement Instructions modified from the exposure to reflect industry comments. As clarification revisions for the reporting of residual interests, so that all residuals are captured on the dedicated Schedule BA reporting lines, the revisions are effective for year-end December 31, 2023. The revisions to the Annual Statement Instructions will be forwarded to the Blanks (E) Working Group in the year-end memo and for a future blanks proposal. The adopted statutory accounting revisions and annual statement instructions are shown below:

SSAP No. 48 - New header and paragraphs 18-20. All other paragraphs will be renumbered accordingly.

Residual Interests and Reporting

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are

met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

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- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

SSAP No 43R: New Header and paragraphs 27-28. All other paragraphs will be renumbered accordingly.

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics

of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

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Schedule BA Annual Statement Instructions:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests ~~captures from~~ securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities*, ~~that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

**Revisions to the
As of March 2023, Accounting Practices and Procedures Manual**

On **October 23, 2023**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2022-11	SSAP No. 20 SSAP No. 21R	Collateral for Loans <i>SAP Clarification</i> Effective immediately October 23, 2023	Adoption includes consistency revisions to SSAP No. 20. Revisions to SSAP No. 21R provide more detail on qualifying collateral, require information to support fair value of collateral to be available on request, and provide audit transition guidance for equity collateral from entities in the scope of SSAP No. 48— <i>Joint Ventures, Partnerships and Limited Liability Companies</i> and SSAP No. 97— <i>Investments to Subsidiary, Controlled and Affiliated Entities</i> .
2023-18	SSAP No. 5R SSAP No. 92 SSAP No. 102 SSAP No. 103R	ASU 2016-19, Technical Corrections and Improvements <i>SAP Clarification</i> Effective immediately October 23, 2023	Adoption includes revisions to adopt with modification ASU 2016-19 in SSAP No. 5R— <i>Liabilities, Contingencies and Impairments of Assets</i> , SSAP No. 92— <i>Postretirement Benefits Other Than Pensions</i> , and SSAP No. 102— <i>Pensions and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> to update statutory accounting guidance for changes made to GAAP and standardize the terminology used for insurance contracts in SSAP No. 92 and SSAP No. 102.
2023-19	Appendix D	ASU 2018-09, Codification Improvements <i>SAP Clarification</i> Effective immediately October 23, 2023	Adoption rejects ASU 2018-09 as not applicable for statutory accounting.
2023-20	Appendix D	ASU 2020-10, Codification Improvements <i>SAP Clarification</i> Effective immediately October 23, 2023	Adoption rejects ASU 2020-10 as not applicable for statutory accounting

Ref #	SSAP/ Appendix	Title	Summary
2023-21	SSAP No. 92 SSAP No. 102	Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102 <i>SAP Clarification</i> Effective immediately October 23, 2023	Adoption includes revisions to <i>SSAP No. 92— Postretirement Benefits Other Than Pensions and SSAP No. 102—Pensions</i> to remove the initial transition guidance as the 10-year effective period of the guidance has expired.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/10-23-23/adoptions/00 - adoptions 10.23.2023 toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2023/10-23-23/adoptions/00%20-%20adoptions%2010.23.2023%20toc.docx)

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

Issue: Collateral for Loans

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item has been drafted to address an inconsistency regarding the collateral loan guidance in *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 21—Other Admitted Assets* (See excerpts in Authoritative Literature). These two statements contain guidance about unsecured and secured loans which is complementary.

SSAP No. 20 details the **nonadmitted assets status** of unsecured loans and loans secured by assets which do not qualify as investments. SSAP No. 20 also references write off and impairment guidance in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* for impaired and uncollectible loans. SSAP No. 20 provides that improperly collateralized loans include loans that do not have underlying assets that would otherwise qualify as **admitted assets** and stated that such loans are nonadmitted assets because the collateral would be of questionable economic value if needed to fulfill policyholder obligations. SSAP No. 20 includes similar nonadmission guidance regarding loans on personal security, cash advances to officers or agents and for travel advances.

SSAP No. 21 details the requirements for collateral loans which **can qualify to be admitted assets**. It provides that the collateral loan must be secured by the pledge of an investment. A footnote further describes that investment collateral would be of a type that would be in Section 3 of *Appendix A-001—Investments of Reporting Entities*. **SSAP No. 21 also references the nonadmission guidance in SSAP No. 20** for collateral loans secured by assets that do not qualify as investments. The referenced guidance in SSAP No. 20 notes that the underlying assets must qualify as admitted assets.

Both SSAP No. 20 and SSAP No. 21 identify the need for adequate collateral that qualifies as an invested asset. SSAP No. 20 is explicit that the investment asset collateral must qualify as an admitted asset. Recent discussions with state regulators have highlighted that although SSAP No. 21 references the guidance in SSAP No. 20, that it would be beneficial to also note the need for the collateral to qualify as an admitted invested asset. This agenda item recommends a clarification to SSAP No. 21 that the acceptable invested asset collateral, for collateral loans must qualify as admissible invested assets.

Existing Authoritative Literature:

***SSAP No. 20—Nonadmitted Assets* (Bolding added for emphasis):**

4. Consistent with paragraph 2, the following assets shall be nonadmitted:
 - a. Deposits in Suspended Depositories—Amounts on deposit with suspended depositories may not be fully recoverable. Any amounts not reasonably expected to be recovered shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. Amounts in excess of that written off shall be nonadmitted as they are not available to satisfy obligations to policyholders;
 - b. **Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Investments**—In accordance with SSAP No. 5R, amounts determined

to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized **as there are no underlying assets which would otherwise be admitted assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in SSAP No. 105R—Working Capital Finance Investments;**

- c. **Loans on Personal Security, Cash Advances To, Or In The Hands Of, Officers Or Agents And Travel Advances**—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off typically are **unsecured and as such have no underlying assets which would otherwise be admitted assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Some of these items may also be considered prepaid expenses which, per SSAP No. 29—Prepaid Expenses, are nonadmitted;**
- d. All “Non-Bankable” Checks—Examples of “non-bankable” checks are NSF (non-sufficient funds) checks, post-dated checks, or checks for which payment has been stopped. Although these checks may still maintain probable future benefits (and thus meet the definition of assets), at the date on which they are non-bankable they are not available for policyholder obligations and shall be nonadmitted until the uncertainty related to the probable future benefit is resolved and the checks are converted to available funds;
- e. Trade Names And Other Intangible Assets¹—These assets, by their nature, are not readily marketable and available to satisfy policyholder obligations and shall be nonadmitted;
- f. Automobiles, Airplanes and Other Vehicles—Automobiles, airplanes and other vehicles meet the definition of assets established in SSAP No. 4. However, they are not readily available to satisfy policyholder obligations and as a result the undepreciated portion shall be nonadmitted. The accounting for these assets shall be consistent with the accounting for equipment provided in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* or for commercial airplane leveraged leases, refer to the guidance in *SSAP No. 22R—Leases*;
- g. Company’s Stock as Collateral for Loan—When a reporting entity lends money and accepts its own stock as collateral for the loan, it shall report the amount of the loan receivable and any related accrued interest on the loan as a nonadmitted asset. The asset is nonadmitted as the collateral could not be used to satisfy the obligation in the event of default.

Footnote 1: Defensible intangible assets are defined as an intangible asset acquired in a business combination or an asset acquisition that an entity does not intend to actively use but does intend to prevent others from using. These may also be referred to as a “locked-up asset” because while the asset is not being actively used, it is likely contributing to an increase in the value of other assets owned by the entity. These assets are not readily available to satisfy policyholder obligations and shall be nonadmitted.

SSAP No. 21 – Revised—Other Admitted Assets (Bolding added for emphasis)**Collateral Loans**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. **Loan Impairment**—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
- b. **Nonadmitted Asset**—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: Investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities*.

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): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): Not applicable.

Staff Review Completed by: Robin Marcotte – NAIC Staff – July 2022

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the revisions to SSAP No. 21R, illustrated below, which clarify that the invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

Proposed revisions to *SSAP No. 21 – Revised—Other Admitted Assets***Collateral Loans**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an [qualifying](#) investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:
- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
 - b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments [which would otherwise be admitted](#) shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: [A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would, if held by the insurer would qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted.](#)

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. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

On December 13, 2022, the Working Group re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 21R which clarify that the invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets. These revisions clarify that for specific investments, the comparison for admittance is between the net equity audited value of the pledged collateral to the collateral loan balance. In addition, a consistency revision to *SSAP No. 20—Nonadmitted Assets*, paragraph 4.b. was exposed.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item to allow additional time to submit additional comments regarding the measurement of collateral pledged from SSAP No. 48 and SSAP No. 97 entities, as requested by industry.

March and August 2023 exposed revisions to SSAP No. 20—Nonadmitted Assets:

4. Consistent with paragraph 2, the following assets shall be nonadmitted:
- b. Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Admitted Investments—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized as there are no underlying assets which would otherwise be admitted invested assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in *SSAP No. 105R—Working Capital Finance Investments*;

March and August 2023 exposed revisions to SSAP No. 21 – Revised—Other Admitted Assets with new wording shown tracked and shaded below.**Collateral Loans**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of a qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
- b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. For qualifying investments which are pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, such as joint ventures, partnerships and limited liability companies and investments that would qualify as SCAs if held directly, the proportionate audited equity valuation shall be used for the comparison for the adequacy of pledged collateral. If the collateral loan exceeds the audited equity valuation of these pledged investments, then the excess shall be nonadmitted.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would if held by the insurer qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as

collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

On October 23, 2023, the Statutory Accounting Principles (E) Working Group adopted the revisions to SSAP No. 20 and SSAP No. 21R illustrated below. The revisions to SSAP No. 20 are consistency revisions. The revisions to SSAP No. 21R provide more detail on qualifying collateral, require information to support fair value of collateral to be available on request, and provide audit transition guidance for collateral of pledged SSAP No. 48 and SSAP No. 97 entities. The shaded revisions to paragraph 4b and to paragraph 22 are different from the prior exposure.

Adopted revisions to SSAP No. 20—Nonadmitted Assets (unchanged from March 2023 exposure):

4. Consistent with paragraph 2, the following assets shall be nonadmitted:
 - b. Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Admitted Investments—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized as there are no underlying assets which would otherwise be admitted invested assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in *SSAP No. 105R—Working Capital Finance Investments*;

Adopted revisions to SSAP No. 21 – Revised—Other Admitted Assets for Collateral Loans (new wording shown tracked and shaded)

Guidance previously exposed as shaded in paragraph 4.b. of SSAP No. 21 has been replaced with new shaded guidance. Paragraph 22 has new shaded guidance. Prior tracking was adopted by the Working Group discussion remains.

- Other tracking reflects the current exposure.

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:
 - a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
 - b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in *SSAP No. 26R* that are also secured with collateral shall continue to be captured within scope of *SSAP No. 26R*.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under *SSAP No. 4* due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and/or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with *SSAP No. 48* and or *SSAP No. 97*.

Effective Date and Transition

22. ____ This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4 requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/22-11 - Collateral for Loans.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/22-11-CollateralforLoans.docx)

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

Issue: ASU 2016-19, Technical Corrections and Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements*, as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:

The table starting on page 3 summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting, and will impact *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

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):

None.

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 ASU 2016-19, *Technical Corrections and Improvements in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets**Joint and Several Liabilities**

5. Joint and several liability arrangements for which the total obligation amount under the arrangement is fixed¹ at the reporting dates shall be measured and reported as the sum of:

- a. The amount the reporting entity agreed to pay on the basis of the agreements among its co-obligors, and
- b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. When an amount within management's estimate of the range of a loss appears to be a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the midpoint shall be used.

6. Although the total amount of the obligation of the entity and its co-obligors must be fixed at the reporting date to be within the scope of this statement, the amount that the reporting entity expects to pay on behalf of its co-obligors may be uncertain at the reporting date.

Proposed Revisions to SSAP No. 92—Postretirement Benefits Other Than Pensions

53. Plan assets are assets—usually stocks, bonds, and other investments (except certain insurance ~~contracts~~ annuities as noted in paragraph 57)—that have been segregated and restricted (usually in a trust) to be used for postretirement benefits. The amount of plan assets includes amounts contributed by the employer, and by plan participants for a contributory plan, and amounts earned from investing the contributions, less benefits, income taxes, and other expenses incurred. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

Insurance-Annuity Contracts

57. For purposes of this statement, an ~~insurance-annuity~~ contract is defined as a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium; an ~~insurance-annuity~~ contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. Benefits covered by ~~insurance-annuity~~ contracts shall be excluded from the accumulated postretirement benefit obligation. ~~Insurance-Annuity~~ contracts shall be excluded from plan assets.

58. Some ~~insurance-annuity~~ contracts include participation rights (participating ~~insurance-annuity~~ contracts) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. If the participating ~~insurance-annuity~~ contract causes the employer to remain subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, that contract is not an ~~insurance-annuity~~ contract for purposes of this statement, and the purchase of that contract does not constitute a settlement pursuant to paragraphs 83-88. Endorsement split-dollar life ~~insurance-annuity~~ contracts do not settle a liability for a postretirement benefit obligation. For these contracts and other ~~insurance-annuity~~ contracts that do not constitute settlement, reporting entities shall accrue a liability for the postretirement benefit arrangement in accordance with this statement.

¹ Examples of items within the scope of this guidance include debt arrangements, other contractual obligations, and settled judicial litigation and judicial rulings. Loss contingencies, guarantees, pension and other postretirement benefit obligations and taxes are excluded from this guidance and shall be accounted for under the statutory accounting provisions specific to those topics.

59. The purchase price of a participating ~~insurance-annuity~~ contract ordinarily is higher than the price of an equivalent contract without a participation right. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as a nonadmitted asset. In subsequent periods, the participation right shall be nonadmitted and measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise, the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

60. To the extent that ~~insurance-annuity~~ contracts are purchased during the period to cover postretirement benefits attributed to service in the current period (such as life insurance benefits), the cost of those benefits shall be the cost of purchasing the coverage under the contracts, except as provided in paragraph 59 for the cost of a participation right. If all the postretirement benefits attributed to service in the current period are covered by nonparticipating ~~insurance-annuity~~ contracts purchased during that period, the cost of the contracts determines the service cost component of net postretirement benefit cost for that period. Benefits attributed to current service in excess of benefits provided by nonparticipating ~~insurance-annuity~~ contracts purchased during the current period shall be accounted for according to the provisions of this statement applicable to plans not involving ~~insurance-annuity~~ contracts.

61. Other contracts with insurance companies may not meet the definition of an ~~insurance-annuity~~ contract because the insurance company does not unconditionally undertake a legal obligation to provide specified benefits to specified individuals. Those contracts shall be accounted for as investments and measured at fair value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value. For some contracts, the best available estimate of fair value may be contract value.

62. The measurements of plan assets and benefit obligations required by this statement shall be as of the date of the employer's fiscal year-end statement of financial position. Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~-events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments).

Accounting for Settlement of a Postretirement Benefit Obligation

83. For purposes of this statement, a settlement is defined as a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a postretirement benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include making lump-sum cash payments to plan participants in exchange for their rights to receive specified postretirement benefits and purchasing long-term nonparticipating ~~insurance~~annuity contracts for the accumulated postretirement benefit obligation for some or all of the plan participants.

87. If the purchase of a participating ~~insurance~~annuity contract constitutes a settlement, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in income. As detailed in paragraph 58, the purchase of an endorsement split-dollar life ~~insurance~~annuity contract does not settle a liability for a postretirement benefit obligation.

Accounting for a Plan Curtailment

93. A settlement and a curtailment may occur separately or together. If benefits expected to be paid in future periods are eliminated for some plan participants (for example, because a significant portion of the work force is dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases nonparticipating

~~insurance~~annuity contracts for the accumulated postretirement benefit obligation and continues to provide defined benefits for future service, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan termination occurs (that is, the obligation is settled and the plan ceases to exist) and the plan is not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the employees continue to work for the employer).

Proposed Revisions to SSAP No. 102—Pensions

Measurement of Plan Assets

45. The measurements of plan assets and benefit obligations shall be as of the date of the employer's fiscal year-end statement of financial position. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other unassigned funds (surplus) (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Annuity Contracts

50. An annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts (~~participating annuity contracts~~)include participation rights (participating annuity contract) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating annuity contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this statement.

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

SCOPE OF STATEMENT

1. Transfers of financial assets take many forms. Accounting for transfers in which the transferor has no continuing involvement with the transferred financial assets or with the transferee are generally straightforward. However, transfers of financial assets often occur in which the transferor has some continuing involvement either with the assets transferred or with the transferee. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee arrangements, agreements to purchase or redeem transferred financial assets, options written or held, derivative financial instruments that are entered into contemporaneously with, or in contemplation of the transfer, arrangements to provide financial support, pledges of collateral, and the transferor's beneficial interests in the transferred financial assets. Transfers of financial assets with continuing involvement raise issues about the circumstances under which the transfers should be considered as sales of all or part of the assets or as secured borrowings. An objective in accounting for transfers of financial assets is for each

reporting entity that is a party to the transaction to recognize only assets it controls and liabilities it has incurred, to derecognize assets only when control has been surrendered, and to derecognize liabilities only when they have been extinguished. Sales and other transfers may frequently result in a disaggregation of financial assets and liabilities into components, which become separate assets and liabilities. [The guidance in this statement also applies to transactions in which servicing assets are transferred with loans retained by the transferor.](#)

Disclosures

24. Disclosures required by this statement may be reported in the aggregate for similar transfers if separate reporting of each transfer would not provide more useful information to financial statement users. A transferor shall disclose how similar transfers are aggregated. A transferor shall distinguish transfers that are accounted for as sales from transfers that are accounted for as secured borrowings. [If specific disclosures are required for a particular form of a transferor's continuing involvement by other SSAPs, the transferor shall provide the information required in \(a\) through \(c\) with a cross-reference to the separate notes to financial statements so a financial statement user can understand the risks retained in the transfer.](#) In determining whether to aggregate the disclosures for multiple transfers, the reporting entity shall consider quantitative and qualitative information about the characteristics of the transferred financial assets. For example, consideration should be given, but not limited, to the following:

- a. The nature of the transferor's continuing involvement.
- b. The types of financial assets transferred.
- c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer.

Staff Review Completed by:

NAIC Staff – William Oden, July 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to adopt, with modification, *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting in SSAP Nos. 5R, 92, 102, and 103R as illustrated above.

On October 23, 2023, the Statutory Accounting Principles (E) Working Group adopted with modification, ASU 2016-19, as illustrated above, to SSAP No. 5R, SSAP No. 92, SSAP No. 102, and SSAP No. 103R.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/23-18-ASU2016-19-TechnicalCorrectionsandImprovements.docx>

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

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Balance Sheet— Offsetting	210-20	Amendment aligns the wording in the Example with paragraph 815-210-50-4D by replacing the term underlying risk with the term type of contract.	55-22	Statutory guidance does not include amended example problem. This update is not applicable – no action required.
Risks and Uncertainties—Overall	275-10	Amendment simplifies the Codification by removing the explanation of reasonably possible in paragraph 275-10-50-8 and replacing it with a link to the Master Glossary term reasonably possible. There are consequential amendments for paragraphs 275-10-50-6 and 275-10-55-9.	50-8	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual and the definition for ‘reasonably possible’ is properly included within the manual. This update is not applicable – no action required.
Troubled Debt Restructurings by Creditors & Debt—Troubled Debt Restructurings by Debtors	310-40 470-60	This amendment removes the definition from the Master Glossary and includes the definition in Scope and Scope Exceptions paragraphs 310-40-15-4A and 470-60-15-4A. Consequential amendments also remove links to the Master Glossary term from other Subtopics that are not related to troubled debt restructuring.	15-4A 15-4A	Master glossary is not utilized by the AP&P manual and the definition of debt is already included within the manual. This update is not applicable – no action required.
Intangibles—Goodwill and Other—Goodwill	350-20	Paragraph 350-20-45-3 provides guidance on the presentation of a goodwill impairment loss that is associated with discontinued operations. This amendment adds a reference to Subtopic 205-20,	45-3	Statutory accounting does not provide separate guidance on goodwill impairments from discontinued operations, as such adding a guidance reference between <i>SSAP No. 24</i> –

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		Presentation of Financial Statements—Discontinued Operations, in that paragraph.		<p><i>Discontinued Operations and Extraordinary Items</i> and <i>SSAP No. 68—Business Combinations and Goodwill</i> is not considered necessary.</p> <p>This update is not applicable – no action required.</p>
Intangibles—Goodwill and Other—Internal-Use Software	350-40	This amendment addresses stakeholder concern that the accounting for software licenses acquired for internal use following the adoption of the amendments in ASU 2015-05 is not clear because paragraph 350-40-25-16 was superseded, and no new guidance was added in its place. The new paragraphs provide transition guidance and clarify the Board’s intent that an entity should apply the existing recognition and measurement requirements in GAAP for acquired intangible assets to a hosting arrangement that includes a license to software (as described in paragraphs 350-40-15-1 through 15-4C).	25-17 65-2	<p><i>SSAP No. 16R—Electronic Data Processing Equipment and Software</i> paragraph 12b already includes guidance for acquisitions which include both hosting and internal-use software components.</p> <p>This update is not applicable – no action required.</p>
Plant, and Equipment—Real Estate Sales	360-20	When EITF Issue 87-9 was codified in Subtopic 360-20, the final paragraph in that EITF Issue that contained the reversal of the initial position of the Task Force was not codified. This amendment corrects the Accounting Standards Codification to reflect the	55-3	<p><i>SSAP No. 40R—Real Estate Investments</i> directs readers to apply FASB guidance for real estate sales. As such, no changes are required to update the AP&P Manual for this change.</p>

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		final conclusions of the EITF on that Issue.		This update is not applicable – no action required.
Liabilities— Obligations Resulting from Joint and Several Liability Arrangements	405-40	This amendment adds an explanatory paragraph after paragraph 405-40-15- 1 to clarify that for the total amount of an obligation under a joint and several liability arrangement to be considered fixed at the reporting date, the amount that must be fixed on the obligation resulting from the joint and several liability arrangement is not the amount that is the entity’s portion of the obligation, but is the obligation in its entirety.	15-2	Clarifying amendment to joint and several liabilities is considered applicable for statutory accounting. Staff recommends adoption of the amendment with modification to SSAP No. 5R, as detailed above.
Guarantees—Overall	460-10	This amendment clarifies the wording in paragraph 460-10-50-1 so that its scope also applies to paragraph 460-10-50-4. The unclear wording along with the structure of the heading levels in paragraphs 460-10-50-1 through 50-4 could be interpreted as if the disclosure guidance in paragraph 460-10-50-1 only applies to paragraphs 460-10-50-2 through 50-3 and those guarantees outside the scope of paragraph 460-10-50-4.	50-1	Clarification to <i>SSAP No. 5R</i> is not applicable as the changes are specific to FASB paragraph structures. This update is not applicable – no action required.
Equity—Overall	505-10 505-30 505-50 505-60	This amendment simplifies the guidance by removing the terms public and nonpublic from these paragraphs and stating that the guidance applies to all entities that meet the stated characteristics.	15-1 15-1 15-1 15-1	Statutory accounting does not distinguish between public and nonpublic companies. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Compensation— Retirement Benefits— Defined Benefit Plans—Pension & Compensation— Retirement Benefits— Defined Benefit Plans—Other Postretirement & Financial Services— Insurance— Policyholder Dividends & Financial Services— Insurance—Business Combinations	715-30 715-60 944-50 944-805	These amendments simplify the codifications by using consistent terminology related to participating insurance. This amendment uses the term participating insurance throughout the related guidance and removes the duplicate terms participating insurance contract, participating insurance contracts, and participating contract from the Master Glossary.	25-7 35-53 35-59 35-79 35-88 55-153 35-115 35-156 25-2 05-10	Staff noted that <i>SSAP No. 102</i> uses the term ‘annuity contract’ instead of ‘insurance contract’ as annuity contracts are codified within model laws. Staff recommends that SSAP 92 be updated to also utilize the terminology “annuity contracts”. Staff recommend adoption of this amendment with modification to SSAP No. 92, as detailed above. Staff also recommend some minor editorial changes to SSAP No. 102, detailed above.
Compensation— Retirement Benefits— Defined Benefit Plans—Other Postretirement	715-60	This amendment removes the reference to securitization of trade receivables or loan receivables in the Master Glossary. When the creditor’s (transferor’s) transfer satisfies the requirements for sale accounting, the creditor would have a new asset and its beneficial interests in the receivables would meet the definition of a debt security in accordance with paragraph 860-20-35-2.	35-107 35-112	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. This update is not applicable – no action required.
Business Combinations— Overall	805-10	This amendment replaces the reference to the guidance in Section 958-810- 25 on not-for-profit entities—consolidation—recognition in	15-4	Statutory accounting does not have separate guidance for nonprofit and for-profit companies. Additionally, business combination guidance

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		<p>paragraph 805-10-15-4(e) to the more specific reference of paragraph 958-810-25-4. Paragraph 958-810-25-4 describes control by other means and contains criteria for consolidation. In addition, the phrase as permitted or required by is replaced by the word described in paragraph 805-10-15-4(e) to be less confusing to the users of the Accounting Standards Codification.</p>		<p>related to Variable Interest Entities has not yet been considered for statutory accounting purposes.</p> <p>This update is not applicable – no action required.</p>
<p>Derivatives and Hedging—Embedded Derivatives</p>	<p>815-15</p>	<p>This amendment simplifies the wording in paragraph 815-15-55-216 and adds a reference to Subtopic 815-10, Derivatives and Hedging—Overall, which contains guidance on the normal purchases and normal sales exception. The added reference better enables users to find this guidance.</p>	<p>55-216</p>	<p>The amended implementation example is not included in statutory accounting guidance.</p> <p>This update is not applicable – no action required.</p>
<p>Derivatives and Hedging—Hedging—General</p>	<p>815-20</p>	<p>This amendment removes the words “all of” from. When this guidance was codified by FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities, the words “all of” were added, which appears to make it a list of requirements instead of circumstances to consider.</p>	<p>55-24 55-44 55-44A</p>	<p>The amended implementation guidance was not adopted for statutory accounting purposes.</p> <p>This update is not applicable – no action required.</p>
<p>Fair Value Measurement—Overall</p>	<p>820-10</p>	<p>This amendment changes the term ‘valuation technique’ to ‘valuation approach’ for clarity. The Master Glossary also defines each of the approaches as a technique, which is misleading. Topic 820 prescribes that,</p>	<p>35-16BB 35-24A 50-2 55-35 55-36 55-37</p>	<p>Terminology correction is not necessary as the AP&P Manual already includes the delineation between approaches and techniques within <i>SSAP 100R–Fair Value</i>.</p>

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		at all times, the more detailed technique should be disclosed rather than the overall approach.	55-38 65-11	This update is not applicable – no action required.
Fair Value Measurement—Overall & Financial Services—Insurance—Insurance Activities & Financial Services—Insurance—Claim Costs and Liabilities for Future Policy Benefits & Financial Services Insurance—Balance Sheet & Financial Services—Insurance—Receivables & Financial Services—Insurance—Revenue Recognition & Financial Services—Insurance—Business Combinations &	825-10 944-20 944-40 944-210 944-310 944-605 944-805 944-825	This amendment replaces ‘reinsurance receivable’ with ‘reinsurance recoverable’. This change resolves inconsistencies within the Accounting Standards Codification where in some instances the term reinsurance receivable is used, while in other instances the term reinsurance recoverable is used.	825-10-50-22 944-20-50-5 944-40-25-34 50-3 50-4C 50-9 55-6 944-210-55-1 944-310-05-1 05-2 25-2 35-4 45-5 45-6 50-2 944-605-25-22 25-23 35-12 55-1	Terminology correction is not necessary as the AP&P Manual already uses the terminology ‘reinsurance recoverable’. All other miscellaneous changes made by the amendment were made to sections not adopted for statutory accounting purposes. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Financial Services— Insurance—Financial Instruments			55-11 55-12 55-14 55-15 944-805- 30-1 944-825- 50-1 50-1B	
Financial Instruments— Registration Payment Arrangements	825-20	Registration payment arrangement is not a Master Glossary term, but it is defined in paragraph 825-20-15-3 and is referenced in multiple places within the Accounting Standards Codification. To avoid any confusion and maintain consistency with the definition of registration payment arrangement, this amendment defines the term in the Master Glossary and supersedes paragraph 825-20-15-3.	15-2 15-3	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. This update is not applicable – no action required.
Reorganizations— Income Taxes	825-740	This amendment makes the wording in paragraph 852-740-45-3 consistent with that in paragraph 852-740-55-2. The term ‘ordinarily’ used in FASB <i>Statement No. 109, Accounting for Income Taxes</i> , was related to one exception for enterprises that had previously adopted FASB <i>Statement No. 96, Accounting for Income Taxes</i> . That exception is no longer relevant,	45-3	The amended wording change affects guidance which was not adopted for statutory accounting purposes. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		and, therefore, the term ordinarily should be removed.		
Transfers and Servicing—Sales of Financial Assets	860-20	This amendment adds language from paragraph 16D of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to clarify the disclosures that are required when other Topics require disclosures about the transferor’s continuing involvement.	50-2A 55-41	Staff recommends adoption with modification to SSAP No. 103R, as detailed above.
Transfers and Servicing—Servicing Assets and Liabilities	860-50	This amendment includes guidance from paragraph .08(h) of <i>AICPA Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others</i> , on the allocation of the carrying amount of loans that have been retained, which was omitted from the Accounting Standards Codification. This amendment also includes transactions in which a transferor transfers servicing rights and retains the loans to the scope in paragraph 860-50-15-3.	15-3 40-6	Staff recommends adoption with modification to SSAP No. 103R, as detailed above.
Activities—Oil and Gas—Inventory	932-330	This amendment clarifies that energy trading contracts are not derivatives in accordance with the guidance in Topic 815. The modifying portion of the original sentence did not have the correct placement.	35-1	This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Financial Services— Broker and Dealers— Other Assets and Deferred Costs	940-340	This amendment removes the term ‘ABC Agreement’ from both the Master Glossary and within the Accounting Standards Codification as the New York Stock Exchange (NYSE) no longer sells seats on the exchange.	25-2	Terminology correction is not necessary as the AP&P Manual does not utilize the Master Glossary or provide reference to ‘ABC Agreements’ This update is not applicable – no action required.
Financial Services— Insurance—Separate Accounts	944-80	Separate accounts with guaranteed investment returns do not qualify for separate account accounting because they do not pass all investment performance on to the policyholder. Therefore, they must be included in the general account of the company and accounted for like other similar assets held by the company as prescribed in paragraph 944-80-25-4. This amendment corrects the reference in paragraph 944-80-35-1 to reflect that change.	35-1	This update is not applicable – no action required.
Financial Services— Investment Companies— Presentation of Financial Statements	946-205	This amendment adds a reference SEC Regulation S-X, Part 210, Rule 12-12 in the last sentence to footnote (a) in paragraph 946-205-45-1.	45-11	SEC guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Financial Services— Investment Companies—Balance Sheet	946-210	The amendment provides technical corrections to reflect changes made when investment companies guidance was codified from the AICPA Audit and Accounting Guide, Investment Companies (2008).	50-7 50-9 55-1	Investment company guidance is not applicable for statutory accounting. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Health Care Entities— Income Statement	954-225	This amendment simplifies the Accounting Standards Codification by removing incomplete measurement guidance from paragraph 954-225-45-2 in the Other Presentation Matters Section and providing a reference to the complete measurement guidance. Additionally, amendment also includes a cross-reference to paragraph 220-10-45-10A, which lists some examples of items that are required to be reported in or reclassified from other comprehensive income.	45-2 45-7	Amended GAAP guidance was later superseded by ASU 2017-19, which has already been addressed by the Working Group. This update is not applicable – no action required.
Health Care Entities— Consolidation	954-810	To aid the user in locating presentation and disclosure requirements for noncontrolling interests, this amendment adds FASB references to Sections 958-810-45 and 958-810-50 for other presentation matters and disclosure.	45-3B	This update is not applicable – no action required.
Not-for-Profit Entities—Presentation of Financial Statements	958-205	ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, added incorrectly the words “that contain no purpose restrictions” to paragraph 958-205-50-1B(e)(3). This amendment removes this phrase.	50-1B	This update is not applicable – no action required.
Not-for-Profit Entities—Revenue Recognition	958-605	This amendment adds language clarifying the scope of Subtopic 958-605 and provides a link to the Master Glossary term affiliate and corrects a minor wording error in a table.	15-13 55-8	This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Not-for-Profit Entities—Consolidation	958-810	This amendment adds disclosure and presentation clarifications for Not-For-Profit Entities.	45-1	This update is not applicable – no action required.
Plan Accounting—Health and Welfare Benefit Plans—Plan Benefit Obligations	965-30	This amendment clarifies that the subsequent events to be addressed in the rollforward of the benefits obligation valuation are those occurring between the most recent valuation date and the plan’s year-end.	35-6	Staff recommends adopting the clarification for <i>SSAP No. 92</i> and <i>SSAP No. 102</i> as detailed above.

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

Issue: ASU 2018-09, Codification Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In July 2018, FASB issued *ASU 2018-09, Codification Improvements*, as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:

The table starting on page two 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):

None.

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 reject *ASU 2018-09 Codification Improvements* for statutory accounting on Appendix D as not applicable to statutory accounting.

Staff Review Completed by:

NAIC Staff – William Oden, July 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-09 Codification Improvements* as not applicable for statutory accounting.

On October 23, 2023, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2018-09 as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/23-19-ASU2018-09-CodificationImprovements.docx>

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

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Reporting Comprehensive Income—Overall	220-10	This amendment clarifies the guidance in paragraph 220-10-45-10B by removing the generic phrase taxes not payable in cash, adds guidance that is specific to certain quasi reorganizations, and adds references to applicable guidance for each example that does not qualify as an item of comprehensive income.	45-10B	This update is not applicable – no action required.
Earnings Per Share—Overall	260-10	Correct reference to Earnings per Share example to specifically note that Example 6 illustrates the two-class method. Additional wording clarifications are made within Example 6 as well.	45-60B 55-62	This update is not applicable – no action required.
Investments—Debt and Equity Securities—Overall	320-10	These amendments simplify the Codification by removing redundant disclosure requirements in paragraphs 320-10-50-1A and 320-10-50-13. These amendments supersede paragraph 320-10-50-13 and add clarification to the disclosure requirements in paragraph 320-10-50-1A for summarized financial information.	50-1A 50-13	Summarized financial information in relation to debt and equity securities are not addressed within statutory accounting. This update is not applicable – no action required.
Debt—Modifications and Extinguishments	470-50	The amendment adds guidance to clarify that when the fair value option has been elected on debt that is extinguished, the net carrying amount	40-2A	<i>FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No.</i>

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		of the extinguished debt equals its fair value at the reacquisition date. Additionally, the cumulative amounts of gains or losses in other comprehensive income that resulted from changes in instrument-specific credit risk must be included in the measurement of gain or loss presented in net income for the extinguished debt.		115 was rejected for statutory accounting purposes. As such no changes are recommended. This update is not applicable – no action required.
Distinguishing Liabilities from Equity—Overall	480-10	Eliminates guidance conflict between codification paragraph 25-15 and paragraphs 55-55 and 55-59.	55-55 55-59	<i>SSAP No. 104R–Share-Based Payments</i> does not contain the amended language. As such no changes are recommended. This update is not applicable – no action required.
Compensation—Stock Compensation—Income Taxes	718-740	The amendment clarifies that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the amount of the tax deduction is determined, which typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards.	35-2	The relevant language was also included in ASU 2018-07 and was previously adopted with Agenda Item 2018-35. As such, no changes to the relevant SSAPs are required, This update is not applicable – no action required.
Other Expenses—Advertising Costs & Financial Services—Insurance—Acquisition Costs	720-35 944-30	The objective of this amendment is to align the scope of the guidance in 720-35 with the source guidance in SOP 93-7 by removing the references in the guidance and heading to ‘direct response advertising’.	15-2 15-3 25-1A 25-1A 25-1DD	Direct-response advertising and related advertising specific guidance are not addressed within statutory accounting. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		The amendment also relocates and minorly amends the guidance in paragraph 720-35-15-5 about direct-response advertising costs to paragraph 944-30-25-1DD. Direct response advertising costs can only be capitalized for insurance contracts within the scope of Topic 944 in certain circumstances.		
Income Taxes	740-10	This amendment makes corrections to Income Tax guidance on intra-entity transfers of inventory as the guidance in paragraph 25-55 contradicts paragraph 25-3(e). Additionally, a reference to intra-entity transfers was removed from example 26 as it describes a null set of transactions.	25-53 25-54 25-55 55-168 55-203 65-7	The ramification of intra-entity transfers of inventory on income tax is not addressed in statutory accounting. This update is not applicable – no action required.
Business Combinations— Income Taxes	805-740	The amendment updates paragraph 25-13 that provides three methods for allocating the consolidated tax provision to an acquired entity after acquisition as it is no longer consistent with the rest of Topic 740 after the issuance of EITF Issue No. 86-9.	25-13	The update is not applicable as GAAP guidance for business combinations has not yet been addressed for statutory accounting at this time, as such no changes are recommended. This update is not applicable – no action required.
Derivatives and Hedging—Overall	815-10	The amendment supersedes paragraph 45-4 and amends paragraph 45-5, with a link to transition paragraph 105-10-65-5. This change was made as the guidance in paragraph 45-4 is potentially misleading because it can	45-4 45-5	<i>SSAP No. 86–Derivatives</i> does not include the superseded guidance. As such, no changes are recommended.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		be interpreted as conflicting with the guidance in paragraph 45-5 and because it can be interpreted to mean that derivatives may only be offset when all four of the conditions in paragraph 210-20-45-1 are met.		This update is not applicable – no action required.
Derivatives and Hedging—Embedded Derivatives	815-15	The amendment clarifies a generic subtopic reference by replacing it with the actual FASB codification.	25-1	This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	The amendment clarifies items (a) and (b) with FASB codification 820-10-35-16D were not intended to substantively change how GAAP is applied. However, it is possible that they may result in a change to existing practice for some entities; therefore, transition guidance has been provided.	35-16D	As the original guidance being clarified originates from <i>ASU 2011-04–Fair Value Measurement</i> , which has not yet been addressed for statutory accounting, no changes are recommended. This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	When initially drafted ASU 2011-04 was intended to exclude nonfinancial derivatives from the portfolio exception. The amendments revise paragraphs 820-10-35-18D through 35-18F and 820-10-35- 18H through 35-18L to include not only financial assets and financial liabilities, but also portfolios of financial instruments and nonfinancial instruments accounted for as derivatives in accordance with Topic 815.	35-18D thru 18L	As the original guidance being clarified originates from ASU 2011-04, which has not yet been addressed for statutory accounting, no changes are recommended. This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	This amendment replaces an indefinite deferral in transition paragraph 820-	50-2 65-9	As the original guidance being clarified originates from ASU

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		10-65-9 from <i>ASU 2013-09, Fair Value Measurement</i> , with a disclosure exemption in paragraph 820-10-50-2(bbb). Amendment also eliminates transition guidance in paragraph 65-9.		2013-09, which has not yet been addressed for statutory accounting, no changes are recommended. This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	This amendment changes the term ‘build-up methodology’ to build-up approach’ for clarity. As indicated in the guidance, a build-up methodology is a subset of a valuation technique, whereas the build-up approach is a method of applying the discount rate adjustment technique.	55-11 55-33	Neither the build-up approach nor build-up method are contained addressed by statutory accounting. No changes are recommended. This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	Due to an oversight, when <i>ASU 2016-01–Financial Instruments</i> amended Topic 825, a corresponding amendment was not made to Topic 820 superseding the requirement to disclose information on the methods and assumptions used to measure fair value for those financial Instruments. This amendment conforms the requirements in Topic 820 with the amendments made to Topic 825 so that the disclosure information is not required, which is consistent with the Board’s intent in the amendments in Update 2016-01.	50-2E 65-4	The amendment corrects changes made by <i>ASU 2016-01–Financial Instruments</i> , which was rejected for statutory accounting. This update is not applicable – no action required.
Fair Value Measurement—Overall	820-10	This amendment corrects the dates used in Examples 9 to properly	55-100	The amended example is not included in statutory accounting

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		conform to the guidance provided in 820-10-50-2.		guidance. No changes are recommended. This update is not applicable – no action required.
Financial Services— Depository and Lending—Balance Sheet	942-210	This amendment simplifies the Codification by removing the paraphrased guidance from paragraph 942-210-45-3 so that the industry Topic guidance refers to the full guidance in Section 210-20-45.	45-3	Financial Services guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Financial Services— Depository and Lending—Equity	942-505	This amendment clarifies the requirements for disclosing information on regulatory capital for depository institutions. The amendment is necessary because of recent changes in the measures of regulatory capital in Basel III, with which depository institutions must comply (for example, the newly defined measure of Common Equity Tier 1).	50-1	Financial Services guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Financial Services— Insurance—Acquisition Costs	944-30	This amendment restores guidance about an accounting policy election to paragraph 944-30-25-1A that was originally included in the transition guidance in ASU 2010-26. This election was automatically removed with the transition guidance as the effective date had been met for all entities, however it was noted that this election should be maintained in the	25-1A	Financial Services guidance is not applicable for statutory accounting. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		guidance for historical purposes to ensure the appropriateness of the election was not called into question at a future date.		
Financial Services— Insurance— Receivables & Property, Plant, and Equipment	944-310 944-360	This amendment includes a correct to these paragraphs as the original references should have been superseded with the adoption of ASU 2016-01 and replaced with references to transition guidance.	45-1 45-2 50-1 45-3 45-4 50-1	Financial Services guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Financial Services— Insurance—Property, Plant, and Equipment	944-360	This amendment adds references to the applicable guidance for determining the subsequent measurement of real estate acquired by insurance companies in settling certain claims.	35-1	Financial Services guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Not-for-Profit Entities—Other Expenses	958-720	This amendment improves the description of the items in paragraph 958-720-45-15 that would be considered gains and losses for a not-for-profit entity. This amendment also changes the term for-profit entity to the term business entity in Subtopic 958-720.	45-15	Not-for-profit guidance is not applicable for statutory accounting. This update is not applicable – no action required.
Plan Accounting— Defined Contribution Pension Plans— Presentation of Financial Statements & Property, Plant, and Equipment	962-205 962-360	To make the Topic structure consistent with related Topics and the guidance easier to find, this amendment moves the property, plant, and equipment guidance in 962-205 to Subtopic 962-360.	45-5 35-1	This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Plan Accounting— Defined Contribution Pension Plans— Investments—Other	962-325	This amendment removes the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment would not have a readily determinable fair value and should always use the net asset value per share practical expedient.	55-17	The amended example is not included in <i>SSAP No. 102–Pensions</i> . This update is not applicable – no action required.

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

Issue: ASU 2020-10, Codification Improvements**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In October 2020, FASB issued *ASU 2020-10 Codification Improvements*, that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

Existing Authoritative Literature:

All changes detailed in ASU 2020-10 were either editorial changes that have no bearing on the presentation of the *Accounting Practices and Procedures Manual* or minor wording changes to guidance that has not been adopted 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):

None.

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 *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable to statutory accounting.

Staff Review Completed by:

NAIC Staff – William Oden, July 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable for statutory accounting.

On October 23, 2023, the Statutory Accounting Principles (E) Working Group adopted the revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2020-10 as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/23-20-ASU2020-10-CodificationImprovements.docx>

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

Issue: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

Existing Authoritative Literature:

The current guidance is in *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, and the transition guidance recommended for deletion is included in the Staff Recommendation section.

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): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS):

Staff Recommendation:

NAIC staff recommends that the Working Group expose revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the ten-year effective period for that transition.

SSAP No. 92—Postretirement Benefits Other Than Pensions

~~107.— Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 37), and remaining transition assets or obligations (collectively referred to as “unrecognized items”) from prior application of SSAP No. 14 that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the ending balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 108.b.). The offset to unassigned funds is reported separately as an “Aggregate Write In for Other Than Invested Assets” or as an “Aggregate Write In for Other Liabilities.” After recognition, the full unfunded or overfunded status or the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

~~108.— Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 107, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

- ~~a. Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 107, on an individual plan basis, as of January 1, 2013.~~
- ~~b. Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 07, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~
- ~~i. Ten percent of the calculated surplus impact as of the transition date; and~~
 - ~~ii. Amortization of the “unrecognized items” (defined in paragraph 107) into net periodic benefit cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for “unrecognized items” during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of both components in paragraph 108.b.) is subsequently determined to be less than what is amortized for the year (paragraph 108.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds—surplus.)~~

~~109. If the surplus deferral (paragraph 108.b.) is elected at the transition date, subsequently, starting with the 2014 year end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the “transition liability”) on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 108.b. Reporting entities that elect the transition option in paragraph 108.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

~~110. Reporting entities that elect the transition option in paragraph 108.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 108.b. is not intended (on a net basis for each plan) to result in more favorable subsequent surplus OPEB positions when there are remaining unrecognized liabilities as a result of the reporting entity’s initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting this statement, but in no instance should changes (on a net basis for each plan) attributed to OPEB plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity’s initial election for surplus deferral. (The guidance in this paragraph was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.)~~

~~111. The transition guidance in paragraphs 107-110 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the accumulated benefit obligation, or the impact of subsequent plan amendments.~~

~~112.— Reporting entities electing to apply the transition guidance in paragraph 108.b. must disclose the full transition surplus impact calculated from applying paragraph 107 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial “transition liability” calculated under paragraph 107 and the annual amortization amount of the “unrecognized items” into net periodic benefit cost. This disclosure shall include a schedule of the entity’s anticipated recognition of the remaining surplus impact over the transition period.~~

~~113.— The requirement to measure plan assets and benefit obligations as of the date of the reporting entity’s financial statement year end is effective for financial statement years beginning January 1, 2014. (The measurement date change will be initially reflected in the December 31, 2014, financial statements.)~~

~~114.— In order to transition to a fiscal year end measurement date, the reporting entity shall remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. The reporting entity shall use those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied.~~

~~115.— The reporting entity shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. This would result with the following:~~

- ~~a.— Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus). That is, the pretax amount recognized as an adjustment to unassigned funds (surplus) is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.~~
- ~~b.— Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to unassigned funds (surplus). This provision prohibits a reporting entity from early application of the measurement date provisions when the reporting entity has issued financial statements for the prior year without recognition of such a settlement or curtailment.~~
- ~~c.— Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus) for the fiscal year that the measurement date provisions are applied.~~

~~116.— Earlier application of the recognition or measurement date provisions is encouraged, however, early applications must be for all of the reporting entity’s benefit plans. If early application is elected, the transition date shall reflect the January 1st of the year in which this standard is initially applied. Retrospective application is not permitted.~~

SSAP No. 102—Pensions

~~92.— Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and remaining transition assets or obligations from prior application of SSAP No. 89 (collectively referred to as “unrecognized items”) that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 93.b.). The offset to unassigned funds is reported separately as an “Aggregate Write-In for Other Than Invested Assets” or as an “Aggregate Write-~~

~~In for Other Liabilities.” After recognition, the full unfunded or overfunded status of the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

93. ~~Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 92, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

- a. ~~Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 92, on an individual plan basis, as of January 1, 2013.~~
- b. ~~Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 92, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~
 - i. ~~Ten percent of the calculated surplus impact as of the transition date;~~
 - ii. ~~Amortization of the “unrecognized items” (defined in paragraph 92) into net periodic pension cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for “unrecognized items” during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds (surplus);~~
 - iii. ~~Amount necessary to establish a total liability that is equal to any unfunded accumulated benefit obligation (the accumulated benefit obligation less the fair value of plan assets).~~

94. ~~If the surplus deferral (paragraph 93.b.) is elected at the transition date, subsequently, starting with the 2014 year end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the “transition liability”) on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 93.b. Reporting entities that elect the transition option in paragraph 93.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

95. ~~Reporting entities that elect the transition option in paragraph 93.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 93.b. is not intended (on a net basis for each plan) to result in more favorable, subsequent surplus pension positions when there are remaining unrecognized liabilities as a result of the reporting entity’s initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting SSAP No. 102, but in no instance should changes (on a net basis for each plan) attributed to pension plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity’s initial election for surplus deferral. The guidance in this paragraph~~

was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.

96. — The transition guidance in paragraphs 92-95 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation, or the impact of subsequent plan amendments.

97. — Reporting entities electing to apply the transition guidance in paragraph 93.b. must disclose the full transition surplus impact calculated from applying paragraph 92 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial “transition liability” calculated under paragraph 92, the annual amortization amount of the “unrecognized items” into net periodic pension cost, the amount of the unfunded accumulated benefit obligation, and the remaining unrecognized transition impact. This disclosure shall include a schedule of the entity’s anticipated recognition of the remaining surplus impact over the transition period.

EXHIBIT A—IMPLEMENTATION GUIDE

Note: After transition, new “unrecognized” amounts will be reflected in the year-end funded status, but not yet reflected in unassigned funds. Therefore, additional entries will be needed at the end of each year to recognize these new “unrecognized” amounts in unassigned funds. (An example includes gains and losses that will be included in unassigned funds (surplus), but not recognized in net periodic pension cost if they do not exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets.) The entries in the implementation guide focus on the transition impact, and subsequent entries for “unrecognized” items have not been included within the illustrations.

Transition Implementation

1. — Overfunded Plan with Prepaid Benefit Cost

Consideration of contributions or tax effects are not reflected in this example.

Example 1	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	— \$(6,240)	— \$(6,240)
Plus: Non-Vested Liability	— (100)*	— (100)
Total Accumulated Benefit Obligation	— \$(6,340)	— \$(6,340)
Projected Benefit Obligation	— \$(6,437)	— \$(6,437)
Plus: Non-Vested Liability	— (100)	— (100)
Total PBO	— \$(6,537)	— \$(6,537)
Plan Assets at Fair Value	— \$9,268	— \$9,268
Funded Status	— \$2,731	— \$2,731
Transition Obligation / (Asset)	— \$36	
Prior Service Cost	— 214	
Prior Service Cost (Non-Vested)	— 100	
Unrecognized Losses / (Gains)	— 2,465	
Total Unrecognized Items	— \$2,815	—
Net Overfunded Plan Asset / (Liability for Benefits)	— \$5,546	— \$2,731

~~*The amount shown for December 31, 2012 reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.~~

~~Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other Than Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.~~

~~1a. January 1, 2013 Transition Date Recognize "Unrecognized Items"~~

1. Unassigned Funds Transition Obligation	36
Unassigned Funds Prior Service Cost	214
Unassigned Funds Prior Service Cost (Nonvested)	100
Unassigned Funds Unrecognized Losses	2,465
Overfunded Plan Asset	2,815
(Aggregate Write-Ins for Other Than Invested Assets)	

~~For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing prepaid with an offset to unassigned funds.~~

2. Change in Nonadmitted Overfunded Plan Asset	2,815
(Aggregate Write-Ins for Other Than Invested Assets)	
Unassigned Funds	2,815

~~This entry illustrates the impact to the "change in nonadmitted" as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition.~~

~~1b. December 31, 2013 Recognition of Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~(Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. As, this illustration is in an overfunded status, there is no surplus deferral. Recognition of net periodic cost, including amortization of the "unrecognized items" will occur each year regardless if surplus deferral is elected.)~~

Components of Net Periodic Cost	Dec. 31, 2013
Service Cost	550
Interest Cost	150
Expected Return on Plan Assets	(250)
<i>Total</i>	<i>450</i>
Amortization of:	
○ Transition Obligation	7.2
○ Prior Service Cost	42.8
○ Prior Service Cost (nonvested)	20
○ Unrecognized Losses	493
<i>Total</i>	<i>563</i>

Total Net Periodic Pension Cost	1,013
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1. Net Periodic Pension Cost	1,013
Prepaid Benefit Cost	1,013
(Aggregate Write-Ins for Other Than Invested Assets)	

This entry recognizes the periodic pension cost with an offset to the prepaid pension asset. (A prepaid benefit cost is created when cumulative contributions to a pension plan exceed cumulative net periodic pension costs. Thus, a prepaid benefit cost can only be reduced through the recognition of pension cost.)

2. Overfunded Plan Asset	563
(Aggregate Write-Ins for Other Than Invested Assets)	
Unassigned Funds – Transition Obligation	7.2
Unassigned Funds – Prior Service Cost	42.8
Unassigned Funds – Prior Service Cost (Nonvested)	20
Unassigned Funds – Unrecognized Losses	493

This entry recognizes the transition amounts amortized through net periodic pension cost. The offset is to unassigned funds (as unassigned funds was used for the initial recognition of the unrecognized items). As this plan continues to be overfunded, these amounts are offset to overfunded plan assets.

3. Change in Nonadmitted – Prepaid Benefit Cost	1,013
(Aggregate Write-Ins for Other Than Invested Assets)	
Unassigned Funds	1,013

This entry illustrates the impact of the change in nonadmitted prepaid benefit cost to unassigned funds.

4. Unassigned Funds	563
Change in Nonadmitted – Overfunded Plan Asset	563
(Aggregate Write-Ins for Other Than Invested Assets)	

This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.

1c. December 31, 2014 – Recognition of Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
<i>Total</i>	<i>3000</i>
Amortization of:	
○ Transition Obligation	7.2
○ Prior Service Cost	42.8
○ Prior Service Cost (nonvested)	20
○ Unrecognized Losses	493
<i>Total</i>	<i>563</i>
Total Net Periodic Pension Cost	3,563

Note—This example was purposely completed to show a significant amount of periodic pension cost to create an underfunded plan status. This was done strictly for illustration purposes and is not intended to indicate that such significant changes would be expected, although they could occur.

1. Net Periodic Pension Cost	3,563
Prepaid Benefit Cost	3,563
(Aggregate Write In for Other Than Invested Assets)	
2. Overfunded Plan Asset	1,282
Unassigned Funds Transition Obligation	7.2
Unassigned Funds Prior Service Cost	42.8
Unassigned Funds Prior Service Cost (Nonvested)	20
Unassigned Funds Unrecognized Losses	493
Liability for Pension Benefits	719
(Aggregate Write In for Other Liabilities)	

This entry recognizes the transition amounts that have been recognized through net periodic pension cost, with an offset to unassigned funds. The overfunded plan asset is initially offset, until the plan reaches an unfunded status, which is then reflected through a liability for pension benefits (aggregate write-in for other liabilities).

3. Change in Nonadmitted Prepaid Benefit Cost	3,563
Unassigned Funds	3,563
4. Unassigned Funds	1,282
Change in Nonadmitted Overfunded Plan Asset	1,282

These entries illustrate the impact of the change in nonadmitted to unassigned funds.

Illustration 1—Example Paragraph 97 Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. The adoption of SSAP No. 102 did not have a surplus impact on ABC entity as the pension plan was overfunded by more than the transition liabilities. At transition, ABC entity recognized \$2,815 in unrecognized transition obligations, prior service costs, and unrecognized losses as components of the ending balance of unassigned funds as of January 1, 2013. This recognition resulted in a financial presentation which reflects the actual \$2,731 overfunded status of the plan (fair value of plan assets exceeds the projected benefit obligation) as of January 1, 2013. As required under SSAP No. 102, overfunded plan assets are nonadmitted.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 1	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	— \$(6,240)	— \$(6,240)
Plus: Non-Vested Liability	— (100)	— (100)
Total Accumulated Benefit Obligation	— \$(6,340)	— \$(6,340)
Projected Benefit Obligation	— \$(6,437)	— \$(6,437)
Plus: Non-Vested liability	— (100)	— (100)
Total PBO	— \$(6,537)	— \$(6,537)
Plan Assets at Fair Value	— \$9,268	— \$9,268
Funded Status	— \$2,731	— \$2,731
Transition Obligation / (Asset)	— \$36	
Prior Service Cost	— 214	
Prior Service Cost (Non-Vested)	— 100	
Unrecognized Losses / (Gains)	— 2,465	
Total Unrecognized Items	— \$2,815	—
Net Overfunded Plan Asset / (Liability for Benefits)	— \$5,546	— \$2,731

In the March 31, 2013, financial statements, the \$2,731 overfunded plan assets was reflected as follows:

- Prepaid Benefit Cost — \$5,546 (nonadmitted)
- Overfunded Plan Asset — \$(2,815) (nonadmitted)

These amounts are reported net in Aggregate Write-Ins for Other Than Invested Assets: \$2,731

Illustration of Example 1—Overfunded Plan with Prepaid Benefit Cost

	Aggregate Write-In for Other Than Invested Assets		Nonadmitted Assets	Unassigned Funds	Periodic Pension Cost	Aggregate Write-In for Other Liabilities
	Prepaid Benefit Cost	Overfunded Plan Asset				
Existing Balances 12/31/2012	5,546DR		5,546CR			
Transition Entries—1/1/2013						
A		2,815CR		2,815DR		
B			2,815DR	2,815CR		
After Transition	5,546DR	2,815CR	2,731CR	-		
After Transition—Net	2,731DR		2,731CR	-		
<p>A—Recognize “unrecognized items” existing at 1/1/13 transition date (gains or losses, prior service costs or credits, and transition assets or obligations). For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing overfunded plan asset with an offset to unassigned funds.</p> <p>B—Illustrates the impact to the “change in nonadmitted” as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition. At transition, the net balance in aggregate write-ins reflects the overfunded state of the plan.</p>						
Recognition of Net Periodic Pension Cost—12/31/2013						
C	1,013CR				1,013DR	
D		563DR		563CR		
E			1,013DR	1,013CR		
F			563CR	563DR		
Net Impact	450CR		450DR	1,013CR	1,013DR	
Ending Balances	4,533 DR	2,252CR	2,281CR	1,013CR	1,013DR	
Ending Balances—Net	2,281DR		2,281CR	-		
<p>C—Reflects the periodic pension cost with an offset to the prepaid pension asset.</p> <p>D—Recognizes the transition amounts amortized through net periodic pension cost. The offset it to unassigned funds (as that was how the “unrecognized items” were recognized at transition).</p> <p>E/F—Reflects the change in nonadmitted assets to unassigned funds.</p>						
Recognition of Net Periodic Pension Cost—12/31/2014						
G	3,563CR				3,563DR	
H		1,282DR		563CR		719CR
I			3,563DR	3,563CR		
J			1,282CR	1,282DR		
Net Impact		2,281CR	2,281DR	2,844CR	3,563DR	719CR
Ending Balances	970 DR	970 CR	-	2,844CR	3,563DR	
Ending Balances—Net	-	-	-	719DR		719CR
<p>G/H—Reflects the periodic pension cost with an offset to the prepaid pension asset. As no contributions have been made, the 2014 pension cost moves the plan from an overfunded to underfunded state. The overfunded plan asset credit is reduced to equally offset the remaining prepaid benefit cost of \$970. The underfunded status is then reflected through a liability for pension benefits (aggregate write-in for other liabilities).</p> <p>I/J—Reflects the change in nonadmitted assets to unassigned funds.</p>						

2. ~~Underfunded Plan with Accrued Benefit Cost~~

Consideration of contributions or tax effects are not reflected in this example.

Example 2	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	— \$(2,015)	— \$(2,015)
Plus: Non-Vested Liability	— (60)*	— (60)
Total Accumulated Benefit Obligation	— \$(2,075)	— \$(2,075)
Projected Benefit Obligation	— \$(2,268)	— \$(2,268)
Plus: Non-Vested Liability	— (60)	— (60)
Total PBO	— \$(2,328)	— \$(2,328)
Plan Assets at Fair Value	— \$1,992	— \$1,992
Funded Status	— \$(336)	— \$(336)
Transition Obligation / (Asset)	— \$(544)	
Prior Service Cost / (Credit)	— (494)	
Prior Service Cost (Non-Vested)	— 60	
Unrecognized Losses / (Gains)	— 926	
Total Unrecognized Items	— \$(52)	—
Net Overfunded Plan Asset / (Liability for Benefits)	— \$(388)	— \$(336)

*The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reported within Aggregate Write-Ins for Other Than Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reported within Aggregate Write-Ins for Liabilities.

2a. ~~January 1, 2013 — Transition Date — Recognize “Unrecognized Items”~~

1. Liability for Pension Benefits	52
<i>(Aggregate Write-In for Liabilities)</i>	
Unassigned Funds — Prior Service Cost (Nonvested)	60
Unassigned Funds — Unrecognized Losses	926
Unassigned Funds — Transition Asset	544
Unassigned Funds — Prior Service Credit	494

For this plan, which is underfunded but has a net unrecognized asset, at transition the entity will improve their surplus presentation by \$52 through a contra liability. Use of the contra liability is necessary, as if the item were recorded as an asset, it would be nonadmitted and result in a surplus reduction. Although there is a net unrecognized asset, this plan is in an underfunded state.

2b. ~~December 31, 2013 — Recognition of Net Periodic Pension Cost~~

Components of Net Periodic Cost	Dec. 31, 2012
Service Cost	250
Interest Cost	100

Expected Return on Plan Assets	(50)
<i>Total</i>	300
Amortization of:	
○ Transition Obligation (Asset)	(272)
○ Prior Service Cost / (Credit)	(247)
○ Prior Service Cost (nonvested)	30
○ Unrecognized Losses	463
<i>Total</i>	(26)
Total Net Periodic Pension Cost	274

1. Unassigned Funds — Transition Asset	272
Unassigned Funds — Prior Service Credit	247
Unassigned Funds — Prior Service Cost (Nonvested)	30
Unassigned Funds — Unrecognized Losses	463
Liability for Pension Benefits	26
<i>(Aggregate Write-In for Liabilities)</i>	

This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset recorded as a contra liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost	274
Accrued Benefit Cost	274

This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.

Note: All references to “accrued benefit cost” represent an unpaid expense liability, these amounts will be reflected within general expenses due and accrued (life) or LAE/Other Underwriting expenses (p/e).

Note: This example uses a 2-year amortization period of the “unrecognized items.” In actuality, amortization periods of each item will vary. Disclosures shall continue to separately present these items.

2c. December 31, 2014 Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
<i>Total</i>	3,000
Amortization of:	
○ Transition Obligation / (Asset)	(272)
○ Prior Service Cost / (Credit)	(247)
○ Prior Service Cost (nonvested)	30
○ Unrecognized Losses	463
<i>Total</i>	(26)
Total Net Periodic Pension Cost	2,974

1. Unassigned Funds — Transition Asset	272
Unassigned Funds — Prior Service Credit	247
Unassigned Funds — Prior Service Cost (Nonvested)	30
Unassigned Funds — Unrecognized Losses	463
Liability for Pension Benefits	26
<i>(Aggregate Write-In for Liabilities)</i>	

This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset—recorded as a contra liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost	2,974
Accrued Benefit Cost	2,974

This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.

Illustration 2—Paragraph 97 Example Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. At transition, ABC entity recognized a net \$52 asset from unrecognized transition obligations/assets, prior service costs/credits, and unrecognized gains/losses as a component of the ending balance of unassigned funds as of January 1, 2013. This net impact was reflected as a contra liability as the plan is in an underfunded state.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 2	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	\$(2,015)	\$(2,015)
Plus: Non-Vested Liability	(60)	(60)
Total Accumulated Benefit Obligation	\$(2,075)	\$(2,075)
Projected Benefit Obligation	\$(2,268)	\$(2,268)
Plus: Non-Vested Liability	(60)	(60)
Total PBO	\$(2,328)	\$(2,328)
Plan Assets at Fair Value	\$1,992	\$1,992
Funded Status	\$(336)	\$(336)
Transition Obligation / (Asset)	\$(544)	
Prior Service Cost / (Credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	\$(52)	-
Net Overfunded Plan Asset / (Liability for Benefits)	\$(388)	\$(336)

In the March 31, 2013, financial statements, underfunded pension obligations were reflected as follows:

- ~~Accrued Benefit Cost~~ \$388
- ~~Liability for Pension Benefits (Aggregate Write-In for Liabilities)~~ (\$52)

Illustration of Example 2—Underfunded Plan with Accrued Benefit Cost

	Net Periodic Cost (Expense Recognition)	Unassigned Funds	Aggregate Write-In for Liabilities	Accrued Benefit Cost
Existing Balance—12/31/2012		388DR		388CR
Transition Entries—1/1/2013				
A		52CR	52DR	
After Transition		336DR	52DR	388CR
<p>A. Recognize “unrecognized” items at transition. The above entry reflects the “net” impact, resulting with an unrecognized net asset (contra liability) and an increase to the surplus presentation. (This unrecognized net asset is reflected as a contra liability as it does not reflect a prepaid for the overfunding of plan assets. If this was reflected as an asset, it would be nonadmitted.)</p>				
Recognition of Net Periodic Pension Cost—12/31/2013				
B		26 DR	26 CR	
C	274 DR			274 CR
<p>B. Entry amortizes the transition items (entry is shown net.) Due to the nature of the unrecognized items, (net asset, recorded as a contra liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period.</p> <p>C. Entry recognizes the net periodic pension cost, interest cost, expected return on plan assets, and the amortization of the unrecognized items.</p>				
Recognition of Net Periodic Pension Cost—12/31/2014				
D		26 DR	26 CR	
E	2,974 DR			2,974 CR
<p>D. Entry occurs to amortize the transition items (entry is shown net). Due to the nature of the unrecognized items, (net asset, recorded as a contra liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period.</p> <p>E. Entry recognizes net periodic pension cost the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.</p>				

3. ~~Underfunded Plan with Accrued Benefit Cost with Surplus Deferral Elected~~

Consideration of contributions or tax effects are not reflected in this example.

Example 3	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	— \$(1,819)	— \$(1,819)
Plus: Non-Vested Liability	— (103)*	— (103)
Total Accumulated Benefit Obligation	— \$(1,922)	— \$(1,922)
Projected Benefit Obligation	— \$(2,099)	— \$(2,099)
Plus: Non-Vested Liability	— (103)	— (103)
Total PBO as of January 1, 2012	— \$(2,202)	— \$(2,202)
Plan Assets at Fair Value	— \$0	— \$0
Funded Status	— \$(2,202)	— \$(2,202)
Transition Obligation / (Asset)	— \$0	
Prior Service Cost	— 0	
Prior Service Cost (Non-Vested)	— 103	
Unrecognized Losses / (Gains)	— 440	
Total Unrecognized Items	— 543	—
Net Overfunded Plan Asset / (Liability for Benefits)	— \$(1,659)	— \$(1,922)

* The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other Than Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

As illustrated above, the liability for pension benefits as of January 1, 2013, does not equal the underfunded plan status as the entity elected the transition deferral. Rather, the liability for pension benefits equals, at a minimum, the accumulated benefit obligation (ABO) less the plan asset at fair value. (Minimum transition liability that equals the ABO is required in accordance with paragraph 93.) After the transition period, the net overfunded plan asset / (liability for benefits) should equal the funded status of the plan.

3a. ~~January 1, 2013 — Transition Date — Recognize “Unrecognized Items”~~

In accordance with paragraph 93, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the greater of:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Anticipated Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Transition Liability	263

Note: Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds—surplus.)

January 1, 2013—Transition Date:

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Balances as of 12/31/2012 under SSAP No. 89:

Accumulated Benefit Obligation:	\$1,819
Accrued Liability:	\$1,659
SSAP No. 89 Additional Minimum Liability:	\$160
SSAP No. 89 Admitted Intangible Asset:	\$160

Unassigned Funds	160
Intangible Asset	160
Additional Minimum Liability	160
Unassigned Funds	160

Application of SSAP No. 102—Recognition of Unfunded Status with Surplus Deferral:

1. Unassigned Funds—Transition Liability	263
Liability for Pension Benefits (Aggregate Write-In for Liabilities)	263

This entry represents the minimum transition liability required to be recognized at the transition date. As noted within the transition guidance, an entity may elect to transition the surplus impact over a period not to exceed 10 years. Paragraph 93 provides the specifications on the minimum liability recognized at transition. As this transition liability amount has yet to be recognized through expense (periodic cost), the liability is reflected through "aggregate write-ins for liabilities."

3b. December 31, 2013 Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2013
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
<i>Total</i>	<i>300</i>
Amortization of:	
○ Prior Service Cost (nonvested)	20.6
○ Unrecognized Losses	88
<i>Total</i>	<i>108.6</i>
Total Net Periodic Pension Cost	408.6

1. Liability for Pension Benefits	108.6
— (Aggregate Write-In for Liabilities)	
Unassigned Funds—Prior Service Cost (Nonvested)	20.6
Unassigned Funds—Unrecognized Losses	88

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost	408.6
Accrued Benefit Cost	408.6

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items.

Note: Although the entity elected the transition option for surplus deferral, and the guidance allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize an amount that is at the greater of either 10% of the initial surplus impact or the amortization of the unrecognized items in effect at transition.

In this example, the entity will only receive a 3-year deferral—This illustration assumes 5-year uniform amortization of the transition amounts into expense for illustration purposes only. In practice, the minimum transition liability amounts may not be determinable until the expense is calculated in each future year:

Surplus Impact at Transition		Prior Service Cost	Unrealized Losses	
Transition Liability:	543	103	440	
Amount Recognized Jan. 1, 2013	(263)			
Remaining Transition Liability	280			
Minimum Transition Liability:		<u>Anticipated Amortization:</u>		Remaining Transition Liability
2014	108.6	20.6	88	171.4
2015	108.6	20.6	88	62.8
2016	62.8	12	50.8	—

3c. December 31, 2014 Recognition of Transition Liability:

1. Unassigned Funds—Transition Liability	108.6
Liability for Pension Benefits	108.6
— (Aggregate Write-In for Liabilities)	

This entry represents the minimum transition liability required to be recognized at the subsequent date.

3d. — December 31, 2014 — Recognition of Net Periodic Benefit Cost

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	50
Interest Cost	30
Expected Return on Plan Assets	(35)
<i>Total</i>	<i>45</i>
Amortization of:	
○ Prior Service Cost (nonvested)	20.6
○ Unrecognized Losses	88
<i>Total</i>	<i>108.6</i>
Total Net Periodic Pension Cost	153.6

1. Liability for Pension Benefits	108.6
<i>(Aggregate Write-In for Liabilities)</i>	
Unassigned Funds — Prior Service Cost (Nonvested)	20.6
Unassigned Funds — Unrecognized Losses	88
<hr/>	
2. Net Periodic Pension Cost	153.6
Accrued Benefit Cost	153.6

This entry illustrates the December 2014 entries. The first removes the liability recognized for transition so that it could be recycled through expense, with the second recognizing net periodic cost (including the amortization of the unrecognized items.)

3e. — December 31, 2015 — Activity within the pension plan has resulted with an overfunded plan.

As required under paragraph 93, if the fair value of plan assets had changed so that the plan was in an overfunded status, the transition liability would also be impacted with accelerated recognition to the extent the plan is in an overfunded status:

Components of Net Periodic Cost	Dec. 31, 2015
Service Cost	100
Interest Cost	75
Expected Return on Plan Assets	(50)
<i>Total</i>	<i>125</i>
Amortization of:	
○ Prior Service Cost (nonvested)	20.6
○ Unrecognized Losses	88
<i>Total</i>	<i>108.6</i>
Total Net Periodic Pension Cost	233.6

Recognition of Remaining Transition Liability and Net Periodic Pension Cost:

1. Unassigned Funds — Transition Liability	171.40
Liability for Pension Benefits	171.40
<i>(Aggregate Write-In for Liabilities)</i>	

This entry illustrates the immediate recognition of the remaining transition liability

2. Liability for Pension Benefits	108.6
<i>(Aggregate Write-In for Liabilities)</i>	
Unassigned Funds—Prior Service Cost (Nonvested)	20.6
Unassigned Funds—Unrecognized Losses	88

This entry reflects the amortization into net periodic pension cost of the “unrecognized items” within unassigned funds. Amortization has not changed with the recognition of the remaining transition liability.

3. Net Periodic Pension Cost	233.60
Accrued Benefit Cost	233.60

Recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets, and the amortization of unrecognized items.

4. Accrued Benefit Cost	2,456
Prepaid Benefit Cost	844
<i>(Aggregate Write-In Assets)</i>	
Cash—Contribution	3,300

This entry recognizes the cash contribution, the elimination of the accrued benefit cost and the establishment of the prepaid benefit cost from the contribution.

5. Liability for Pension Benefits	217
Overfunded Plan Asset	217

Since the plan is now in a net overfunded status, the liability for pension benefits is reduced to zero, and offset to the overfunded pension asset (contra asset).

6. Unassigned Funds (Change in Nonadmitted)	844
Prepaid Benefit Cost (Nonadmitted)	844

This entry recognizes the prepaid benefit cost that is nonadmitted and the underlying impact on unassigned funds.

7. Overfunded Plan Asset (Nonadmitted)	217
Unassigned Funds (Change in Nonadmitted)	217

This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.

Example 3—Comprehensive Illustration

Consideration of contributions or tax effects are not reflected in the example.

Underfunded Plan With Accrued Benefit Cost—Surplus Deferral Elected

		12/31/2012	1/1/2013	12/31/2013	12/31/2014	12/31/2015
ABO		(1,819)	(1,819)	(2,019)	(2,049)	(2,079)
Non-Vested Liability		(103)	(103)	(103)	(103)	(103)
Total ABO	A	(1,922)	(1,922)	(2,122)	(2,152)	(2,182)
-						
PBO	B	(2,099)	(2,099)	(2,399)	(2,444)	(2,569)
Non-Vested Liability	C	(103)	(103)	(103)	(103)	(103)
Total PBO	D	(2,202)	(2,202)	(2,502)	(2,547)	(2,672)
-						
Plan Assets at Fair Value	E	-	-	-	-	3,300
Funded Status	F	(2,202)	(2,202)	(2,502)	(2,547)	628
-						
<i>Items Not Recognized in Unassigned Funds</i>						
Transition Obligation (Asset)		-	-	-	-	-
Prior Service Cost		-	-	-	-	-
Prior Service Cost Non-Vested	G	103	-	-	-	-
Unrecognized Losses (Gains)	H	440	-	-	-	-
Total Unrecognized Items	I	543	-	-	-	-
Transition Items—Aggregate WI	J		(263)		(109)	(171)
Unassigned Funds—Transition	K			109	109	109
Periodic Pension Cost	L			(300)	(45)	(125)
Periodic Pension Cost—Amort.	M			(109)	(109)	(109)
Contribution	N		-	-	-	3,300
Overfunded Plan Asset (Liability for Benefits)	O	(1,659)	(1,922)	(2,222)	(2,376)	628
Unrecognized Transition Items	P		(280)	(280)	(171)	-
Funded Status	Q		(2,202)	(2,502)	(2,547)	628
Liability Reported Beg-of-Year	R		(1,659)	(1,922)	(2,222)	(2,375)
Recognized Transition Items	S		(263)		(109)	(171)
Unassigned Funds	T			109	109	109
Net Periodic Pension Cost	U		-	(409)	(154)	(235)
Contribution	V		-	-	-	3,300
Accrued/Prepaid End-of-Year	W	(1,659)	(1,922)	(2,222)	(2,375)	628
Unrecognized Items	X		(280)	(280)	(171)	0
Funded Status	Y		(2,202)	(2,502)	(2,547)	628
Reporting Lines:	-					
Accrued Benefit Cost	Z	1,659	1,659	2,068	2,221	0
Aggregate WI—Net Asset	AA					628
Aggregate WI—Liability	BB		263	154	154	0
Total Liability/(Asset) Reported	CC	1,659	1,922	2,222	2,376	(628)
Unfunded/(Overfunded) Status	DD		2,202	2,502	2,547	(628)
——— Liability Not Reported	EE		280	280	171	0

~~Underfunded Plan with Accrued Benefit Cost – Surplus Deferral Elected~~~~Jan. 1, 2013 – Transition~~~~Entry A – Recognize Minimum Transition Liability~~

Unassigned Funds	263	
Liability for Pension Benefits (Aggregate Write-In for Liabilities)		263

~~Dec. 31, 2013 – Recognize Periodic Pension Cost~~

~~Entry A – Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.~~

Liability for Pension Benefits (Aggregate Write-In for Liabilities)	109	
Unassigned Funds		109

~~Entry B – Recognize net periodic cost~~

Net Periodic Cost	409	
Accrued Benefit Cost		409

~~Dec. 31, 2014 – Recognize Transition and Periodic Pension Cost~~~~Entry A – Recognize transition liability~~

Unassigned Funds	109	
Liability for Pension Benefits (Aggregate Write-In for Liabilities)		109

~~Entry B – Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.~~

Liability for Pension Benefits (Aggregate Write-In for Liabilities)	109	
Unassigned Funds		109

~~Entry C – Recognize net periodic cost~~

Net Periodic Cost	154	
Accrued Benefit Cost		154

~~Dec. 31, 2015 – Recognize Transition and Periodic Pension Cost~~~~Entry A – Recognize transition liability~~

Unassigned Funds	171	
Liability for Pension Benefits (Aggregate Write-In for Liabilities)		171

~~**Entry B**—Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.~~

Liability for Pension Benefits	109	
(Aggregate Write-In for Liabilities)		
Unassigned Funds		109

~~**Entry C**—Recognize net periodic cost~~

Net Periodic Cost	234	
Accrued Benefit Cost		234

~~**Entry D**—Recognize Cash Contribution~~

Accrued Benefit Cost	2,456	
Prepaid Benefit Cost	844	
(Aggregate Write-In Assets)		
Cash Contribution		3,300

~~**Entry E**—Reduce Liability to Zero and Record Overfunded Plan Asset~~

Liability for Pension Benefits	217	
Overfunded Plan Asset		217

~~**Entry F**—Recognize Nonadmitted Asset—Prepaid Benefit Cost~~

Unassigned Funds	844	
(Change in Nonadmitted)		
Prepaid Benefit Cost (Nonadmitted)		844

~~**Entry G**—Recognize Nonadmitted Asset—Overfunded Plan Asset~~

Overfunded Plan Asset (Nonadmitted)	217	
Unassigned Funds (Change in Nonadmitted)		217

Illustration 3—Paragraph 97 Example Note Disclosure—March 31, 2013:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. ABC entity elected to utilize the minimum transition option reflected in paragraph 93 of SSAP No. 102. The SSAP requires initial transition liability to be the greater of paragraphs 93.b.i, 93.b.ii., and 93.b.iii.:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Minimum Transition Liability	263

Note—Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds—surplus.

Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize each year an amount that is at least equal to the amortization of the unrecognized items in effect at transition. Although the amortization of the transition items into future expenses (paragraph 93.b.ii.) may not be fully determinable at the time of transition (as they are dependent on the future expense calculations), the reporting entity anticipates that the remaining \$280 surplus impact from the election of the transition deferral in SSAP No. 102 will be recognized over a 3-year* period.

* This is a reporting entity projection and may be revised based on future expenses and activity.

Recognized Surplus Impact at Transition & Remaining Transition Liability		Prior Service Cost	Unrealized Losses
Transition Liability:	543	103	440
Amount Recognized Jan. 1, 2013	(263)		
Remaining Transition Liability	280		

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 3	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	\$(1,922)	\$(1,922)
Projected Benefit Obligation	\$(2,099)	\$(2,099)
Plus: Non-Vested Liability	(103)	(103)
Total PBO	\$(2,202)	\$(2,202)
Plan Assets at Fair Value	0	0
Funded Status	\$(2,202)	\$(2,202)

Transition Obligation / (Asset)	0	
Prior Service Cost	0	
Prior Service Cost (Non-Vested)	103	
Unrecognized Losses / (Gains)	440	
Total Unrecognized Items	543	-
Overfunded Plan Asset / (Liability for Benefits)	(1,659)	(1,922)

In the March 31, 2013, financial statements, the \$1,922 liability for pension benefits was reflected in the financial statements as follows:

- ~~Aggregate Write-Ins for Liabilities: \$263~~
- ~~Accrued Benefit Cost: \$1,659~~
- ~~Surplus Deferral—Unrecognized Transition Liability—\$280~~

(Note—This disclosure shall be completed on a quarterly and annual basis, with updated financial information reflecting the current and prior reporting periods, until the plan is fully funded without any transition liability remaining.)

~~Illustration 3—Paragraph 97 Example Note Disclosure—December 31, 2015—After Overfunded Contribution:~~

At December 31, 2015, ABC entity contributed \$3,300 towards the pension plan. This contribution resulted in the plan being in an overfunded status. Pursuant to the requirements of SSAP No. 102, ABC immediately recognized the remaining transition liability (\$171.40). Although the transition liability has been fully recognized to unassigned funds, the amortization of the liability into net periodic pension cost has not changed.

Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, with the contribution resulting in an overfunded plan status, ABC entity was restricted to a 3-year transition schedule as follows:

January 1, 2013 (Transition)	\$263.00
December 31, 2014	\$108.60
December 31, 2015	\$171.40
Total Transition Liability	\$543.00

In the December 31, 2015, annual financial statements, pension obligations were reflected as follows:

- ~~Prepaid Benefit Cost—\$844 (Nonadmitted)~~
- ~~Overfunded Plan Asset—\$(217) (Nonadmitted)~~

These amounts are both reported as ~~Aggregate Write-Ins for Other Than Invested Assets~~ resulting in a net ~~\$628~~.

4. ~~Underfunded Plan with Prepaid Benefit Cost—No Surplus Deferral Elected~~

Consideration of contributions or tax effects are not reflected in this example.

Example 4	Dec. 31, 2012[†]	Jan. 1, 2013	Dec. 31, 2013	Jan. 1, 2014	Dec. 31, 2014
Accumulated Benefit Obligation	(1,532)	(1,532)	(1,732)	(1,732)	(1,957)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	\$ (1,632)	\$ (1,632)	(1,832)	(1,832)	(2,057)
Projected Benefit Obligation	\$(1,752)	\$(1,752)	(2,052)	(2,052)	(2,277)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)
Total PBO	\$(1,852)	\$(1,852)	(2,152)	(2,152)	(2,377)
Plan Assets at Fair Value	1,600	1,600	1,600	2,500	2,500
Funded Status	(\$252)	(\$252)	(552)	348	123
Transition Obligation / (Asset)	0	0	0	0	0
Prior Service Cost	48	0	0	0	0
Prior Service Cost (Non-Vested)	100	0	0	0	0
Unrecognized Losses / (Gains)	600	0	0	0	0
Total Unrecognized Items	748	0	0	0	0
Net Overfunded Plan Asset / (Liability for Benefits)	496	(252)	(552)	348	123

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012 immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other Than Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

January 1, 2013—Transition Date, Recognize “Unrecognized Items”

A. Unassigned Funds—Prior Service Cost	48
Unassigned Funds—Prior Service Cost (Non-vested)	100
Unassigned Funds—Unrecognized Losses	600
Liability for Plan Benefits	252
<i>(Aggregate Write-In for Liabilities)</i>	
Overfunded Plan Asset	496
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	
B. Change in Nonadmitted—Overfunded Plan Asset	496
Unassigned Funds	496

Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other Than Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact.

[†]The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

~~Entry A, which uses a contra asset, effectively results with a net elimination of the assets reported for the plan and establishes the appropriate liability to reflect the unfunded status. (Reporting entities will need to continue to track these categories separately.)~~

December 31, 2013—Recognition of Net Periodic Pension Cost

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

Components of Net Periodic Cost	Dec. 31, 2013
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	300
Amortization of:	
○ Prior Service Cost	1.20
○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	318.70

~~C. Liability for Pension Benefits 18.70
 — (Aggregate Write In for Liabilities)
 Unassigned Funds — Transition Liability 18.70~~

~~This entry occurs prior to amortization of the items recognized at transition. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~D. Net Periodic Pension Cost 318.70
 Prepaid Benefit Cost 318.70
 — (Aggregate Write In for Other Than Invested Assets)~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, the prepaid benefit cost will be reduced with the recognition of periodic cost.~~

~~E. Overfunded Plan Asset 318.70
 — (Aggregate Write In for Other Than Invested Assets)
 Unassigned Funds 318.70~~

~~Entry reflects a reduction in the contra asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

~~F. Change in Nonadmitted — Prepaid Benefit Cost 318.70
 Unassigned Funds 318.70~~

~~G. Unassigned Funds 318.70
 Change in Nonadmitted — Overfunded Plan Asset 318.70~~

~~Entries to reflect the change in nonadmitted assets for both entries “D” and “E.” These entries offset.~~

~~H. Unassigned Funds 318.70~~

~~Liability for Pension Benefits 318.70
(Aggregate Write-In for Liabilities)~~

~~Entry recognizes the unfunded liability from the 2013 net periodic costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is actual return on plan assets different from expected return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry “H” at year end.~~

~~January 1, 2014 — Contribution~~

	Jan. 1, 2014
Contribution	\$900

~~I. Prepaid Benefit Cost 900
(Aggregate Write-In for Other Than Invested Assets)
Cash 900~~

~~J. Liability for Pension Benefits 552
(Aggregate Write-In for Liabilities)
Overfunded Plan Asset 552~~

~~With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of \$348.~~

~~K. Unassigned Funds 900
Change in Nonadmitted Prepaid Benefit Cost 900~~

~~L. Change in Nonadmitted Overfunded Plan Asset 552
Unassigned Funds 552~~

~~— Entries recognize the impact as a result of the nonadmitted overfunded plan asset from entry “I” and “J.”~~

~~December 31, 2014 — Recognition of Net Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	200
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	225
Amortization of:	
⊖ Prior Service Cost	1.20
⊖ Prior Service Cost (nonvested)	2.50
⊖ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	243.70

~~This example assumes no changes in the amortization timeframe. As noted in footnote 6 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date.~~

~~Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight line basis using the corridor method described in paragraph 22. There is no “amortization schedule” in effect at transition date for the unrecognized gains/losses.~~

M. Overfunded Plan Assets	18.70
— (Aggregate Write-In for Other Than Invested Assets)	
Unassigned Funds	18.70

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry made to unassigned funds for the amount that will be amortized into periodic pension cost for the current period. Since the plan is currently overfunded, this is offset by overfunded plan asset.~~

N. Unassigned Funds	18.70
Change in Nonadmitted	Overfunded Plan Asset
	18.70

~~This entry reflects the change in nonadmitted from entry “M.”~~

O. Net Periodic Pension Cost	243.70
Prepaid Benefit Cost	243.70
(Aggregate Write-In for Other Than Invested Assets)	

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost. Once that amount is exhausted, an accrued liability would be recorded.~~

P. Change in Nonadmitted	243.70
Prepaid Benefit Cost	243.70
Unassigned Funds	243.70

~~Entries to reflect the change in nonadmitted assets for entry “O.”~~

Example 4—Underfunded Plan with Prepaid Benefit Cost—No Surplus Deferral Elected:

	Aggregate Write-In For Other-Than-Invested Assets		Change in Nonadmitted Assets	Net-Periodic Cost	Unassigned Funds	Liability for Pension Benefits	Cash
	Overfunded Plan Asset	Prepaid Benefit Cost					
Existing Balance 12/31/2012		496-DR	496-CR ²	-	496-DR	-	

² This reflects the change reported in prior years.

Transition Entries 1/1/2013							
A	496 CR				748 DR	252 CR	
B			496 DR		496 CR		
Jan. 1, 2013	496 CR	496 DR	-	-	252 DR	252 CR	
Jan. 1, 2013—Net	-		-	-	252 DR	252 CR	-
Dec. 31, 2013:							
C					18.70 CR	18.70 DR	
D		318.70 CR		318.70 DR ³			
E	318.70 DR				318.70 CR		
F			318.70 DR		318.70 CR		
G			318.70 CR		318.70 DR		
H					318.70 DR	318.70 CR	
Dec. 31, 2013	177.30 CR	177.30 DR	-	-	552 DR	552 CR	
Dec. 31, 2013—Net	-		-	-	552 DR	552 CR	
Jan. 1, 2014 Contribution							
I		900 DR					900 CR
J	552 CR					552 DR	
K			900 CR		900 DR		
L			552 DR		552 CR		
After Contribution	729.30 CR	1077.30 DR	348 CR		900 DR	-	900 CR
Jan. 1, 2014—Net	348 DR		348 CR		900 DR	-	900 CR
Dec. 31, 2014:							
M	18.70 DR				18.70 CR		
N			18.70 CR		18.70 DR		
O		243.70 CR		243.70 DR ¹¹			
P			243.70 DR		243.70 CR		
Dec. 31, 2014	710.60 CR	833.60 DR	123 CR		900 DR	-	900 CR
Dec. 31, 2014—Net	123 DR		123 CR		900 DR		900 CR

5. Underfunded Plan with Prepaid Benefit Cost—Surplus Deferral, Funded ABO

Consideration of contributions or tax effects are not reflected in this example.

Example 5	Dec. 31, 2012⁴	Jan. 1, 2013	Dec. 31, 2013	Dec. 31, 2014	Jan. 1, 2015	Dec. 31, 2015
Accumulated Benefit Obligation	\$(1,032)	\$(1,032)	\$(1,232)	\$(1,457)	\$(1,457)	\$(1,657)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	\$(1,132)	\$(1,132)	(1,332)	(1,557)	(1,557)	(1,757)
Projected Benefit Obligation	\$(1,752)	\$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100
Total PBO	\$(1,852)	\$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500

³ Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

⁴ The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Funded Status	(\$252)	(\$252)	(552)	(677)	223	23
Transition Obligation/(Asset)	0	0	0	0	0	
Prior Service Cost	48	0	0	0	0	
Prior Service Cost (Non-Vested)	100	0	0	0	0	
Unrecognized Losses/(Gains)	600	0	0	0	0	
Total Unrecognized Items	748	0	0	0	0	
Net Overfunded Plan Asset/ (Liability for Benefits)	496	(25.20)	(325.20)	(475.40)	223	23
Surplus Impact Deferred		(226.80)	(226.80)	(201.60)	-	-

Surplus Impact—The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total “unrecognized items” rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected without any impact to surplus even though the plan is underfunded. This is because a reduction in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.

Determine the initial transition surplus impact under the deferral election:

In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	25.20
93.b.ii.	Anticipated Annual Amortization of “Unrecognized Items” (Assume 40-year Uniform Amortization)	18.70
93.b.iii.	Difference Between unfunded ABO and Accrued Benefit Cost. (In this example, ABO is fully funded.)	-
	Transition Liability	25.20

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds—surplus.

January 1, 2013—Transition Date

2. Unassigned Funds	496	
Overfunded Plan Asset		496
(Aggregate Write-In for Other Than Invested Assets)		
3. Change in Nonadmitted—Overfunded Plan Asset	496	
Unassigned Funds		496
4. Unassigned Funds—Transition Liability	25.20	
Liability for Plan Benefits		25.20
(Aggregate for Write-In Liability)		

~~Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other Than Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) The first two entries (Entry A & B) have a ZERO surplus impact and the third entry recognizes a liability for 10% of the surplus impact calculated at transition as that is the greatest element from paragraph 93.b.~~

~~December 31, 2013—Recognition of Net Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such, unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.~~

Components of Net Periodic Cost	Dec. 31, 2013
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	300
Amortization of:	
○ Prior Service Cost	1.20
○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	318.70

~~Note—This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight line basis using the corridor method described in paragraph 22. There is no “amortization schedule” in effect at transition date for the unrecognized gains/losses.~~

~~D. Liability for Pension Benefits 18.70
 —(Aggregate Write-In for Liabilities)
 Unassigned Funds Transition Liability 18.70~~

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~E. Net Periodic Pension Cost 318.70
 Prepaid Benefit Cost 318.70~~

~~————— (Aggregate Write-In for Other Than Invested Assets)~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)~~

F. Overfunded Plan Asset	318.70
————— (Aggregate Write-In for Other Than Invested Assets)	
 Unassigned Funds	318.70

~~Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

G. Change in Nonadmitted Prepaid Benefit Cost	318.70
 Unassigned Funds	318.70

H. Unassigned Funds	318.70
 Change in Nonadmitted Overfunded Plan Asset	318.70

~~Entries to reflect the change in nonadmitted assets for both entries “E” and “F.” These entries offset.~~

I. Unassigned Funds	318.70
 Liability for Pension Benefits	318.70
 (Aggregate Write-In for Liabilities)	

~~Entry reflects the unfunded liability from the 2013 plan related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry “I” at year end.~~

~~December 31, 2014 — Recognition of Deferred Transition Impact~~

J. Unassigned Funds Transition Liability	25.20
 Liability for Pension Benefits	25.20
 (Aggregate Write-In for Liabilities)	

~~Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. This entry represents the minimum transition liability to be recognized subsequent to transition. Since it is assumed that there is no change in the amortization expectations, and ABO is still funded, this entry reflects 10% of the transition surplus impact.~~

~~December 31, 2014 — Recognition of Net Periodic Pension Cost~~

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	100
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	125
Amortization of:	
Prior Service Cost	1.20

○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	143.70

~~Note—This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight line basis using the corridor method described in paragraph 22. There is no “amortization schedule” in effect at transition date for the unrecognized gains/losses.~~

~~K. Liability for Pension Benefits 18.70~~
~~— (Aggregate Write-In for Liabilities)~~
~~Unassigned Funds — Transition Liability 18.70~~

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~L. Net Periodic Pension Cost 143.70~~
~~Prepaid Benefit Cost 143.70~~
~~— (Aggregate Write-In for Other Than Invested Assets)~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)~~

~~M. Overfunded Plan Asset 143.70~~
~~— (Aggregate Write-In for Other Than Invested Assets)~~
~~Unassigned Funds 143.70~~

~~Entry reflects the change in overfunded plan assets as a reduction in the contra-asset from initial transition.~~

~~N. Change in Nonadmitted — Prepaid Benefit Cost 143.70~~
~~Unassigned Funds 143.70~~

~~O. Unassigned Funds 143.70~~
~~Change in Nonadmitted — Overfunded Plan Asset 143.70~~

~~Entries reflect the change in nonadmitted assets for both entries “L” and “M.” These entries offset.~~

~~P. Unassigned Funds 143.70~~
~~Liability for Pension Benefits 143.70~~
~~(Aggregate Write-In for Liabilities)~~

Entry reflects the unfunded liability from the 2014 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year end funded status and will also need to be recorded as part of entry “P” at year end.

January 1, 2015—Recognition of Cash Contribution

	Jan. 1, 2015
Contribution	\$900

Q. Prepaid Benefit Cost	900.00	
—(Aggregate Write-In for Other Than Invested Assets)		
Cash		900.00
R. Liability for Pension Benefits	475.40	
—(Aggregate Write-In for Liabilities)		
Overfunded Plan Asset		475.40
(Aggregate Write-In for Other Than Invested Assets)		
S. Unassigned Funds	900.00	
Change in Nonadmitted—Prepaid Benefit Cost		900.00
T. Change in Nonadmitted—Overfunded Plan Asset	475.40	
Unassigned Funds		475.40

With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of \$223.

U. Unassigned Funds	201.60	
Overfunded Plan Asset		201.60

Since the plan is in an overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.

V. Change in Nonadmitted—Overfunded Plan Assets	201.60	
Unassigned Funds		201.60

Entry reflects the change in nonadmitted assets from entry “U.”

December 31, 2015—Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2015
Service Cost	100
Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
○ Prior Service Cost	1.20

○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	218.70

(Previous notes on amortization continue to apply.)

W. Overfunded Plan Asset	18.70
(Aggregate Write In for Other Than Invested Assets)	
Unassigned Funds	18.70

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.~~

X. Unassigned Funds	18.70
Change in Nonadmitted Overfunded Plan Asset	18.70

~~Entry reflects the change in nonadmitted assets from entry “W.”~~

Y. Net Periodic Pension Cost	218.70
Prepaid Benefit Cost	218.70
(Aggregate Write In for Other Than Invested Assets)	

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.~~

Z. Change in Nonadmitted Prepaid Benefit Cost	218.70
Unassigned Funds	218.70

~~Entry reflects the change in nonadmitted assets from entry “Y.” This example assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year end funded status, and will also need to be recorded at year end in an **additional entry** impacting the Overfunded Plan Asset. If the plan became underfunded due to these changes, then the amount of the underfunding would then be recorded as a Liability for Pension Benefits.~~

~~Example: Assume the PBO increased by \$100 at year end due to discount rate changes, etc. This would cause the plan to be underfunded by \$77.00.~~

1. Unassigned Funds	100.00
Overfunded Plan Asset	23.00
Liability for Pension Benefits	77.00
2. Change in Nonadmitted Overfunded Plan Asset	23.00
Unassigned Funds	23.00

Example 5—Underfunded Plan with Prepaid Benefit Cost—Surplus Deferral, Funded ABO:

	Aggregate Write-In For Other Than Invested Assets		Change in Nonadmitted Assets	Net Periodic Cost	Unassigned Funds	Liability for Pension Benefits	Cash
	Overfunded Plan Asset	Prepaid Benefit Cost					
Existing Balancee 12/31/2012 (This reflects pre-2012 Entries)		496 DR	496 CR ⁵	—	496 CR 496 DR	—	
Transition Entries— 1/1/2013							
A	496 CR				496 DR		
B			496 DR		496 CR		
C					25.20 DR	25.20 CR	
Jan 1, 2013	496 CR	496 DR	—	—	25.20 DR	25.20 CR	
Jan 1, 2013—Net	—		—	—	25.20 DR	25.20 CR	
Dec. 31, 2013:							
D					18.70 CR	18.70 DR	
E		318.70 CR		318.70 DR ⁶			
F	318.70 DR				318.70 CR		
G			318.70 DR		318.70 CR		
H			318.70 CR		318.70 DR		
I					318.70 DR	318.70 CR	
Dec. 31, 2013	177.30 CR	177.30 DR	—	—	325.20 DR	325.20 CR	
Dec. 31, 2013—Net	—		—	—	325.20 DR	325.20 CR	
Dec. 31, 2014:							
J					25.20 DR	25.20 CR	
K					18.70 CR	18.70 DR	
L		143.70 CR		143.70 DR ¹⁴			
M	143.70 DR				143.70 CR		
N			143.70 DR		143.70 CR		
O			143.70 CR		143.70 DR		
P					143.70 DR	143.70 CR	
Dec. 31, 2014	33.60 CR	33.60 DR	—	—	475.40 DR	475.40 CR	
Dec. 31, 2014—Net	—		—	—	475.40 DR	475.40 CR	
Jan. 1, 2015— Contribution							
Q		900.00 DR					900.00 CR
R	475.40 CR					475.40 DR	
S			900.00 CR		900.00 DR		
T			475.40 DR		475.40 CR		
U	201.60 CR				201.60 DR		
V			201.60 DR		201.60 CR		

⁵ This reflects the change reported in prior years.

⁶ Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

Jan. 1, 2015—After Contribution	710.60 CR	933.60 DR	223.00 CR		900 DR	—	900 CR
Jan 1, 2015—Net	223.00 DR		223.00 CR	-	900 DR	—	900 CR
Dec. 31, 2015:							
W	18.70 DR				18.70 CR		
X			18.70 CR		18.70 DR		
Y		218.70 CR		218.70 DR ¹⁴			
Z			218.70 DR		218.70 CR		
Dec. 31, 2015	691.90 CR	714.90 DR	23.00 CR		900.00 DR		900.00 CR
Dec. 31, 2015—Net	23.00 DR		23.00 CR		900.00 DR		900.00 CR

6. ~~Underfunded Plan with Prepaid Benefit Cost—Surplus Deferral, Unfunded ABO~~

Consideration of contributions or tax effects are not reflected in this example.

Example 6	Dec. 31, 2012⁷	Jan. 1, 2013	Dec. 31, 2013	Dec. 31, 2014	Jan. 1, 2015	Dec. 31, 2015
Accumulated Benefit Obligation	\$(1,632)	\$(1,632)	\$(1,932)	\$(2,057)	\$(2,457)	-(2,457)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	\$(1,732)	\$(1,732)	(2,032)	(2,157)	(2,557)	(2,557)
Projected Benefit Obligation	\$(1,752)	\$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100
Total PBO	\$(1,852)	\$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500
Funded Status	(\$252)	(\$252)	(552)	(677)	223	23
Transition Obligation / (Asset)	0	0	0	0	0	
Prior Service Cost	48	0	0	0	0	
Prior Service Cost (Non-Vested)	100	0	0	0	0	
Unrecognized Losses / (Gains)	600	0	0	0	0	
Total Unrecognized Items	748	0	0	0	0	
Net Overfunded Plan Asset / (Liability for Benefits)	496	(132)	(432)	(582.20)	223	23
Additional Minimum Liability (Unfunded ABO)	(32)	0	The concept of an additional minimum liability and related intangible asset for plans with an unfunded ABO is eliminated in SSAP No. 102.			
Intangible Asset	32	0				
Surplus Impact Deferred		(120)	(120)	(94.80)	–	–

~~Surplus Impact—The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total “unrecognized items” rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected, without any impact to surplus, even though the plan is underfunded. This is because a reduced in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.~~

Determine the initial transition surplus impact under the deferral election:

~~In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:~~

	Minimum Transition Liability	
93.b.i	10% of Calculated Surplus Impact at Transition	25.20

⁷ The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

93.b.ii	Anticipated Annual Amortization of “Unrecognized Items” (Assume 40-year Uniform Amortization)	18.70
93.b.iii	Difference Between unfunded ABO and Accrued Benefit Cost.	132.00
	Transition Liability	132.00

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds—surplus.

January 1, 2013—Transition Date

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Unassigned Funds	32	
Intangible Asset		32
Additional Minimum Liability	32	
Unassigned Funds		32

Application of SSAP No. 102—Recognition of Unfunded Status with Surplus Deferral:

A. Unassigned Funds	496	
Overfunded Plan Asset		496
(Aggregate Write-In for Other Than Invested Assets)		
B. Change in Nonadmitted—Overfunded Plan Asset	496	
Unassigned Funds		496
C. Unassigned Funds—Transition Liability	132	
Liability for Pension Benefits		132

*Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other Than Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) Entries A & B have a **ZERO surplus impact** and the third entry recognizes a liability for the unfunded ABO per the requirements of paragraph 93.b.*

December 31, 2013—Recognition of Net Periodic Pension Cost

After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.

As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such,

~~unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.~~

Components of Net Periodic Cost	Dec. 31, 2013
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	300
Amortization of:	
○ Prior Service Cost	1.20
○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	318.70

~~Note—This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight line basis using the corridor method described in paragraph 22. There is no “amortization schedule” in effect at transition date for the unrecognized gains/losses.~~

~~D. Liability for Pension Benefits 18.70
 —(Aggregate Write-In for Liabilities)
 Unassigned Funds Transition Liability 18.70~~

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~E. Net Periodic Pension Cost 318.70
 Prepaid Benefit Cost 318.70
 —(Aggregate Write-In for Other Than Invested Assets)~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)~~

~~F. Overfunded Plan Asset 318.70
 —(Aggregate Write-In for Other Than Invested Assets)
 Unassigned Funds 318.70~~

~~Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

~~G. Change in Nonadmitted Prepaid Benefit Cost 318.70
 Unassigned Funds 318.70~~

H. ~~Unassigned Funds~~ ~~318.70~~
~~Change in Nonadmitted Overfunded Plan Asset~~ ~~318.70~~

Entries to reflect the change in nonadmitted assets for both entries “E” and “F.” These entries offset.

I. ~~Unassigned Funds~~ ~~318.70~~
~~Liability for Pension Benefits~~ ~~318.70~~
(Aggregate Write-In for Liabilities)

Entry reflects the unfunded liability from the 2013 plan related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry “I” at year end.

December 31, 2014 — Recognition of Deferred Transition Impact

In accordance with paragraph 93 of SSAP No. 102, the minimum amount recognized each subsequent year shall be an amount that reflects the conditions of paragraph 93.b. As such, the surplus recognized shall be the **greater of:**

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact at Transition	25.20
93.b.ii.	Anticipated Annual Amortization of “Unrecognized Items” (Assume 40-year Uniform Amortization)	18.70
93.b.iii.	Difference Between unfunded ABO and Accrued Benefit Cost/Fair Value of Plan Assets. (Dec. 31, 2014 Fair value of plan assets together with the Liability for Pension Benefits exceed the ABO.)	—
	Transition Liability	25.20

(Previous note on amortization continues to apply.)

J. ~~Unassigned Funds~~ ~~Transition Liability~~ ~~25.20~~
~~Liability for Pension Benefits~~ ~~25.20~~
(Aggregate Write-In for Liabilities)

Entry represents the minimum transition liability to be recognized subsequent to transition. (10% of the transition surplus impact is the greatest component of paragraph 93.b. as of Dec. 31, 2014.)

December 31, 2014 — Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2014
Service Cost	100
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	125
Amortization of:	
○ Prior Service Cost	1.20
○ Prior Service Cost (nonvested)	2.50
○ Unrecognized Losses	15.00
Total	18.70

Total Net Periodic Pension Cost	143.70
--	---------------

(Previous note on amortization continues to apply.)

K. Liability for Pension Benefits	18.70
<i>(Aggregate Write-In for Liabilities)</i>	
Unassigned Funds — Transition Liability	18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.

L. Net Periodic Pension Cost	143.70
Prepaid Benefit Cost	143.70
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

M. Overfunded Plan Asset	143.70
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	
Unassigned Funds	143.70

Entry reflects the change in overfunded plan assets as a reduction in the contra asset to correspond with the change in net periodic pension cost. With this entry, the Prepaid Benefit Cost and Overfunded Plan Assets net to zero. This is appropriate as the plan is underfunded and a liability is reflected.

N. Change in Nonadmitted — Prepaid Benefit Cost	143.70
Unassigned Funds	143.70

O. Unassigned Funds	143.70
Change in Nonadmitted — Overfunded Plan Asset	143.70

Entries to reflect the change in nonadmitted assets for both entries “L” and “M.” These entries offset.

P. Unassigned Funds	143.70
Liability for Pension Benefits	143.70
<i>(Aggregate Write-In for Liabilities)</i>	

Entry reflects the full unfunded liability, including impact from the 2014 plan related costs.

Note — This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year end. In practice, there will always be changes in the year end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year end funded status and will also need to be recorded as part of entry “P” at year end.

January 1, 2015 — Recognition of Cash Contribution

	Jan. 1, 2015
Contribution	\$900

Q. Prepaid Benefit Costs	900.00
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	
Cash	900.00
R. Liability for Pension Benefits	582.20
<i>(Aggregate Write-In for Liabilities)</i>	
Overfunded Plan Asset	582.20
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	
S. Unassigned Funds	900.00
Change in Nonadmitted — Prepaid Benefit Cost	900.00
T. Change in Nonadmitted — Overfunded Plan Asset	582.20
Unassigned Funds	582.20

With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of \$223.

U. Unassigned Funds	94.80
Overfunded Plan Assets	94.80

As the surplus deferral was elected, with the overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.

V. Change in Nonadmitted — Overfunded Plan Assets	94.80
Unassigned Funds	94.80

Entry reflects the change in nonadmitted assets from entry U.

December 31, 2015 — Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	Dec. 31, 2015
Service Cost	100
Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
◊ Prior Service Cost	1.20
◊ Prior Service Cost (nonvested)	2.50
◊ Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	218.70

(Prior amortization note continues to apply.)

W. Overfunded Plan Asset	18.70
<i>(Aggregate Write-In for Other Than Invested Assets)</i>	
Unassigned Funds	18.70

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~X. Unassigned Funds 18.70
Change in Nonadmitted Overfunded Plan Asset 18.70~~

~~Entry reflects the change in nonadmitted assets from entry “W.”~~

~~Y. Net Periodic Pension Cost 218.70
Prepaid Benefit Cost 218.70
(Aggregate Write-In for Other Than Invested Assets)~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.~~

~~Z. Change in Nonadmitted Prepaid Benefit Cost 218.70
Unassigned Funds 218.70~~

~~Entry reflects the change in nonadmitted assets from entry “Y.”~~

Example 6—Underfunded Plan with Prepaid Benefit Cost—Surplus Deferral, Unfunded ABO:

	Aggregate Write-In For Other Than Invested Assets		Change in Nonadmitted Assets	Net Periodic Cost	Unassigned Funds	Liability for Pension Benefits	Cash
	Overfunded Plan Asset	Prepaid Benefit Cost					
Existing Balance 12/31/2012 (This reflects pre-2012 Entries)		496 DR	496 CR ⁸	—	496 CR 496 DR	—	
Transition Entries— 1/1/2013							
A	496 CR		496 DR		496 DR		
B					496 CR		
C					132 DR	132 CR	
Jan 1, 2013	496 CR	496 DR	—	—	132 DR	132 CR	
Jan. 1, 2013—Net	—		—	—	132 DR	132 CR	—
Dec. 31, 2013:							
D		318.70 CR		318.70 DR ⁹	18.70 CR	18.70 DR	
E					318.70 CR		
F	318.70 DR		318.70 DR		318.70 CR		
G					318.70 DR		
H			318.70 CR		318.70 DR	318.70 CR	
I					318.70 DR		
Dec. 31, 2013	177.30 CR	177.30 DR	—		432.00 DR	432.00 CR	
Dec. 31, 2013—Net	—		—	—	432.00 DR	432.00 CR	—

⁸ This reflects the change reported in prior years.

⁹ Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

Dec. 31, 2014:	J					25.20 DR	25.20 CR	
	K		143.70 CR		143.70 DR ¹⁷	18.70 CR	18.70 DR	
	L	143.70 DR				143.70 CR		
	M			143.70 DR		143.70 CR		
	N			143.70 CR		143.70 DR		
	O					143.70 DR	143.70 CR	
	P					143.70 DR	143.70 CR	
Dec. 31, 2014		33.60 CR	33.60 DR	-		582.20 DR	582.20 CR	
Dec. 31, 2014—Net		-	-	-		582.20 DR	582.20 CR	-
Jan. 1, 2015— Contribution	Q		900 DR					900 CR
	R	582.20 CR		900 CR		900 DR	582.20 DR	
	S			582.20 DR		582.20 CR		
	T	94.80 CR		94.80 DR		94.80 DR	94.80 CR	
Jan. 1, 2015—After Contribution		710.60 CR	933.60 DR	223.00 CR		900 DR	—	900 CR
Jan. 1, 2015—Net		223.00 DR	223.00 CR	-		900 DR	—	900 CR
Dec. 31, 2015:	W	18.70 DR				18.70 CR		
	X		218.70 CR	18.70 CR	218.70 DR ¹⁷	18.70 DR		
	Y			218.70 DR		218.70 CR		
	Z							
Dec. 31, 2015		691.90 CR	714.90 DR	23 CR		900 DR		900 CR
Dec. 31, 2015—Net		23 DR	23 CR	-		900 DR	-	900 CR

Staff Review Completed by: Jake Stultz, July 2023

Status:

On August 13, 2023, 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. 92 and SSAP No. 102 to remove the transition guidance that was no longer applicable as the ten-year effective period for that transition has ended.

On October 23, 2023, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions, as illustrated above, to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that is no longer applicable as the ten-year effective period for that transition has ended.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/10-23-23/Adoptions/23-21-RemoveTransitionLanguageSSAP92,102.docx>

**Revisions to the
As of March 2023, Accounting Practices and Procedures Manual**

On **December 1, 2023**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2023-15	Annual Statement Instructions	IMR / AVR Specific Allocations <i>SAP Clarification</i> Effective January 1, 2024	Adopted revisions address guidance that has permitted allocation of non-interest-related losses to the interest maintenance reserve (IMR) for mortgage loans with valuation allowances and debt securities with known credit events.
2023-17	SSAP No. 2R	Short-Term Investments <i>New SAP Concept</i> Effective January 1, 2025	Adopted revisions further restrict the investments that are permitted for cash equivalent and short-term reporting. Revisions exclude all Schedule BA: Other Long-Term Investments and mortgage loans.
2023-22	SSAP No. 54R	Actuarial Guideline 51 and Appendix A-010 Interaction <i>SAP Clarification</i> Effective Immediately December 1, 2023	Adopted revisions clarify that gross premium valuation (under <i>A-010, Minimum Reserve Standards for Individual and Group Health</i>) and cash-flow testing (under <i>Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves</i>) are both required if indicated.
2023-23	SSAP No. 30R SSAP No. 32R	Residuals in Preferred Stock and Common Stock Structures <i>SAP Clarification</i> Effective December 31, 2023	Adopted revisions clarify that investments that are in-substance residual interests shall be reported on Schedule BA on the dedicated reporting line for residuals.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national_meetings/a_national_meeting_materials/2023/12-1-23_fall_national_meeting/adoptions/00-adoptions_12.1.2023_toc.docx

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

Issue: IMR / AVR Specific Allocations

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to update guidance for IMR / AVR in the Annual Statement (A/S) Instructions that currently establish specific allocation guidance. The principal concept of the IMR and AVR is that interest-related losses go to IMR, and non-interest-related losses go to AVR. This agenda is to correct instructions that appear to direct an entity to allocate non-interest-related losses to IMR rather than correctly to the AVR.

Although the presence of examples for illustration or guiding purposes are beneficial, the current annual statement instructions have permitted unintended allocations that do not reflect the intent of the principles. These have been specifically noted through inquiries to NAIC staff, particularly within the last year. NAIC staff believes these inquiries have been spurred by the discussions regarding the industry request to admit net negative IMR, therefore creating an incentive to allocate losses to IMR instead of AVR.

This agenda item will focus on the following specific allocations within the A/S instructions:

- 1) NAIC Designation Changes for Debt Securities (excluding LBSS)
- 2) Mortgage Loans

1) NAIC Designation Change:

IMR: Include realized capital gains (losses) on Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

AVR: Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990

NAIC Discussion: NAIC staff have historically been contacted on the application of this guidance, particularly when the reporting entity rushes to sell a security prior to an official credit rating or SVO designation downgrade has occurred. For 2023, this was evident from questions received with the downgrade of several regional banks. With a literal read of the guidance, if a Credit Rating Provider (CRP) downgraded banks on April 21, 2023, a reporting entity that expected such downgrades and sold the security at a loss prior to the downgrade would be permitted to report the loss through IMR as the downgrade did not occur during the reporting entity’s “holding period.” Similar questions have occurred in prior years in situations where it was evident that a downgrade was forthcoming (e.g., PG&E in response to the California wildfires). Although the guidance could be retained as an absolute for reporting to AVR, as a “credit loss” is presumed to occur when there has been a more-than-one

designation change, it is NAIC staff's interpretation that this guidance should not permit inappropriate allocation of non-interest related declines to IMR simply because a sale is able to occur prior to the official downgrade.

2) **Mortgage Loans:**

IMR: Include realized capital gains (losses) on: Mortgage loans where: 1) Interest is NOT more than 90 days past due, or 2) The loan is NOT in process of foreclosure, or 3) The loan is NOT in course of voluntary conveyance, or 4) The terms of the loan have NOT been restructured during the prior two years.

AVR: In addition, all gains (losses), net of capital gains tax, on mortgage loans where 1) Interest is more than 90 days past due, or 2) The loan is in the process of foreclosure, or 3) The loan is in course of voluntary conveyance, or 4) The terms of the loan have been restructured during the prior two years would be classified as non-interest-related gains (losses).

NAIC Discussion: NAIC staff has recently been contacted as the current IMR / AVR guidance is specific that a mortgage loan must be 90 days past due or in process of foreclosure to report the loss to AVR. As such, if a reporting entity has established a valuation allowance under *SSAP No. 37—Mortgage Loans*, because the loan is impaired and they do not believe it is probable that they will collect all amounts due according to the contractual terms of the mortgage loan, and the reporting entity sells the mortgage loan before it is 90-days past due, a literal read of the guidance permits the loss to be fully allocated to IMR. Similar to the discussion on the NAIC designation change, such situations exist when the reporting entity has an expectation of expected credit loss (as a valuation allowance is only established when a mortgage loan is impaired), but the provisions of the A/S instructions direct to IMR.

Existing Authoritative Literature:

- **SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (included in entirety)**

SCOPE OF STATEMENT

This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts*.

SUMMARY CONCLUSION

Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition

This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$_____ Transferred into the Reserve Net of Taxes of \$_____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- **Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR.** If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- **Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale.** As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- **Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale.** An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.** The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.**

In addition, all gains (losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as non-interest-related gains (losses).

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

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 2022-19: Negative IMR, identified that the accounting guidance for IMR, including the provisions on negative IMR, are currently captured in the Annual Statement Instructions. *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, points to the Annual Statement Instructions for the IMR and AVR calculation. This agenda item resulted with the issuance of INT 23-01T to provide a limited-time, optional, exception to the nonadmittance of net negative (disallowed) IMR.
- Agenda Item 2023-XX: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in *SSAP No. 7*.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that permits the allocation of non-interest related losses to IMR. (Although NAIC staff believes this

guidance is clarifying the original intent of IMR/AVR allocation, the revisions reflect a distinct change in practice to reduce the allocation of non-interest-related losses to the IMR.)

This agenda item is focusing solely on the specific allocation “absolutes” that currently exists in the A/S instructions to ensure that the guidance does not inadvertently permit the allocation of non-interest-related changes to the IMR. This agenda item is addressing one of the specific discussion topics noted in agenda item 2023-XX. Further revisions and assessment on other aspects of the IMR/AVR allocation, including whether gains and losses from bonds (and other investments) should be bifurcated between IMR/AVR, will be addressed in subsequent agenda items. (Revisions will subsequently be captured in the SSAPs as part of the long-term project, but these revisions are proposed for immediate clarification edits in the A/S instructions as that is where guidance currently resides.)

Interest Maintenance Reserve (IMR)

Line 2 – Current Year’s Realized Pre-tax Capital Gains (Losses) of \$_____ Transferred into the Reserve Net of Taxes of \$_____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are ~~is~~ **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR ~~Exclude any such gains (losses) exempt from the IMR.~~

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by

the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where [the realized gains \(losses\) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains \(losses\) from mortgage loans with these characteristics shall be reported in the AVR:](#)

- [Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or](#)
- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.

- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where [the realized gains \(losses\) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains \(losses\) from mortgage loans with these characteristics shall be reported in the AVR:](#)

- [Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or](#)
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

~~Would be classified as non-interest-related gains (losses).~~

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock’s current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of

capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

Staff Review Completed by: Julie Gann - NAIC Staff, July 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed proposed revisions to the annual statement instructions to remove the guidance that permits the specific allocation of non-interest related losses to IMR.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to the annual statement instructions to remove the guidance that permits the specific allocation of non-interest related losses to IMR with an effective date of January 1, 2024. The revisions from the exposure incorporate interested parties' comments on debt securities. This agenda item does not result in revisions to a SSAP. As this agenda item proposes revisions to the annual statement instructions, the adoption will be communicated via a memo to the Blanks (E) Working Group. The adoption incorporates the mortgage loan revisions as exposed and incorporates guidance for debt securities that directs AVR reporting if there is an acute credit event that negatively impacts the price of the security that has not yet been reflected in the CRP ratings/SVO feed at the time of the sale where the resulting gain/loss was predominantly credit related.

Adopted Revisions to the Annual Statement Instructions:

1) Mortgage Loans – Adoption as Exposed:

IMR:

Mortgage loans where [the realized gains \(losses\) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains \(losses\) from mortgage loans with these characteristics shall be reported in the AVR:](#)

- [Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or](#)
- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

AVR:

In addition, all gains (losses), net of capital gains tax, on mortgage loans where [the realized gains \(losses\) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the](#)

following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

~~Would be classified as non-interest related gains (losses).~~

2) Debt Securities – Modified with IP Comments: (Changes from Exposure are Shaded.)

IMR:

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks ~~where the realized capital gains (losses) more predominantly reflect interest related changes. By default, debt instruments~~ whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, ~~or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are is~~ **is NOT** different from its NAIC designation at the beginning of the holding period by ~~one or less~~ **more than one** NAIC designations. ~~or NAIC designation category shall not be considered to reflect interest related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR. Exclude any such gains (losses) exempt from the IMR.~~ However, if the security sold also includes the following, it should not be included in IMR:

- ~~Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.~~

Shown Clean for Ease of Review:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is different from its NAIC designation at the beginning of the holding period by one or less NAIC designations. However, if the security sold also includes the following, it should not be included in IMR:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

AVR:

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) ~~where the realized capital gains (losses) more predominantly reflect non interest related changes. By default, debt instruments~~ whose NAIC/SVO designation at the end of the holding period, ~~or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument,~~ is different from its NAIC/SVO designation at the beginning of the holding period ~~by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end-of-period classification, the most recent available designation should~~

~~be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.~~ However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

Shown Clean for Ease of Review:

AVR:

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/12-1-23FallNationalMeeting/Adoptions/23-15-IMRSpecificAllocations.docx>

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

Issue: Short-Term Investments

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to review the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and establish principal concepts for the types of investments that should be permitted for reporting as either cash equivalents or short-term investments. This agenda item is in response to noted situations in which certain types of investments, particularly collateral loans or other Schedule BA items, are being designed specifically to meet the parameters for short-term reporting. Although revisions were previously incorporated to prevent the “rolling” of short-term items, information has been shared that some reporting entities are now effectively ending short-term collateral loan investments, only to reissue those collateral loans from other lenders in the same group (same ultimately owners) so that they can continue to qualify as short-term for reporting on Schedule DA. The effect is a continuously reporting short-term collateral loan investments in a way so that the investment in appearance is not considered ‘substantially similar’ to the investment previously held, although in effect the borrower is the same holding company group. This approach permits the company to report these investments as “Other Short-Term Investments” on Schedule DA, rather than in the designated reporting line for collateral loans. This allows companies to reduce the appearance of the collateral loans, not provide the detail that would be required for the loan is reported on Schedule BA, and potentially result in non-compliance with the SSAP No. 21 admittance requirements due to the Schedule DA reporting. Under SSAP No. 2R, paragraph 16, short-term investments are to be accounted for in the same manner as similar long-term investments. However, paragraph 17 indicates that short-term investments are admitted to the extent that they conform to the requirements of SSAP No. 2R. Although the intent of paragraph 16 is to require the same valuation and admittance requirements for short-term that exist for long-term, some reporting entities may be valuing collateral loans similar to the requirements of SSAP No. 21 but may interpret the guidance to indicate that the collateral requirements for admittance in SSAP No. 21 are not required if the investment has a short-term maturity.

In evaluating the current situation, the prior situations in which short-term investments were being continuously rolled, as well as the SSAP No. 2R guidance, it has been questioned why collateral loans and mortgage loans are included in the SSAP No. 2R guidance as named examples and whether Schedule BA investments should be permitted to be reported as wither cash equivalents (on Schedule E2) or short-term investments (on Schedule DA). For these investments, the main benefit of reporting as short-term (or cash equivalent) is the reduced RBC charge and/or potential exclusions from state investment limitations. Although NAIC designations are not required to be reported for cash equivalent or short-term investments, such designations are not required for collateral loans, mortgage loans or any Schedule BA investment. As such, excluding those items from Schedule DA will not impose a requirement for any reporting entity to obtain an NAIC designation. Considering this assessment, this agenda item proposes the exclusion of additional investment types from being reported as cash equivalents or short-term investments regardless of the maturity date of the investment at the date of acquisition.

Effectively, this agenda item and the prior revisions to exclude certain investments from SSAP No. 2R discussed as part of the bond project, will eliminate investments (except money market mutual funds and cash pooling dynamics) from being reported as cash equivalents or short-term investments unless they would qualify under *SSAP No. 26R—Bonds* as an issuer credit obligation. Such investments will then only qualify as a cash equivalent or short-term investment if they have a maturity date within 3-months (cash equivalents) or 12-months (short-term) from the date of acquisition or meet the specifics requirements for money market mutual funds or cash pooling arrangements. NAIC staff believes this scope is appropriate as investments that qualify as issuer credit obligations

tend to reflect the more “traditional” investments, for which a short duration holding timeframe will most often have limited valuation swings caused from interest rate risk as well as other unknowns. Furthermore, as investments captured as issuer credit obligations in SSAP No. 26R are permitted as admitted assets without other qualifications (such as collateral or audit requirements), the ability to report as cash equivalent or short-term will not cause confusion on the applicability of such requirements in determining whether the investment should qualify as an admitted asset because it qualifies to be in scope of SSAP No. 2R.

This agenda item proposes to retain the guidance in SSAP No. 2R that prevents cash equivalent or short-term reporting for related party investments if the reporting entity does not reasonably expect to terminate the investment, the original maturity time as passed, and if the reporting entity reacquired a substantially similar investment. Investments with those characteristics will be required to be reported as long-term assets. With the limitation of eligible assets to issuer credit obligations in scope of SSAP No. 26R, NAIC staff anticipates the need for the guidance to be reduced but it could still be applicable.

The agenda item also proposes to retain the clarification that certificates of deposit do not qualify as cash equivalents or short-term deposits. This is because certificates of deposit that are less than 12 months in duration are classified as cash. Certificates of deposits that go beyond 12 months are reported as long-term bonds on Schedule D.

Existing Authoritative Literature:

- **SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities¹ of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,² unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
- The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a

¹ Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

² Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in *SSAP No. 103R*.

9. Cash pooling is a technique utilized by some companies under common control by which several entities' cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures; however, only those that have obtained domiciliary regulator approval and meet the following requirements are in scope of this statement.

- a. Members or participants in the pool are limited to affiliated entities as defined in *SSAP No. 25—Affiliates and Other Related Parties*.
- b. Investments held by the pool are limited to non-affiliated entities investments (non-affiliated to the insurance reporting entity).
- c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates' interests in the pool shall be of the same class, with equal rights, preferences, and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant's debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool's investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).
- d. A reporting entity shall receive monthly reports from the pool manager, which identifies the participant's investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on Schedule E – Part 2, utilizing the line number as specified in the annual statement instructions. The reporting entity shall independently if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, the pool does not qualify within scope of this statement.
- e. Valuation of assets in the pool shall remain consistent with the valuations required by reported asset type as stipulated in this statement.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of

acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,^{3, 4} unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
- b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

16. All short-term investments shall be accounted for in the same manner as similar long-term investments.

17. Short-term investments meet the definition of assets as defined in *SSAP No. 4* and are admitted assets to the extent they conform to the requirements of this statement.

- **Proposed Revisions under the Bond Project – Potential Adoption 2023 Summer National Meeting**

(These revisions are shaded to separate them from what is proposed as new edits under this agenda item.)

Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because

³ Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

⁴ Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

of changes in interest rates. Only investments with original maturities⁵ of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Regardless of maturity date, ~~dDerivative instruments in scope of SSAP No. 86 or SSAP No. 108 shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB.~~

a. Working capital finance investments in scope of SSAP No. 105R.

~~a.b.~~ Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Short-term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All debt securities that do not qualify as bonds, which are in scope of SSAP No. 21R.

~~c. dDerivative instruments in scope of SSAP No. 86 or SSAP No. 108 shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.~~

d. Working capital finance investments in scope of SSAP No. 105R.

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 2019-21: Principles-Based Bond Definition, proposes revisions to revise the definition of a bond, and establishes guidance separating between investments captured in *SSAP No. 26—Bonds* as issuer credit obligations for reporting on Schedule D-1-1 and investments captured in *SSAP No. 43R—Asset-Backed Securities* for reporting on Schedule D-1-2. With the requirements to assess ABS in determining whether they qualify for Schedule D-1-2 reporting as a “bond”, revisions have been proposed to exclude ABS, as well as debt securities that do not qualify as bonds captured in SSAP No. 21R, from reporting on Schedule DA as cash equivalents or short-term investments. (These revisions are above with an anticipated adoption at the 2023 Summer National Meeting with a planned effective date of January 1, 2025.)

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

⁵ Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with proposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. These revisions are proposed to ensure that certain investment types are captured on designated Schedule BA reporting lines and to eliminate the potential to design investments to specifically qualify for short-term reporting and perhaps mask the extent of investments held or to obtain favorable reporting such as with reduced RBC, exceptions for state investment limits, admittance requirements etc., (NAIC staff notes that NAIC designations are not required for cash equivalents or short-term investments, however, the investments proposed to be excluded from cash equivalents and short-term reporting in this agenda item are not required to obtain NAIC designations.)

With the adoption consideration of the bond definition, including the edits to exclude ABS and debt securities that do not qualify as bonds from SSAP No. 2R at the 2023 Summer National Meeting, this agenda item proposes edits after reflection of the bond project changes. To be consistent with the effective date of the bond project, this agenda item proposes an effective date of January 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly.

Proposed revisions to SSAP No. 2R:**Cash Equivalents**

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities⁶ of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

- a. Asset-backed securities captured in scope of SSAP No. 43R.
- b. All investments that are reported on Schedule BA, including but not limited to:
 - i. All debt securities that do not qualify as bonds ~~which are~~ in scope of SSAP No. 21R.
 - ii. Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.
 - iii. Working capital finance investments in scope of SSAP No. 105R.
 - iv. Surplus notes in scope of SSAP No. 41R.
- c. Mortgage loans captured in scope of SSAP No. 37.
- ~~b.d.~~ Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.
- ~~c.a.~~ Working capital finance investments in scope of SSAP No. 105R.
- ~~d.e.~~ Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other

⁶ Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents, but that are still considered highly liquid as they have ~~with~~ remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. ~~Short term investments can include, but are not limited to bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5.~~ Regardless of maturity date, the following investments are not permitted to be reported as ~~cash equivalents~~ short-term investments and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

- a. Asset-backed securities captured in scope of SSAP No. 43R.
- b. All investments that are reported on Schedule BA, including but not limited to:
 - i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.
 - ii. Collateral/Non-Collateral loans captured in scope of SSAP No. 20R or 21R.
 - iii. Working capital finance investments in scope of SSAP No. 105R.
 - iv. Surplus notes in scope of SSAP No. 41R.
- ~~b. All debt securities that do not qualify as bonds which are in scope of SSAP No. 21R.~~
- c. Mortgage loans captured in scope of SSAP No. 37.
- ~~c. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.~~
- ~~d. Working capital finance investments in scope of SSAP No. 105R.~~

Staff Review Completed by: Julie Gann - NAIC Staff, July 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed revisions to SSAP No. 2R to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. To correspond with the bond project, this agenda item proposes an effective date of January 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 2R to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. To correspond with the bond project, this agenda item is effective January 1, 2025. In addition, NAIC staff were directed to sponsor a blanks proposal to revise the reporting lines accordingly and to draft an issue paper to detail the revisions for historical reference.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/12-1-23FallNationalMeeting/Adoptions/23-17-Short-TermInvestments.docx>

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

Issue: Actuarial Guideline 51 and Appendix A-010 Interaction

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

In 2017, the National Association of Insurance Commissioners (NAIC) adopted Actuarial Guideline 51, *The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51). Subsequent to the adoption of AG 51, American Academy of Actuaries, Health Practice Council, Financial Reporting and Solvency Committee have observed some diversity in practice across issuers of long-term care insurance with regard to how the new guidance in AG 51, and specifically Section 4.C thereof, interacts with existing guidance on accident & health (A&H) insurance reserve adequacy, as found in paragraph 24 of *Statement of Statutory Accounting Principles (SSAP) No. 54R—Individual and Group Accident and Health Contracts*, and paragraph 26 of Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*.

As an illustration of the observed diversity in practice, consider the following illustrative, simplified example:

1. Company XYZ has three lines of business: long-term care insurance, Medicare Supplement (Med Sup) insurance, and whole life insurance.
2. Cash flow testing performed for the long-term care block in isolation, in accordance with AG 51, shows deficiencies in all tested scenarios.
3. Cash flow testing performed for the entity as a whole, including both the life and A&H business combined, shows significant sufficiencies at the entity level in all tested scenarios.
4. A gross premium valuation performed on the long-term care reserves, in isolation, indicates that those reserves are deficient by \$250 million.
5. A gross premium valuation performed on the Medicare Supplement reserves, in isolation, indicates that those reserves contain \$150 million of sufficiency.

Given these facts, does Company XYZ need to strengthen its accident and health reserves in order to comply with the requirements of the NAIC *Accounting Practices & Procedures Manual*?

Depending on how one views the intended interaction between AG 51 and Appendix A-010, in this illustrative example one could conclude either that Company XYZ's reserves are adequate, or that they are deficient by \$100 million.

Argument that the reserves are adequate:

- Section 4.C of AG 51 sets out conditions for “determining whether additional reserves are necessary” for a block of long-term care insurance.
- In particular, Section 4.C.1 of AG 51 says that “a reserve deficiency in the LTC block may be aggregated

with sufficiencies in the company’s other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company.”

- In light of point 3 above, this implies that Company XYZ does not need to establish any additional reserves for its long-term care block. In effect, here Company XYZ gets to use sufficiencies that exist in its life reserves to avoid needing to strengthen its LTC reserves.
- There had been an exposure draft of AG 51 in February 2017 that contained the following language: “Requirements for standalone analysis for a health insurance major block of contracts, per *Model Regulation #010*, still apply even if aggregation of cash-flow testing results occurs.” However, this language was deleted from the version of AG 51 that was adopted later in 2017.

Argument that the reserves are deficient by \$100 million:

- Combining points 4 and 5 above, a gross premium valuation performed on Company XYZ’s A&H business in total shows a net deficiency of \$100 million (\$250 million LTC deficiency, offset by \$150 million Medicare Supplement sufficiency).
- Paragraph 26 of Appendix A-010 reads, in part, “...a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer’s health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy.”
- Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity’s A&H reserves, in total, need to be adequate; nor is AG 51 explicitly referenced within the Valuation Manual Section VM-25, “Health Insurance Reserves Minimum Reserve Requirements,” as a source of guidance on minimum reserve requirements.
- Thus, Company XYZ’s health reserves, taken as a whole, must at a minimum exceed the reserves produced by a gross premium valuation, regardless of AG 51. This would imply that Company XYZ needs to strengthen its LTC reserves by \$100 million, bringing the total deficiency in the gross premium valuation of its A&H reserves to zero.

Existing Authoritative Literature:

Excerpts from *SSAP No. 54R— Individual and Group Accident and Health Contracts* (bolding added):

11. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. **A prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.** Statutory reserves meet the definition of liabilities as defined in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. The actuarial methodologies referred to in paragraph 12 meet the criteria required for reasonable estimates in *SSAP No. 5R*.

12. **The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820, A-822 (as applicable), the *Valuation Manual* and the actuarial guidelines found in Appendix C of this Manual (as applicable).** Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Reserve Adequacy

24. As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be determined on the basis of unearned premium reserves, contract reserves, additional reserves, claim reserves (including claim liabilities), and miscellaneous reserves combined; however, each component shall be computed separately.

Excerpts from Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts* (bolding added):

23. These standards apply to all individual and group health and accident and sickness insurance coverages, including single premium credit disability insurance. All other credit insurance is not subject to Appendix A-010.

24. When an insurer determines that adequacy of its health insurance reserves requires reserves in excess of the minimum standards specified herein, such increased reserves shall be held and shall be considered the minimum reserves for that insurer.

25. With respect to any block of contracts, or with respect to an insurer's health business as a whole, **a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.** Such a gross premium valuation will take into account, for contract in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect.

26. Such a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy. Adequate reserves (inclusive of claim, premium and contract reserves, if any) shall be held with respect to all contracts, regardless of whether contract reserves are required for such contracts under these standards.

40. This statement incorporates the requirements of Appendices **A-010**, A-225, A-641, A-820, A-822 (as applicable), the *Valuation Manual*, the Actuarial Standards Board *Actuarial Standards of Practice* and **the actuarial guidelines found in Appendix C** of this manual (as applicable).

Excerpts from NAIC Valuation Manual, Section VM-25:

VM-25: HEALTH INSURANCE RESERVES MINIMUM RESERVE REQUIREMENTS A. Purpose 1. Reserve requirements for individual A&H insurance policies issued on and after the Valuation Manual operative date and reserve requirements for group A&H insurance certificates issued on and after the Valuation Manual operative date are applicable requirements found in the AP&P Manual; Appendix A, which includes A-10; and applicable requirements found in the AP&P Manual Appendix C, which includes Actuarial Guideline XXVIII—Statutory Claim Reserves for Group Long-Term Disability Contracts With a Survivor Income Benefit Provision (AG 28); Actuarial Guideline XLIV—Group Term Life Waiver of Premium Disabled Life Reserves (AG 44); Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47); and Actuarial Guideline L—2013 Individual Disability Income Valuation Table (AG 50).

Excerpts from *Actuarial Guideline 51 - The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)*

"Background. The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-25)* contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and

reasonableness of LTC reserves. The reserve adequacy testing required by Model #10 and VM-25 does not provide regulators comfort as to the reserve adequacy of companies with material blocks of LTC business. As such, regulators must rely upon asset adequacy analysis required by the *NAIC Valuation Manual (VM-30)* to evaluate the solvency position of companies with sizable blocks of LTC business. This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTC block of contracts. In particular, this Guideline....

Asset adequacy analysis specific to all inforce LTC business, and without consideration of results for other block of business within the company, must be performed for valuations associated with the December 31, 2017, and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding identification of key risks. Material assumptions associated with the LTC business shall be determined using moderately adverse deviations in actuarial assumptions.

4.B When determining whether additional reserves are necessary:

1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then additional reserves shall be established as required by section 2.C.2. of *VM-30*.
2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block.

First Page of Exhibit C

The NAIC Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, formerly known as the Life and Health Actuarial Task Force, have been asked on many occasions to assist a particular state insurance department in interpreting a statute dealing with an actuarial topic relative to an unusual policy form or situation not contemplated at the time of original drafting of a particular statute. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, in developing an interpretation or guideline, must often consider the intent of the statute, the reasons for initially adopting the statute and the current situation. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force feel that for those situations which are sufficiently common to all states, that the publishing of actuarial guidelines on these topics would be beneficial to the regulatory officials in each state and would promote uniformity in regulation which is beneficial to everyone. To this end, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force have developed certain actuarial guidelines and will continue to do so as the need arises. **The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.**

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):

Actuarial Guideline 51 was adopted by the Health Insurance and Managed Care (B) Committee in June 2017 and subsequently incorporated into Appendix C of the *NAIC Accounting Practices & Procedures Manual*.

As noted above, the February 2017 exposure draft of what was then called Actuarial Guideline LTC contained different language than the version adopted later that year as AG 51. The following are excerpts from the February 2017 exposure draft of AG LTC, with emphasis added. The bolded italicized language below does not exist, either verbatim or in modified form, within the adopted version of AG 51:

“Background The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-*

25) contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. *For instance, the Model Regulation states, “a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts”; however, other wording in the Model Regulation creates confusion for some on whether the test of adequacy is required at the major block of contract level. In the absence of uniform guidance, insurers may not be determining adequacy of LTC reserves in a uniform manner.* As such, this Guideline provides uniform guidance and limits to certain assumptions for the asset adequacy testing applied to an insurer’s major LTC block of contracts. ...”

3.C “When determining whether additional reserves are necessary:

1. In the case where cash-flow testing is used for both LTC business and for the companywide analysis.
 - a. A deficiency in the LTC segment may be offset by a projected and justified overall cash-flow testing sufficiency in non-LTC segments. The LTC-related assumptions in the companywide cash-flow testing shall be the same as with the standalone LTC cash-flow testing.
 - b. To the extent projected LTC reserve sufficiency is not offset through aggregation, reserves for LTC business shall be increased by any additional reserves required to eliminate the projected reserve insufficiency.
 - c. *Requirements for standalone analysis for a health insurance major block of contracts, per Model Regulation #010, still apply even if aggregation of cash-flow testing results occurs.”*
2. “In cases where cash-flow testing is not used for LTC business, reserves for LTC business shall be increased by any additional reserves required by the standalone LTC business asset adequacy analysis to eliminate a reserve insufficiency.”

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

To our knowledge the Working Group has not previously been made aware that a diversity of practice has developed, subsequent to the adoption of AG 51, regarding how AG 51 interacts with Appendix A-010.

In May 2022, the actuarial consulting firm Milliman released its seventh triennial survey on long-term care valuation practices.¹ Figure 2 of that report presents information about the approach companies use for aggregating statutory reserve adequacy testing results. The three options shown were “LTC line of business,” selected by 8 out of the 20 respondents; “health or life business lines combined,” selected by 2 out of the 20; and “company level,” selected by 10 out of the 20. Figure 1 of that report presents information about the types of reserve adequacy testing that is performed.

The three options shown were:

1. “GPV only” (“Gross Premium Valuation only”) selected by 3 out of the 20 respondents;
2. “Cash flow testing and GPV,” selected by 4 out of the 20; and
3. “Cash flow testing only,” selected by 13 out of the 20.

Taking these two pieces of data together, it would appear that many of the 20 companies participating in this Milliman survey believe that performing cash flow testing at the legal entity level is enough to satisfy reserve adequacy considerations in light of AG 51, and that there is not a separate requirement for the legal entity’s accident and health reserves to be adequate in aggregate under a gross premium valuation.

Recommended Conclusion or Future Action on Issue:

The committee recommends that the Working Group issue an interpretation to clarify the intended interaction between AG 51 and Appendix A-010, along the lines of one of the following two statements below, depending on which statement reflects the NAIC's underlying intent:

Statement A: “ With respect to an entity having a block of LTC insurance subject to Actuarial Guideline 51, even if Section 4.C of Actuarial Guideline 51 implies that the entity does not need to establish additional reserves for the LTC block, it nevertheless remains true that the entity's accident & health reserves in total must be adequate under a gross premium valuation in accordance with paragraph 26 of Appendix A-010.”

Statement B: “With respect to an entity having a block of LTC insurance subject to Actuarial Guideline 51, if Section 4.C of Actuarial Guideline 51 implies that the entity does not need to establish additional reserves for the LTC block, then the reserves for the LTC block are deemed to be adequate for purposes of applying the requirements of paragraph 26 of Appendix A-010 if no other A&H blocks are deficient.”

1 https://us.milliman.com/-/media/milliman/pdfs/2022-articles/5-24-22_2021_report_on_survey_of_ltc_valuation.ash

Recommending Party:

American Academy of Actuaries, Health Practice Council
 David Hutchins, MAAA, FSA, Chairperson, Financial Reporting and Solvency Committee
 1850 M Street NW Suite 300 Washington, DC 20036
 Matthew Williams, Senior Policy Analyst, Health 202-223-8196;
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 February 23, 2023

Staff Review Completed by:

Robin Marcotte, July 2023

Staff Recommendation:

This agenda item addresses the February 23 request from the Financial Reporting and Solvency Committee of the Health Practice Council of the American Academy of Actuaries, to the Long-Term Care Actuarial (B) Working Group and to the Statutory Accounting Principles (E) Working Group which requested clarifications regarding some observed diversity in practice across issuers of long-term care insurance with regard to how the guidance in *Actuarial Guideline LI: The application of Asset Adequacy Testing to Long Term Care Insurance Reserves* (AG 51), specifically Section 4.C, on determining when additional reserves may be necessary, interacts with existing guidance on accident and health insurance reserve adequacy, in *SSAP No. 54R—Individual and Group Accident and Health Contracts*, paragraphs 12 and 24 and Appendix A-010, *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*, paragraph 26. The fundamental question is regarding whether gross premium valuation only, cash flow testing only or both cash flow testing and gross premium valuation are required.

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose clarifying revisions and an illustration to SSAP No. 54R to clarify that gross premium valuation (under A-010) and cash flow testing (under AG 51) are both required if indicated. In addition, the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group should receive formal notice of the exposure.

The recommendation is based on the following key points:

1. SSAP No. 54R, paragraph 12 references both Appendix A-010 and the Actuarial Guidelines in Appendix C.

SSAP No. 54R, paragraph 24 explicitly notes the A-010 requirements for a prospective gross premium valuation as the ultimate test for reserve adequacy.

2. Appendix A-010 is based on a widely adopted NAIC model law 10 *Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts*. Appendix A-010 and Model 10 require that that an entity's A&H reserves, in total, need to be adequate. The front of Appendix C notes that the Actuarial Guidelines "The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance."
3. The adoption of the AG -51 did not change the provisions of the Model Law 10 or Appendix A-010. The provisions of the model law and Appendix A-010 both require health insurance reserves to be sufficient from a gross premium valuation standpoint on their own.
 - a. Paragraph 26 of Appendix A-010 reads, in part, "...a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy."
 - b. Nothing in AG 51 explicitly amends the requirement from Appendix A-010 that an entity's A&H reserves, in total, need to be adequate. (Note that amending the Model #10 would require going through the NAIC model law procedures, therefore, until such a process is undertaken.)
 - c. AG 51 is not explicitly referenced within the *Valuation Manual* Section VM- 25, "Health Insurance Reserves Minimum Reserve Requirements," as a source of guidance on minimum reserve requirements.
4. AG 51 Section 4.C. provides an additional long term care reserves adequacy cash flow test which allows aggregation. The AG 51 cash flow testing is in addition to the requirements of A-010, it does not replace the gross premium valuation requirements of A-010.

Therefore, in response to the example, in the initial illustration, additional reserves are indicated under A-010 and SSAP No. 54R. (Statement A is the correct response for the Illustration on page 1.) In the example provided, a gross premium valuation performed on Company XYZ's A&H business in total shows a net deficiency of \$100 million (\$250 million LTC deficiency, offset by \$150 million Medicare Supplement sufficiency). Therefore, the answer is that the company would need to post an additional \$100 million such that the Long-Term Care and Medicare Supplement reserves are sufficient, from a gross premium valuation standpoint, in total.

Proposed revisions to SSAP No. 54R:

12. The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820, A-822 (as applicable), the *Valuation Manual* and the actuarial guidelines found in Appendix C of this Manual (as applicable). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Reserve Adequacy

24. As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be determined on the basis of unearned premium reserves, contract reserves, additional reserves, claim reserves (including claim liabilities), and miscellaneous reserves combined; however, each component shall be computed separately. [Pursuant to Appendix A-010, paragraph 26, an entity's accident and health reserves in total must be adequate under a gross premium valuation. The requirements of Actuarial Guideline 51—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves \(AG 51\) provide a test which indicates whether reserves in addition to the requirements of A-010](#)

are indicated. AG 51 does not change the base requirements of A-010. (See Long-Term Care Illustration in Exhibit A)

New Exhibit to SSAP No. 54R

Long-Term Care Illustration on Interaction between SSAP No. 54R, and A-010 and AG 51

This illustration is to address the interaction in long-term care reserving requirements noted in this statement, Appendix A-010, Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts and Actuarial Guideline 51—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51). At a high level, A-010 is from Model #10 of the same name which provides the minimum requirements. AG 51 is an actuarial guideline which provides a test for whether additional reserves are indicated. AG 51 does not change the base requirements of A-010.

Consider the following illustrative, simplified example:

1. Company XYZ has three lines of business: long-term care insurance, Medicare Supplement (Med Sup) insurance, and whole life insurance.
2. Cash flow testing performed for the long-term care block in isolation, in accordance with Actuarial Guideline 51 (AG 51), shows deficiencies in all tested scenarios.
3. Cash flow testing performed for the entity as a whole, including both the Life and A&H business combined, shows significant sufficiency at the entity level in all tested scenarios.
4. A gross premium valuation performed on the long-term care reserves, in isolation, indicates that those reserves are deficient by \$250 million.
5. A gross premium valuation performed on the Medicare Supplement reserves, in isolation, indicates that those reserves contain \$150 million of sufficiency.

Given these facts, does Company XYZ need to strengthen its accident and health reserves in order to comply with the requirements of the NAIC Accounting Practices & Procedures Manual?

Response: Yes, Company XYZ needs to strengthen its accident and health reserves by \$100 million. This number is determined by the following:

	<u>Millions</u>
<u>Long-term care GPV, reserves are deficient by</u>	<u>(\$250) million.</u>
<u>Medicare Supplement GPV reserves sufficiency of</u>	<u>\$150 million.</u>
<u>Accident and Health GPV reserve net deficiency of</u>	<u>\$100 million</u>

Appendix A-010, paragraph 26, and SSAP No. 54R, paragraph 24, both require gross premium valuation.

Actuarial Guideline 51 is a test for additional reserves. That is, passing AG 51 does not relieve the reporting entity of the requirement of SSAP No. 54R and A-010 to have adequate accident and health reserves indicated by gross premium valuation.

Status:

On August 13, 2023, 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. 54R to clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated. In addition, the Working Group directed staff to provide formal notice of the exposure to the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 54 which clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/12-1-23 fall national meeting/adoptions/23-22 academy ag51 and appendix a-010.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2023/12-1-23%20fall%20national%20meeting/adoptions/23-22%20academy%20ag51%20and%20appendix%20a-010.docx)

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

Issue: Residuals in Preferred Stock and Common Stock Structures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to specifically identify in *SSAP No. 30—Unaffiliated Common Stock* and *SSAP No. 32—Preferred Stock* that structures that are in substance residual interests shall be accounted and reported as residual interests.

Common stock and preferred stock structures reflect ownership equity interests. Such structures would not ordinarily be construed to be in-substance residual interests or residual security tranches (residuals). However, information has been shared that investments are being created to repackage potential “additional interest” or “performance coupons” separately from debt instruments and are referring to these structures as preferred stock issuances.

From information received, an example of such a design has occurred to eliminate an investment structure from being classified as a principal-protected note, which will not qualify as a bond under the adopted bond definition effective January 1, 2025, and eliminate the assessment of the investment under the SVO’s principal-protected note methodology. With the repackaged structure, the debt security and ‘additional interest’ (equity) components will be separately issued. The debt structure will likely qualify as a bond and will likely have a higher credit designation that is permitted to be obtained from a credit-rating provider. (If reporting as a principal-protected note, the investment would be required to be filed with the SVO for a credit designation under the PPN methodology.)

Although the restructure of the investment design can occur, and the debt security component can be separately assessed to qualify as a bond, it is important to highlight that the equity component, which is based on the “additional interest / performance” of the dedicated pool of assets within the structure, is in substance a residual interest and is not in substance a common or preferred stock investment.

This agenda item proposes minor edits to *SSAP No. 30R* and *SSAP No. 32R* to explicitly state that structures that are in-substance residual interests shall be reported as residuals. Similar to the principal concepts detailed within the adopted bond definition, naming convention shall not direct investment classification, and the substance of the investment shall determine appropriate classification for statutory reporting. The revisions to the Annual Statement Instructions adopted in agenda item 2023-12 already identify that residual interests or residual security tranches that are not captured in *SSAP No. 43R—Loan-Backed and Structured Securities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* but that reflect residuals shall be captured in the dedicated Schedule BA reporting lines for residual interests.

Existing Authoritative Literature:

- *SSAP No. 43R—Loan-Backed and Structured Securities*

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through

rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

- ***SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies***

Residual Interests and Reporting

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are

cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

Schedule BA Annual Statement Instructions:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities*.

Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of *SSAP No. 43R* or *SSAP No. 48* but that reflect, in substance, residual interests or residual security tranches.

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 2023-12: Residuals was adopted on September 21, 2023, to clarify the description of residual interests / residual security tranches (residuals) and to clarify that all residuals shall be reported on the dedicated Schedule BA reporting lines.

- Bond Project – *SSAP No. 21R—Other Admitted Assets*: The revisions being considered to SSAP No. 21R under the bond project includes guidance for the measurement method (accounting) of residual interests. These revisions are still being discussed.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP Clarification and expose this agenda item with proposed revisions to *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock* to explicitly state that investments that are in-substance residual interests shall be reported on the dedicated reporting lines on *Schedule BA: Other Long-Term Assets*.

The Working Group is recommended to expose this agenda item via an interim evote for a shortened comment period to allow for adoption consideration during the 2023 Fall National Meeting to ensure appropriate reporting for year-end 2023.

Proposed Revisions to *SSAP No. 30R—Unaffiliated Common Stock*

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. [Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.](#)

Proposed Revisions to *SSAP No. 32R—Preferred Stock*

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*¹ as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- 2.3. [Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.](#)

Staff Review Completed by: Julie Gann - NAIC Staff, October 2023

¹ Certain legal entities captured in SSAP No. 48, such as LLCs that are corporate-like, do not issue preferred stock in legal form, but instead issue identical instruments labeled preferred units, interests, or shares. These instruments shall be captured in this statement provided they meet the structural characteristics as defined in paragraph 3. Additionally, these instruments shall not be in-substance common stock in which the holder has risk and reward characteristics that are substantially similar to common stock.

Status:

On October 31, 2023, the Statutory Accounting Principles (E) Working Group, through an e-vote, moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP Nos. 30R and 32R to specifically note that structures which are in substance residual interests shall be reported as residuals.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 30R and SSAP No. 32R with minor placement revisions recommended by interested parties. The adopted revisions are effective for year-end 2023 reporting, and specifically note that structures which are in substance residual interests shall be reported as residuals. In addition, the Working Group directed a year-end blanks memo and a subsequent blanks proposal to incorporate additional annual statement instructions recommended by interested parties to Schedule D-2-1: Preferred Stock and Schedule D-2-2: Common Stock.

Illustration of adopted revisions:

Proposed Revisions to SSAP No. 30R—Unaffiliated Common Stock
(Moving the tracked changes to a new paragraph 3 is the only edit from the exposure. All other paragraphs in SSAP No. 30R will be renumbered.)

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- ~~2.~~3. [Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.](#)

Proposed Revisions to SSAP No. 32R—Preferred Stock (No edits from exposure.)

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies²* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- ~~2.~~3. [Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.](#)

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2023/12-1-23FallNationalMeeting/Adoptions/23-23-ResidualinPSCS.docx>

² Certain legal entities captured in SSAP No. 48, such as LLCs that are corporate-like, do not issue preferred stock in legal form, but instead issue identical instruments labeled preferred units, interests, or shares. These instruments shall be captured in this statement provided they meet the structural characteristics as defined in paragraph 3. Additionally, these instruments shall not be in-substance common stock in which the holder has risk and reward characteristics that are substantially similar to common stock.

**Revisions to the
As of March 2023 Accounting Practices and Procedures Manual**

On **January 10, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
INT 23-04	SSAP No. 61R	Scottish Re Life Reinsurance Liquidation Questions <i>SAP Clarification</i> Effective (December 31, 2023)	<i>INT 23-04: Scottish Re Life Reinsurance Liquidation Questions</i> provides accounting and reporting guidance for ceding entities with reinsurance balances to or from Scottish Re, a U.S.-based life reinsurer in liquidation. The guidance focuses primarily on reinsurance recoverables.
2023-24	INT 06-07 SSAP No. 2R SSAP No. 5R SSAP No. 22R SSAP No. 26R SSAP No. 32R SSAP No. 34 SSAP No. 37 SSAP No. 39 SSAP No. 41R SSAP No. 43R SSAP No. 61R SSAP No. 62R SSAP No. 86 SSAP No. 103R SSAP No. 105R	ASU 2016-13 Measurement of Credit Losses on Financial Instruments (CECL) <i>SAP Clarification</i> Effective (December 31, 2023)	Revisions reject ASU 2016-13 and related subsequent ASUs in various SSAPs and <i>INT 06-07: Definition of Phrase “Other Than Temporary.”</i> These revisions reject CECL for statutory accounting.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/01 1-10-24/adoptions/00 - adoptions toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.national%20meeting%20materials/2024/01%201-10-24/adoptions/00%20-%20adoptions%20toc.docx)

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04: Scottish Re Life Reinsurance Liquidation Questions

INT 23-04 Dates Discussed

October 23, 2023; October 24, 2023; December 1, 2023; January 10, 2024

INT 23-04 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

INT 23-04 Issue

Background:

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

- a. The recent liquidation order was for Scottish Re, a U.S. life reinsurance entity, which was in regulatory supervision for several years.
- b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.
- c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.
- d. Settlement from the reinsurer's estate is expected to exceed one year.
- e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.
- f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements.

Interpretation Discussion

2. This interpretation is applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

INT 23-04: Life Reinsurance Liquidation Questions

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

Recaptures and Commutations

58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset*. The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

INT 23-04: Life Reinsurance Liquidation Questions

13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.
14. Amounts recoverable from the reinsurer's estate for claims incurred before the reinsurance contract cancellation and unpaid as of the reporting date shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.
15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.
16. After impairing the recoverables, any other amount expected to be recovered from the reinsurer's estate shall be reported on line 25 Aggregate Write-ins for Other Than Invested Assets.

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining receivables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?
18. Reinsurance recoverables from Scottish Re in liquidation are admitted as follows:
- a. The reinsurance recoverable amount from Scottish Re from paid claims incurred prior to the reinsurance contract cancellation which are reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute are admitted after impairment review.
 - b. To the extent reinsurance amounts recoverable are secured by assets in an Appendix A-785 - Credit for Reinsurance compliant trust, such recoverable amounts may be admitted to the extent the that the amounts are not in dispute and that the collateral in an Appendix A-785 compliant trust is sufficient.
19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785.

Issue 5 – Disclosures

20. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?
21. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.
22. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of Scottish Re reinsurance counterparties in liquidation, including but not limited to, reinsurance payable liabilities, reinsurance recoverables by paid claims and other amounts, information regarding the status of any collateral and its fair value. Where applicable, reporting entities should disclose any individual components (e.g., unreimbursed claims or provisions for future losses) of recoverable amounts that are presented in the aggregate on the financial statements. The

INT 23-04: Life Reinsurance Liquidation Questions

disclosure shall include measurement, impairment and collectability of any reinsurance recoverables including timing of expected payments and nonadmitted amounts.

INT 23-04 Summary

23. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:
- a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.
 - b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.
 - c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Report reinsurance payables separate from reinsurance recoverables. Amounts related to paid and unpaid claims incurred prior to reinsurance contract cancellation are reported on asset page line 16.1 - Amounts Recoverable from Reinsurers and asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, respectively. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be reported on the asset page line 25 Aggregate Write-ins for Other than Invested Assets.
 - d. Issue 4 – Admissibility of Reinsurance Recoverables: Admit amounts related to claims incurred prior to contract cancellation which have been paid by the reporting entity as of the reporting date (reported on asset page line 16.1 - Amounts Recoverable from Reinsurers) which are not in dispute after impairment review. Admit reinsurance recoverables which are not in dispute, and which are secured by collateral in an A-785 compliant trust. Nonadmit all amounts recoverable from a life reinsurer in liquidation which are either in dispute or which are not secured by collateral in a trust compliant with Appendix A-785.
 - e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation as described in paragraph 22.

INT 23-04 Status

24. The consensuses in this interpretation were adopted on January 10, 2024, with an effective date of reporting periods on or after December 31, 2023.
25. No further discussion is planned.

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

Issue: ASU 2016-13 Measurement of Credit Losses on Financial Instruments

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In June 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (CECL)* to change impairment and credit loss United States generally accepted accounting principles (GAAP) guidance from an “incurred loss” methodology to an “expected loss” methodology. These changes were made primarily in response to the 2008 Great Recession in which companies were anticipating significant credit losses but were unable to record these losses as the probable threshold had not yet been met. In response to this issue, FASB established the Financial Crisis Advisory Group (FCAG) to advise FASB on improvements to financial reporting in response to the Great Recession. The main recommendation from the FCAG to FASB was to investigate improvements to impairment and credit loss guidance through the development of an alternative to the “incurred loss” methodology. Based on this recommendation FASB developed CECL which replaces the “incurred loss” methodology and provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. CECL affects all entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance recoverables and any other financial assets not specifically excluded that have the contractual right to receive cash. The impact from applying CECL is anticipated to vary by reporting entity in accordance with the credit quality of assets held and how they apply current GAAP.

One significant difference between previous GAAP and CECL is that the impairment guidance for in-scope assets were superseded and replaced with credit loss guidance under *Topic 326—Financial Instruments—Credit Losses*. Beyond consolidating new credit loss guidance into a single topic, CECL fundamentally changed the methodology for calculating and recording credit losses by replacing the incurred credit loss model with the expected credit loss model, which requires expected losses to be assessed and recorded at the onset of the acquisition of in-scope assets. This requirement is applicable for all in-scope assets unless management assesses that the asset represents a zero-risk transaction, U.S. Treasuries for example. As a result, the calculation of a credit loss allowance is now required for many assets which previously would have only recorded a credit loss allowance once it has occurred, or the probable threshold had been met. The asset categories scoped into the new CECL credit loss guidance are as follows:

- Financing Receivables
- Receivables from Sales-Type or Direct Finance Leases
- Related Party Accounts and Loans Receivable, excluding related parties under common control.
- All financial instruments held at Amortized Cost (categorized as Held to Maturity under GAAP), excluding purchased financial assets with credit deterioration (PCDs).
 - Includes but is not limited to debt securities, trade and time-share receivables, contract assets, and reinsurance recoverables.
- Off-balance-sheet credit exposures not accounted for as insurance.
 - Includes but is not limited to loan commitments, forward commitments to purchase loans, letters of credit, and financial guarantees.
- Cash Equivalents

While CECL does require the accrual of an allowance on expected credit losses, it does not require a specific evaluation method but rather adopts a principles-based approach which allows for any kind of credit loss evaluation if the end product of the evaluation meets certain defined criteria. Additionally, assets with similar risk profiles may be evaluated for expected credit losses collectively but these risk profiles must be assessed annually to determine if they remain similar. Note that Available for Sale securities are excluded from the expected credit loss methodology but are instead required to utilize a modified other-than-temporary impairment (OTTI) model detailed in Topic 326-30. The following information summarizes the key information on the accounting and reporting of credit losses under Topic 326:

Overview of CECL Concepts:

Accounting guidance is divided into securities reported at amortized cost (includes investment held at Held-to-Maturity, or HTM), and debt securities reported as available for sale (AFS), which reports fair value through OCI. The following reflects high-level concepts from CECL:

Amortized Cost Securities:

1. Allowance for credit losses is a valuation accounting that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected on the financial assets. Net income is adjusted to reflect the allowance for credit losses based on the current expected estimate. The allowance shall be reported at each reporting date. Changes from current estimates shall be compared to estimates previously reported, with adjustments reflected in net income.
2. The entity shall measure credit losses on a collective basis when similar risk characteristics exist. If a financial asset does not share risk characteristics with other assets, the entity shall evaluate the asset on an individual basis. (Should not include individual and collective assessments on the same asset.)
3. The entity shall estimate expected credit losses over the contractual terms of the financial assets, considering prepayments. However, it shall not extend the contractual term for expected extensions, renewals, and modifications unless there is a reasonable expectation of executing a troubled debt restructuring.
4. When developing an estimate, the entity shall consider available information relevant to assessing collectability of cash flows. This may include internal information, external information, or a combination of past events, current conditions and reasonable and supportable forecasts. (Internal information may be determined sufficient.)
5. Historical credit loss information for assets with similar characteristics generally provides a basis for expected losses, but entities shall not rely solely on past events to estimate expected credit losses. When using historical information, the entity shall consider the need to adjust for management expectations about current conditions and reasonable and supported forecasts that differ from the historical period.
6. Estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote. However, entities are not required to measure expected credit losses when the expectation of nonpayment of the amortized cost basis is zero.
7. Estimate of expected credit losses shall reflect how credit enhancements (other than freestanding contracts) mitigate expected credit losses. However, freestanding contracts shall not be used to offset expected losses.
8. Assets purchased with existing credit deterioration are initially reported at the purchase price plus the allowance for credit losses to determine the initial amortized cost basis. Any noncredit discount or premium shall be allocated to each individual asset. At the acquisition date, the initial allowance for credits losses determined on a collective basis shall be allocated to individual assets to appropriately allocate any noncredit discount or premium.

9. For collateral-dependent financial assets, entities shall measure expected credit losses based on the fair value of the collateral when the entity determines that foreclosure is probable. The entity may expect credit losses of zero when the fair value (less costs to sell) of the collateral at the reporting date is equal to or exceeds the amortized cost basis of the financial asset. If the collateral is less than the amortized cost basis, an entity shall recognize an allowance for credit losses as the difference between the collateral fair value and the amortized cost of the asset.
10. In the period when financial assets are deemed uncollectible, they shall be written off with a deduction from the allowance.
11. Detailed disclosures are included to enable users to understand: 1) credit risk inherent in a portfolio and how management monitors credit quality of a portfolio; 2) management's estimate of expected credit losses; and 3) changes in the estimate of expected credit losses that have occurred during the period. These disclosures include a rollforward of the allowance for credit losses and a reconciliation of the purchase price for assets purchased with credit deterioration.
12. Noted examples are included for collateral-dependent financial assets (real estate loans), assets with collateral maintenance provisions (reverse-repurchase agreements), and HTM debt securities when potential default is greater than zero, but expected nonpayment is zero (Treasury Securities).

Available-for-Sale Debt Securities

13. Investment is impaired if the fair value of the investment is less than amortized cost basis.
14. For individual AFS debt securities, the entity shall determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. Impairments related to credit losses shall be recorded through an allowance for credit losses. However, the allowance shall be limited by the amount that the fair value is less than the amortized cost basis.
15. At each reporting date, the entity shall record an allowance for credit losses that reflects the amount of impairment related to credit losses, limited by the fair value floor. Changes in the allowance shall be recorded in the period of the change as a credit loss expense (or reversal of credit loss expense).
16. Impairment shall be assessed at the individual security level. For example, debt securities bearing the same CUSIP – even if purchased in separate lots – may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized or unrealized gains and losses for the debt securities. Providing a general allowance for an unidentified investment in a portfolio of debt securities is not appropriate.
17. In assessing whether a credit loss exists, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis. Credit losses on an impaired security shall continue to be measured using the present value of expected future cash flows. (Entity would discount the expected cash flows at the effective interest risk implicit in the security at the date of acquisition.)
18. Estimates of expected future cash flows shall be on the entity's best estimate based on past events, current conditions and on reasonable and supportable forecasts.
19. If the entity intends to sell, or if more-likely-than-not will be required to sell before recovery of the amortized cost basis, any allowance for credit losses shall be written off and the amortized cost basis shall

be written down to the debt security's fair value at the reporting date with any incremental impairment reflected in earnings.

20. Entities shall reassess the credit losses each reporting period when there is an allowance for credit losses. Subsequent changes shall be recorded in the allowance for credit losses, with a corresponding adjustment in the credit loss expense. Entities are not permitted to reverse a previously recorded allowance for credit losses to an amount below zero.
21. Once an AFS debt security has been written down, the previous amortized cost basis less write-offs, including noncredit related impairment reported in earnings, shall become the new amortized cost basis, and shall not be adjusted for subsequent recoveries in fair value.
22. For AFS debt securities for which impairments were reported in earnings as a write-off because of an intent to sell or a more-likely-than-not requirement to sell, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. Over the life of the security, continue to estimate the present value of cash flows expected to be collected. For all other AFS debt securities, if there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, those changes shall be accounted for as a prospective adjustment to the yield. Subsequent increases in fair value after the write-down shall be included in other comprehensive income.
23. These AFS debt securities shall be presented on the balance sheet at fair value, with parenthetical presentation of the amortized cost and the allowance for credit losses. The allowance for credit losses shall be separately presented as a component of accumulated other comprehensive income.
24. Detailed disclosures are included to allow users to understand: 1) credit risk inherent in AFS debt securities; 2) management's estimate of credit losses; and 3) changes in the estimate of credit losses that have taken place during the period. These disclosures include detailed information for situations in which AFS securities are in an unrealized loss position, but the entity has reached a conclusion that an allowance for credit losses is unnecessary. Other key disclosures include the methodology and significant inputs used to measure credit loss, a rollforward of the allowance for credit losses, and a reconciliation of purchased financial assets with credit deterioration.
25. Noted examples are included for AFS debt securities in an unrealized loss position for which no credit losses are reported (situations include Treasury Securities, Federal Agency MBS, and Corporate Bonds).

Additionally, CECL would make changes to how companies account for off-balance sheet credit exposures. Traditionally, most credit exposures have had no financial impact outside of disclosures until the probable threshold has been met. However, as credit exposures are within the scope of CECL entities will likely be required to assess and accrue a credit loss allowance at the inception of the credit exposure.

CECL also includes revisions to various other elements of the FASB Codification – Contingencies, Guarantees, Troubled Debt Restructuring, Revenue, Business Combinations, Consolidation, Derivatives, Fair Value Measurement, Foreign Currency Transactions, Leases, Transfer and Servicing, Insurance, Financial Guarantee Contracts, & Health Care Entities. Staff will evaluate these changes in detail, and if these revisions are applicable to SAP, as CECL is considered.

Subsequent Revisions:

Several ASUs have been issued after CECL to provide clarification and improvements to the guidance in ASC Topic 326. Note that references to CECL are inclusive of these subsequent revisions. For the discussion at the 2023 Fall National Meeting, NAIC staff will include the following ASUs:

- *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, amends CECL guidance by providing clarification on two specific issues.
 - Issue 1 amended the transition date effective for nonpublic entities from 2020 to 2021 year-end.
 - Issue 2 clarifies that receivables from operating leases are not within the scope of CECL and should be accounted for in accordance with Topic 820.
- *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, addresses several topics, which are further disaggregated by issue, intended to clarify or correct the original CECL guidance. The Topics are numbered from 1-5 with several individual issues addressed within each Topic.
 - Topic 1 provides clarifications on accrued interest, transfers between categories/classifications of loans and debt securities, and recoveries on previously written off financial assets.
 - Topic 2 corrects cross-references, clarifies that reinsurance recoverables are within the scope of CECL, and provides methodological clarifications in several areas involving the calculation of credit loss reserves (see Issues 2D through 2F).
 - Topic 3 provides clarifications and corrections on several issues involving Fair Value Hedges and Hedge Accounting and clarifies that non-profit organizations that do not separately report earnings may not adopt the amortization approach as detailed for fair value hedging.
 - Topic 4 clarifies that Health and Welfare Benefit plans are not within the scope of CECL, that the scope of certain disclosures is limited to only public entities and clarifies guidance on alternative to fair value valuations.
 - Topic 5 clarifies the presentation of line of credit converted to debt items and whether entities should consider extension or renewals when calculating contract terms.
- *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, amends the effective date for various ASUs. The transition date for CECL was moved to December 15, 2022, for all entities other than public SEC filers.
- *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, addresses five issues identified with CECL.
 - Issues 1 and 2 involve clarifications and additional guidance on assets purchased with credit deterioration.
 - Issue 3 extends the disclosure relief detailed in ASU 2019-04 to additional disclosures on accrued interest receivables.
 - Issue 4 provides clarifications on CECL assessments which involve financial assets secured by collateral maintenance provisions.
 - Issue 5 corrects a cross-reference error.
- *ASU 2020-03 Codification Improvements to Financial Instruments* addresses several issues identified with CECL.
 - Issue 1 clarifies that all entities are required to provide the fair value option disclosures.
 - Issue 2 corrects certain paragraphs in Topic 820 to include the phrase nonfinancial items accounted for as derivatives under Topic 815 to be consistent with the previous amendments.
 - Issue 3 clarifies that the disclosure requirements in Topic 320 apply to the disclosure requirements in Topic 942 for depository and lending institutions.
 - Issues 4 and 5 correct and enhance various cross-references.
 - Issue 6 clarifies the correct contractual term used to measure the net investment in a lease.
 - Issue 7 clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.

Staff Analysis:

The main purpose of statutory accounting principles (SAP) is to address the concerns of regulators, primarily as it relates to assessing solvency, who are the primary users of statutory financial statements. To do so, SAP stresses measurement of a company's ability to pay claims in the future and adopts reasonably conservative principles of accounting to ensure that insurance companies' capital and surplus is reflective of funds in excess of policyholder

liabilities which are available to pay claims should the assets backing reserves become insufficient. Risk-based capital then provides a basis for evaluating the sufficiency of this capital and surplus amount in the context of a particular company's risk-taking activities, including its exposure to credit risk. Capital requirements are calibrated to ensure sufficiency of capital even during periods of economic uncertainty and distress, within the intended level of statistical safety.

The statutory framework has long incorporated concepts that incorporate a prospective view of future credit risk that historical GAAP has not. The first is the Asset Valuation Reserve (AVR). AVR requires life insurance companies to establish a reserve to account for future impairment losses on all assets (with some minor exceptions). While this is much more formulaic than the allowance required under CECL, it is intended to accomplish the same objective. The second is that *SSAP No. 26R—Bonds* requires insurance companies that do not maintain AVR to report bonds at fair value if the bond is not considered high-quality (NAIC designations 3 to 6). While this requirement does not result in credit loss reserves, it does have a similar effect by requiring non-life companies to report lower quality bonds at fair value or convert previously highest or high-quality bonds to fair value in the event of credit quality degradation. Further, the RBC formula factors in the credit risk of each individual asset in calculating the amount of capital required to be held. These mechanisms incorporate an expectation of future credit losses. Therefore, while GAAP has just begun recognizing an expectation of future credit losses with the advent of CECL, the statutory framework has recognized and incorporated future credit loss potential for decades.

Although the statutory framework has long considered future credit losses, it is worth assessing CECL to determine whether it could introduce any improvements to the existing statutory framework if adopted. Based on the review performed, Staff does not recommend adoption of CECL for the following reasons:

- CECL is a framework that incorporates significant judgement and forecasting by the company to establish credit reserves. The assumptions and data that go into these estimates are required to be company-specific, reflecting the company's reasonable and supportable forecasts of future economic conditions. It also is required to consider current economic conditions, which results in sensitivity in the reserve to changing economic conditions. The statutory framework has historically limited insurer judgment in estimating reserves. Where judgment has been allowed, there are typically mechanisms in place to closely regulate and assess those assumptions for reasonableness. Further, loss reserves and RBC are generally set to already incorporate downside risk within a desired level of statistical safety. As the framework already incorporates an expectation of adverse experience, it is not particularly volatile with changes in economic conditions. It is intended to reflect risk through the economic cycle, not at a point in time. As a result of both the volatility and judgment involved, the CECL standard does not fit the overall design of the statutory accounting and solvency monitoring framework.
- CECL does not provide a specific method that companies must use to make expected loss estimates but is instead defined by several results-oriented principles. While this does allow companies the flexibility to adopt the forecasting process that best fits their investments and company, it also means that there will be a significant diversity in the methods used to calculate expected credit losses under CECL. Such optionality is generally not considered compatible with SAP and would also place a significant burden on regulators and examiners to assess the variety of forecasting methods utilized by insurance companies.
- The majority of insurance company investments are debt securities which are generally classified as Available for Sale (AFS) for GAAP reporting. Investments classified as AFS are held at fair value with changes in fair value recorded through other comprehensive income. The portion of the CECL standard that applies to AFS securities is markedly different than what applies to debt securities held at amortized cost. Unlike GAAP, statutory accounting requires the majority of debt securities to be held at amortized cost. As a result, using a CECL standard for statutory accounting would be significantly more expansive and impactful to a statutory balance sheet than under GAAP and would result in a significantly different application of CECL between statutory accounting and GAAP, even if the identical standard were adopted.
- CECL is a complex standard that requires companies to either develop internal models or to contract an external solution to support calculating a reserve. GAAP does allow companies to elect to hold their investments under the fair value option, in which case CECL is not required. This may be an appealing option for some insurers, particularly smaller ones that wish to avoid the operational cost of CECL. The

fair value option does not exist for statutory accounting. As such, adopting CECL would likely force insurers to incur the cost of CECL that would not otherwise be necessary for their GAAP financial statements.

- Similarly, many insurance companies do not prepare GAAP financial statements. This means that they would need to learn about and adopt CECL for the first time for their statutory financial statements if CECL were to be adopted.
- As RBC has its own methodology for incorporating credit risk, any CECL allowance would need to be reversed in the RBC formula in order to avoid double counting expected losses. This would largely eliminate any benefit of CECL to regulators' solvency monitoring efforts.

As a result of these factors, NAIC Staff does not recommend adopting CECL for statutory accounting.

Existing Authoritative Literature:

Existing SAP guidance has predominantly adopted (or adopted with modification) GAAP guidance pertaining to other-than-temporary impairment. However, the adopted guidance, although coming from GAAP, does not reflect GAAP concepts for similar securities. For example, the guidance in SSAP No. 26R reflects concepts from GAAP applicable for receivables and loans (e.g., it is probable that the entity will be unable to collect all amounts due accordingly to the contractual terms.) The guidance in *SSAP No. 43R—Loan-Backed and Structured Securities* is more comparable to current GAAP concepts applicable for both HTM and AFS debt securities (e.g., assessment of whether an entity will recover the amortized cost basis based on a review of the present value of cash flows.)

The GAAP categories for debt securities have previously been rejected for statutory accounting. As such, SAP does not include the classifications of “Held-to-Maturity,” “Available-for-Sale” or “Trading” for debt securities. All debt securities are captured within SSAP No. 26R or SSAP No. 43R and reported at either amortized cost, or the lower of amortized cost or fair value, based on NAIC designation.

Existing Authoritative Literature:

INT 06-07: Definition of the Phrase “Other Than Temporary” – This INT reflects the adoption with modification of *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*. **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13.** (This INT has not been duplicated in this agenda item.)

Preamble – This guidance reflects some of the core principles of statutory accounting as it pertains to the Staff Analysis detailed above:

19. SAP is conservative in some respects but not unreasonably conservative over the span of economic cycles, or in recognition of the primary statutory responsibility to regulate for financial solvency. SAP attempts to determine at the financial statement date an insurer's ability to satisfy its obligations to its policyholders and creditors.

33. Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. Valuation procedures should, to the extent possible, prevent sharp fluctuations in surplus.

SSAP No. 26R, Paragraphs 12-13 – This guidance reflects adoption of *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*. **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13.**

13. An other-than-temporary^(INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition.¹ A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

14. In periods subsequent to the recognition of an other-than-temporary impairment loss for a bond, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the bond on the measurement date shall become the new cost basis of the bond and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized over the remaining life of the security in the prospective manner based on the amount and timing of future estimated cash flows. The security shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than temporary shall be recorded as realized losses.

SSAP No. 43R, Paragraphs 12-13 – This guidance reflects concepts included within *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*, as well the adoption of *EITF 99-20, Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security*, and *FSP ETIF 99-20-1, Amendments to the Impairment Guidance of ETIF Issue 99-20*. **The guidance reflected from this FSP was included in ASC 310-20, 325-40, and 326-30 and has been deleted or significantly revised with the issuance of ASU 2016-13:**

Collection of All Contractual Cashflows is Not Probable

19. The following guidance applies to loan-backed and structured securities with evidence of deterioration of credit quality since origination for which it is probable, either known at acquisition or identified during the holding period, that the investor will be unable to collect all contractually required payments receivable, except for those beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount determined at acquisition (see paragraphs 22-25).

20. The reporting entity shall recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan-backed or structured security as interest income on an effective-yield basis over the life of the loan-backed or structured security (accretable yield). Any excess of contractually required cash flows over the cash flows expected to be collected is the nonaccretable difference. Expected prepayments shall be treated consistently for determining cash flows expected to be collected and projections of contractual cash flows such that the nonaccretable difference is not affected. Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

21. An investor shall continue to estimate cash flows expected to be collected over the life of the loan-backed or structured security. If, upon subsequent evaluation:

¹ If a bond has been modified from original acquisition, the guidance in *SSAP No. 36—Troubled Debt Restructuring* and paragraph 22 of *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the modified contractual terms of the debt instrument.

- a. The fair value of the loan-backed or structured security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary ^(INT 06-07). For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with paragraph 19.b.)), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.
- b. Based on current information and events, if there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan-backed or structured security as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment less (2) cash collected less (3) other-than-temporary impairments plus (4) amount of yield accreted to date. The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3), with the amount of periodic accretion adjusted over the remaining life of the loan-backed or structured security (prospective method).

Unrealized Gains and Losses and Impairment Guidance

29. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with paragraph 36 of this statement. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

30. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs 33-37). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

31. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss.

32. If an entity intends to sell the loan-backed or structured security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

33. If an entity does not intend to sell the loan-backed or structured security, the entity shall assess whether it has the intent and ability² to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

34. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the

² This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this statement (amortized cost).

security and the entity has the intent and ability to hold. Therefore, in those situations, an other-than-temporary impairment shall be considered to have occurred. (For mortgage-referenced securities, an OTTI is considered to have occurred when there has been a delinquency or other credit event in the referenced pool of mortgages such that the entity does not expect to recover the entire amortized cost basis of the security.) In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a non-interest related decline³ exists), and an other-than-temporary impairment shall be considered to have occurred. A decrease in cashflows expected to be collected on a loan-backed or structured security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

35. In determining whether a non-interest related decline exists, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired loan-backed or structured security, discounted at the security's effective interest rate.

- a. For securities accounted for under paragraphs 14-18 – the effective interest rate of the loan-backed or structured security is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).
- b. For securities accounted for under paragraphs 19-21 – the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment.
- c. For securities accounted for under paragraphs 22-25 – the reporting entity shall apply the guidance in paragraph 24.b.

36. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized.)

37. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate in accordance with paragraph 35. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities due to the reporting requirements.)

Reinsurance recoverables are explicitly included in the scope of the new CECL guidance, but only for “*expected losses related to the credit risk of the reinsurer/assuming company*” (326-20-55-82). The current existing statutory accounting guidance does not include the concept of reserving for expected credit losses. It should be noted that while not related to creditworthiness, *SSAP No. 62R—Property and Casualty Reinsurance* does include the concept

³ A non-interest related decline is a decline in value due to fundamental credit problems of the issuer. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due. An interest related decline in value may be due to both increases in the risk-free interest rate and general credit spread widening.

of the provision for reinsurance, which is more focused on known overdue/uncollectible reinsurance and does not take the creditworthiness of the reinsurer into the calculation. However, impairment analysis is required for reinsurance balances in both *SSAP No. 61R—Life, Deposit -Type and Accident and Health Reinsurance* and *SSAP No. 62R*.

Multiple other SSAPs are impacted by the updated guidance, and NAIC Staff has prepared tables in Exhibit 1 which provide detailed summarizations of the updates made by CECL.

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 following ASUs were issued after CECL as clarifications and improvements to the guidance in ASC Topic 326 but have already been addressed for statutory accounting purposes by the Working Group:

- *ASU 2019-05 Financial Instruments—Credit Losses (Topic 326)—Targeted Transition Relief* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2019-28.
- *ASU 2022-02 Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-10.
- *ASU 2022-01 Derivatives and Hedging (Topic 815) Fair Value Hedging—Portfolio Layer Method* was assessed and adopted with modification for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-09.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):

The credit losses project began as a joint project with the IASB, but the Boards determined that convergence was not possible in 2012 due to the differing needs of their respective stakeholder groups. The IASB issued *IFRS 9, Financial Instruments* in July 2014. The FASB and IASB both sought to respond to concerns identified pertaining to the delayed recognition of credit losses; however, the IASB’s stakeholders strongly preferred an impairment model that uses a dual measurement approach, while U.S. stakeholders strongly preferred the current expected credit loss model.

The main difference between ASU 2016-13 and IFRS 9 relates to the timing of recognition of expected losses. The ASU requires that the full amount of expected credit losses be recorded for all financial assets measured at amortized cost, whereas IFRS 9 requires an allowance for credit losses equal to 12 months of expected credit losses until there is a significant increase in credit risk, at which point lifetime expected losses are recognized. Consequently, the allowance for credit losses as measured and recorded under the ASU will be accounted for differently under GAAP than under IFRS and will have a different effect on the financial statements.

Staff Recommendation:

Based on the Staff Analysis detailed on Pages 6-7, Staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject *ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs (see “Subsequent Revisions” on page 5) within the following SSAPs:

- *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
- *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*
- *SSAP No. 22R—Leases*

- *SSAP No. 26R—Bonds*
- *SSAP No. 32R—Preferred Stock*
- *SSAP No. 34—Investment Income Due and Accrued*
- *SSAP No. 37—Mortgage Loans*
- *SSAP No. 39—Reverse Mortgages*
- *SSAP No. 41R—Surplus Notes*
- *SSAP No. 43R—Loan and Asset Backed Securities*
- *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*
- *SSAP No. 62R—Property and Casualty Reinsurance*
- *SSAP No. 86—Derivatives*
- *SSAP No. 103R—Transfer/Service of Financial Assets*
- *SSAP No. 105R—Working Capital Finance Investments*
- *INT 06-07: Definition of the Phrase “Other Than Temporary”*

Staff also recommends modifying *INT 06-07: Definition of Phrase “Other Than Temporary”* to clarify that companies should adhere to the impairment guidance detailed within the SSAPs, which may reflect U.S. GAAP guidance prior to the FASB’s issuance of ASU 2016-13.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018. Agenda item 2016-20 was reviewed by NAIC Staff, and we recommend it be formally disposed and replaced by this new agenda item.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 22R—Leases

53. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\),](#)

[ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*, *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA*, and *FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115*. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary’s Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations*, and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. This statement rejects [ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects *AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes*, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. This statement rejects [ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. This statement rejects [ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\),](#)

[ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

[129. This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

[134. This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to INT 06-07: Definition of Phrase “Other Than Temporary”

INT 06-07 Discussion

13. On **xx/xx/2024**, the Working Group rejected [ASU 2016-13 Measurement of Credit Losses on Financial Instruments](#) and other related ASUs. As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

Staff Review Completed by:

NAIC Staff – William Oden, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to reject ASU 2016-13, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, ASU 2019-04, *Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, ASU 2019-11 *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and ASU 2020-03 *Codification Improvements to Financial Instruments*, within INT 06-07: Definition of Phrase “Other Than Temporary” and fifteen applicable SSAPs which are detailed above. The Working Group also moved agenda item 2026-20, which was started to address CECL, to the disposed listing. The Working Group directed NAIC staff to research how best to maintain pre-CECL GAAP impairment guidance for posterity.

On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023 meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024 to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

On January 10, 2024, the Working Group adopted, as final, the exposed revisions, as detailed below, to INT 06-07 and SSAP Nos. 2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, and 105R to reject ASUs 2016-13, 2018-19, 2019-04, 2019-10, 2019-11, and 2020-03 as not applicable to statutory accounting. The Working Group also reiterated its direction to NAIC staff to research and prepare a document to maintain pre-CECL GAAP impairment guidance for posterity.

Note on January 10, 2024, Exposed Revisions: Subsequent to the Fall National Meeting Exposure, additional consistency revisions were made to the proposed revisions and are shown highlighted **grey** below for January 10, 2024, discussion. The sentence directing companies to continue applying the relevant statutory accounting impairment guidance was originally excluded from any revised SSAPs which was within scope of INT 06-07 as the INT already had this sentence. Staff later determined that it would be clearer and cleaner to have this sentence within all revised SSAPs. Additionally, Staff adjusted each of the revised SSAPs to specifically denote the effective date of the rejection.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. Effective December 31, 2023, ~~T~~his statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. Effective December 31, 2023, ~~T~~his statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 22R—Leases

53. Effective December 31, 2023, ~~T~~his statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, ASU 2016-01, Financial Instruments – Overall, FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA, and FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115*. Effective December 31, 2023, ~~T~~his statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification*

[Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary’s Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations*, and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

129. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to

[Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

134. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. [Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#) Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to INT 06-07: Definition of Phrase “Other Than Temporary”

INT 06-07 Discussion

13. On ~~xx/xx/2024~~, Effective December 31, 2023, ~~the~~ Working Group rejected *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. ASU 2016-13 Measurement of Credit Losses on Financial Instruments and other related ASUs.* As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/011-10-24/01-23-24-ASU2016-13-CECL.docx>

Exhibit 1 – Summary of Changes from ASU 2016-13 and subsequent ASUs

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Balance Sheet—Overall	210-10	Removal of disclosure guidance link.	45-15
Comprehensive Income—Overall	220-10	Supersede content and amend AFS guidance link.	45-10A 45-16A 55-15B
Statement of Cash Flows—Overall	230-10	Amends guidance to say amortized cost basis.	45-21
Interim Reporting—Overall	270-10	Amend guidance for new credit loss language and include references to transition guidance.	50-1
Receivables—Overall	310-10	Amends guidance for new CECL language, supersedes (or transfers to 326) several guidance paragraphs including OTTI, and adds new guidance on PCD interest income.	05-1 35-1 thru 49 35-53A thru C 45-1 45-4A 45-5 45-6 50-1 thru 35 55-1 thru 12 55-16 thru 22
Receivables—Nonrefundable Fees and Other Costs	310-20	Amends guidance for new CECL language and supersedes OTTI guidance.	15-3 15-4 35-9 60-1 60-2
Receivables—Loans and Debt Securities Acquired with	310-30	Supersedes entire subtopic and replaces with transition guidance.	All

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Deteriorated Credit Quality			
Receivables— Troubled Debt Restructurings by Creditors	310-40	Amends guidance for new CECL language, supersedes OTTI guidance, and eliminates exclusion of loan pools from the scope of 310-40.	15-11 15-12 35-7 thru 12 40-3 50-1 thru 6 55-7 55-13 thru 15
Investments—Debt Securities—Overall	320-10	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance.	15-4 15-9 15-10 35-1 35-17 thru 24 35-30 35-33A thru I 35-34 thru 37 35-43 40-1 40-2 45-7 thru 9A 50-1 thru 8B 55-16 thru 19 55-21A thru 23
Investments—Equity Method and Joint Ventures—Overall	323-10	Amendment conforms terminology to match CECL guidance.	35-25 55-30 55-34 55-38 55-42 55-44 55-46

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Investments—Other—Beneficial Interests in Securitized Financial Assets	325-40	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance. Also adds specific guidance for benefit interests acquired as with PCD and adds a requirement to use the PV of future cash flows to measure expected credit losses for benefit interests.	15-3 15-4 25-2 30-1 thru 2 35-2 thru 4C 35-6 35-6A thru 10B 35-13 35-14 55-1
Financial Instruments—Credit Losses	326-10 326-20 326-30	Creates Topic 326 codification; note that some guidance was moved from existing codification for inclusion within 326 and these transfers are underlined. Note that AFS and HTM classifications are not applicable for statutory accounting purposes.	All
Contingencies—Loss Contingencies	450-20	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	15-2 50-2A 60-2 60-3
Guarantees—Overall	460-10	Amendment conforms terminology to match CECL guidance and requires that guarantees within the scope of 326 must bifurcate the instruments and apply Topic 326 guidance to the contingent portion and Topic 460 to the non-contingent portion.	25-2 25-3 30-5 35-3 35-4 45-1 50-4 50-5 55-21 55-22

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Debt —Troubled Debt Restructurings by Debtors	470-60	Amendment conforms terminology to match CECL guidance.	15-3 15-12
Revenue from Contracts with Customers—Overall	606-10	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	45-3 45-4 50-4 55-108 55-109 55-231 55-237 55-239
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	805-20	Amendment conforms terminology to match CECL and guidance on recording PCD assets which are within the scope of CECL or are purchased with credit deterioration. Additionally, guidance was simplified for indemnification assets arising from government-assisted acquisitions of a financial institution.	30-2 30-4 thru 4B 30-10 30-12 30-26 35-4B
Consolidation—Overall	810-10	Amendment conforms terminology to match CECL guidance.	30-8C
Derivatives and Hedging—Overall	815-10	Amends guidance for new CECL language and supersedes OTTI guidance.	35-5
Derivatives and Hedging—Embedded Derivatives	815-15	Amends OTI guidance to instead direct reader to Topic 326.	25-5
Derivatives and Hedging—Fair Value Hedges	815-25	Amendments conforms terminology to match CECL guidance and includes codification links to topic 326.	35-10 thru 12 55-85 thru 90
Derivatives and Hedging—Cash Flow Hedges	815-30	Amendment conforms terminology to match CECL guidance.	35-42 35-43

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Fair Value Measurement—Overall	820-10	Amendment conforms terminology to match CECL guidance.	55-92
Financial Instruments—Overall	825-10	Amendment conforms terminology to match CECL guidance and supersedes old credit loss guidance.	05-2 25-4 35-1 thru 3 55-8 55-10
Foreign Currency Matters—Foreign Currency Transactions	830-20	Amendment conforms terminology to match CECL guidance and supersedes old AFS guidance for foreign currency debt securities.	35-6 35-7
Interest—Overall	835-10	Amendment supersedes interest income recognition on impaired or deteriorated credit quality loans.	60-2 60-3
Leases—Lessor	842-30	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance/terminology with credit loss guidance.	25-2 25-6 25-9 35-3 40-2
Leases—Leveraged Lease Arrangements	842-50	Amendment removes original OTTI reference and adds codification references to Topic 326.	50-2
Subsequent Events—Overall	855-10	Amendment conforms terminology to match CECL guidance and remove examples now subject to Topic 326.	55-1 55-2
Transfers and Servicing—Sales of Financial Assets	860-20	Amendment conforms terminology to match CECL guidance and adds reference links to Topic 326 for the sale of financial assets which are receivables, purchased financial asset with credit deterioration, or is a beneficial interest that meets the criteria in paragraph 325-40-30-1A.	30-2 35-3 35-9 50-5 55-19
Financial Services—Depository and	942-230	Amendment terminology in implementation illustration to match CECL guidance.	55-2 55-4

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Lending—Statement of Cash Flows			
Financial Services— Depository and Lending— Receivables	942-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance.	05-1 05-4 25-1 35-1 55-1
Financial Services— Insurance—Insurance Activities	944-20	Amendment removes impairment guidance/terminology.	55-37
Financial Services— Insurance—Separate Accounts	944-80	Amendment supersedes impairment and unrealized gain/loss guidance/terminology with credit loss guidance.	25-9 55-11 55-16
Financial Services— Insurance— Receivables	944-310	Amendment conforms terminology to match CECL guidance and adds requirement to assess credit losses on insurance receivables and references to Topic 326.	35-3 35-4 35-6 45-4 45-4A
Financial Services— Mortgage Banking— Receivables	948-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance with Topic 326.	30-1 30-4 35-1 thru 3 35-5 35-5A 50-1
Health Care Entities— Income Statement	954-225	Amendment replaces impairment reference with credit loss language.	45-8
Health Care Entities— Receivables	954-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	30-1 35-1
Not-for-Profit Entities— Investments—Debt and Equity Securities	958-320	Amendment replaces impairment guidance with credit loss guidance.	55-5

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Not-for-Profit Entities— Investments—Other	958-325	Amendment replaces impairment guidance with credit loss guidance.	30-1 35-1
Real Estate—Time- Sharing Activities— Receivables	978-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	35-5 35-6

ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Overall	326-10	Extends effective date of CECL from 2020 to 2021.	65-1
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	Add clarification that operating lease receivables are in scope of Topic 842.	15-3
Various	Various	Amend the transition dates of all pending content paragraphs that link to transition guidance paragraph 326-10-65-1 from 2020 to 2021.	Various

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments related to accrued interest receivables provide an entity with the ability to measure an allowance for credit losses on accrued interest receivables separately from the allowance for credit losses on the other components of the amortized cost basis and to make certain accounting policy elections and apply a practical expedient to operationalize the amendments in Update 2016-13.	30-5 30-5A 35-8A 45-5 50-3A thru 3D 30-1A 30-1B 35-13A 45-1 50-3A thru 4
Receivables—Overall & Investments—Debt Securities—Overall & Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Services—Mortgage Banking—Receivables	310-10 & 320-10 & 326-20 & 948-10	The amendments related to transfers between classifications or categories for nonmortgage loans and debt securities provide an entity with guidance on how to account for the allowance for credit losses or the valuation allowance when transferring loans and debt securities.	35-47 thru 48B 45-2 35-10 thru 10B 35-15 35-16 45-8B 55-24 55-25 35-7 30-4 35-2A 35-5A 45-2
Financial Instruments—Credit Losses—Measured at Amortized Cost &	326-20 & 326-30	The amendments clarify that an entity should consider expected recoveries when measuring the allowance for credit losses by superseding the guidance in paragraphs 326-20-35-8 through 35-9 that may have precluded an entity from	30-1 35-4 35-5 35-8 35-9

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Available-for-Sale Debt Securities		considering recoveries when estimating expected credit losses on financial assets measured at amortized cost basis. Additionally, the amendments clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity.	50-13 55-52 35-12 35-13
Receivables—Troubled Debt Restructurings by Creditors	310-40	The amendment clarifies paragraph 310-40-55-14 by removing the incorrect cross-reference to paragraph 326-20-35-2 and, instead, properly cross-referencing paragraphs 326-20-35-4 through 35-5, which require that an entity use 41 the fair value	55-14
Investments—Equity Method and Joint Ventures—Overall	323-10	The amendment to paragraph 323-10-35-26 clarifies the guidance by including references to both Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, and Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities, to require the subsequent measurement of credit losses on financial assets after the guidance on equity method losses is applied.	35-24 35-26
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify that reinsurance recoverables that result from insurance transactions that are within the scope of Topic 944, Financial Services—Insurance, are within the scope of Subtopic 326-20 even if those reinsurance recoverables are measured on a net present value basis in accordance with Topic 944.	05-1 15-2
Financial Instruments—Credit	326-20 &	The amendments clarify the Board’s intent for how an entity should determine the effective	30-4

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-30	interest rate and estimated expected future cash flows by removing the prohibition in the guidance and requiring that the projections used for determining the effective interest rate also be used in determining the estimated expected future cash flows. The amendments also clarify that if an entity projects future interest rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments, then the entity should adjust the effective interest rate to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments.	35-11
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments in paragraph 326-20-30-4A permit an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a financial asset. The amendments also clarify that an entity should not adjust the effective interest rate used to discount expected cash flows for subsequent changes in expected prepayments if the financial asset is restructured in a troubled debt restructuring. Paragraph 326-30-35-7A was also amended to allow an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a debt security classified as available-for-sale	30-4A 35-7A
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify the guidance and align the measurement of credit losses using fair value of collateral when foreclosure is probable and when an entity elects the collateral-dependent	35-4 35-5

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		practical expedient by adding a requirement to adjust the fair value of the collateral for estimated costs to sell in paragraph 326- 20-35-4. Additionally, the amendments clarify the guidance that when an entity adjusts the fair value of the collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell rather than operate the collateral.	
Derivatives and Hedging—Hedging—General & Derivatives and Hedging—Fair Value Hedges	815-20 & 815-25	The amendments clarify that an entity may measure the change in fair value of a hedged item using an assumed term only for changes attributable to interest rate risk. They also clarify that an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term when the hedged item is designated in a hedge of both interest rate risk and foreign exchange risk. In addition, the amendments clarify that one or more separately designated partial term fair value hedging relationships of a single financial instrument can be outstanding at the same time.	25-12 35-13B 55-99
Derivatives and Hedging—Fair Value Hedges	815-25	The amendments clarify that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. They also clarify that if an entity elects to amortize the basis adjustment during an outstanding partial-term hedge, the basis adjustment should be fully amortized by the hedged item’s assumed maturity date in accordance with paragraph 815-25-35-13B.	35-9A

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Derivative and Hedging—Overall	815-10	The amendments clarify that an entity should disclose available-for-sale debt securities at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.	4EE
Derivatives and Hedging—Cash Flow Hedges	815-30	The amendment clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.	35-26
Derivative and Hedging—Overall & Derivatives and Hedging—Hedging—General	815-10 & 815-20	The amendments clarify that a not-for-profit entity that does not separately report earnings is not permitted to elect the amortization approach for amounts excluded from the assessment of effectiveness under fair value hedge accounting. The amendments also update the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815, Derivatives and Hedging, for entities that do not report earnings separately.	15-1 15-1 25-12
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer designation concurrently with hedge inception. The amendments also clarify that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) qualify for the same 60 subsequent quarterly hedge effectiveness assessment timing relief for which certain private companies qualify in accordance with paragraph 815-20-25-142.	25-139 25-143

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that the application of the first payments-received cash flow hedging technique to changes in overall cash flows on a group of variable interest payments continues to be permitted under Topic 815, Derivatives and Hedging.	55-33G
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify various provisions to the amendments in Update 2017-12.	65-3 65-5
Investments—Debt Securities—Overall & Investments—Equity Securities—Overall	320-10 & 321-10	The amendments clarify the guidance in paragraphs 320-10-15-3 and 321-10-15-3, including adding health and welfare plans to the list of entities for which Topic 320, Investments—Debt Securities, does not apply.	15-3 15-3
Investments—Debt Securities—Overall & Financial Services—Depository and Lending—Investments—Debt and Equity Securities	320-10 & 942-320	The Board intended to eliminate all fair value disclosures for financial assets measured at amortized cost basis for entities other than public business entities through the amendments in Update 2016-01. The amendments clarify the guidance in paragraph 320-10-50-5 by eliminating the requirement for entities other than public business entities to disclose aggregate fair value of held-to maturity debt securities.	50-5 50-5A 50-3 50-3A
Investments—Equity Securities—Overall	321-10	The amendments clarify that all adjustments made under the measurement alternative upon the identified remeasurement events should be accounted for in accordance with Topic 820.	35-2 50-2B
Foreign Currency Matters—Overall & Financial Instruments—Overall	830-10 & 825-10	The amendments clarify that an entity is required to follow paragraph 830-10-45-18 for equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with paragraph 321-10-35-2. Paragraph 830-10-45-18 requires remeasurement	45-18 65-5

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		at historical exchange rates. The amendments to paragraph 830-10-45-18(a)(1) and (a)(2) are not intended to change items that should be remeasured at historical exchange rates.	
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments require an entity to present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column, as illustrated in Example 15.	50-6A 50-7 55-79
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Overall	326-20 & 326-10	The amendments clarify that an entity should consider extension or renewal options (excluding those that are accounted for as a derivative in Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.	30-6 65-1 65-2

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment intends to clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by an entity. In addition, the amendments clarify that when a method other than a discounted cash flow method is used to estimate credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount; however, an entity may include increases in expected cash flows after acquisition	30-13 and 30-13A 55-86 thru 90
Financial Instruments—Credit Losses—Overall	326-10	The Board did not intend to introduce significant operational complexities when measuring expected credit losses on preexisting troubled debt restructurings. As a result, the amendment allows entities an accounting policy election to calculate the prepayment-adjusted effective interest rate on preexisting troubled debt restructurings using the prepayment assumptions that exist as of the date that an entity adopts the amendments in Update 2016-13, instead of the prepayment-adjusted effective interest rate immediately before the restructuring date.	65-1
Investments—Debt and Equity Securities—Overall	320-10	The amendment provides a practical expedient that allows an entity to exclude accrued interest receivable balances from the disclosure requirements in paragraphs 326-20-50-4 through 50-22 and 326-30-50-4	50-2A 50-5C

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		through 50-10. The amendments in this Update extend the disclosure relief for accrued interest receivable balances as permitted in Update 2019-04 to certain other Topics in the Codification.	
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment clarifies that an entity should reasonably expect the borrower to continually replenish collateral securing the financial asset(s) in accordance with the contractual terms of the financial asset to apply the practical 15 expedient. An entity is not required to consider remote scenarios in making this determination.	35-6
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest & Financial Instruments—Credit Losses—Overall	805-20 & 326-10	The amendment clarifies paragraph 805-20-50-1 by removing the cross reference to Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, which was superseded by Update 2016-13. The amendment instead correctly cross-references the guidance for purchased financial assets with credit deterioration in Subtopic 326-20.	50-1 65-4

ASU 2020-03 Codification Improvements to Financial Instruments			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Overall	825-10	Amendment clarifies that because financial assets and financial liabilities on which the fair value option have been elected are measured at fair value and not at amortized cost basis, all entities are subject to the fair value option disclosures in paragraphs 825-10-50-24 through 50-32.	50-23A 65-7
Fair Value Measurement—Overall	820-10	The amendments clarify the applicability of the portfolio exception in Subtopic 820-10, Fair Value Measurement—Overall, to nonfinancial items accounted for as derivatives under Topic 815, Derivatives and Hedging.	35-2A 35-18L
Financial Services— Depository and Lending— Investments—Debt and Equity Securities & Financial Instruments—Overall	942-320 & 825-10	The amendments on certain disclosures for depository and lending institutions clarify that the disclosure requirements in paragraphs 320-10-50-3 and 320-10-50-5 through 50-5C apply to the disclosure requirements in paragraphs 942-320-50-3 through 50-3A.	50-1 50-3 50-3A 65-5
Debt—Modifications and Extinguishments	470-50	The amendments clarify that paragraphs 470-50-40-17 through 40-18, which describe the accounting for fees between the debtor and creditor and third-party costs, respectively, directly related to exchanges or modifications of debt instruments, reference paragraph 470-50-40-21 for the accounting for modifications to or exchanges of line-of-credit or revolving-debt arrangements.	40-17 40-18 40-21
Fair Value Measurement—Overall	820-10	The amendment clarifies that the disclosure requirements in paragraph 820-10-50-2 do not	50-2

ASU 2020-03 Codification Improvements to Financial Instruments			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		apply to entities using the net asset value per share (or its equivalent) practical expedient.	
Financial Instruments— Credit Losses— Measured at Amortized Cost & Financial Instruments— Credit Losses—Overall	326-20 & 326-10	The amendments align the contractual term to measure expected credit losses for a net investment in a lease under Topic 326 to be consistent with the lease term determined under Topic 842.	30-6A 55-8 65-4
Transfers and Servicing—Sales of Financial Assets	860-20	The amendments relate to the interaction of the guidance in Topic 326 and Subtopic 860-20, Transfers and Servicing—Sales of Financial Assets. The amendments to Subtopic 860-20 clarify that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.	25-13

**Revisions to the
As of March 2024 Accounting Practices and Procedures Manual**

On **February 20, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2023-28	SSAP No. 21R	Collateral Loan Reporting <i>SAP Clarification</i> Effective Year End 2024	Adopted revisions to SSAP No. 21R incorporate a collateral loan disclosure for year-end 2024 to detail admitted and nonadmitted collateral loans in accordance with the underlying collateral supporting the loan

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/02-20-24/adoptions/00 - adoptions toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/02-20-24/adoptions/00%20-%20adoptions%20toc.docx)

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

Issue: Collateral Loan Reporting**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to propose an expansion of reporting for collateral loans on Schedule BA to enable regulators the ability to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21R—Other Admitted Assets*. This agenda item has been drafted in response to comments that the current reporting detail on Schedule BA does not provide sufficient clarity on the type of collateral used in support of admittance of collateral loans. Furthermore, with the adoption of agenda item 2022-11, the statutory accounting guidance has been clarified that the collateral must reflect a qualifying investment, meaning that it would qualify for admittance if held directly by the insurer. This amendment further clarified that collateral that represents an investment in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities* is required to be audited consistent with the admittance requirements of those SSAPs.

As detailed within, this agenda item proposes new disclosure requirements in SSAP No. 21R for collateral loans. The new disclosure requirement is proposed to be satisfied by an expansion of the reporting on Schedule BA, so that the collateral loans are separated by the type of collateral investment that secures the loan. Additionally, a new aggregated data-captured note is proposed to identify the admitted and nonadmitted collateral loans by the type of collateral that secures the loan.

Existing Authoritative Literature:

- **SSAP No. 21R—Other Admitted Assets - (Tracking shows the edits adopted on Oct. 23, 2023.)**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an [qualifying](#) investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
- b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments [which would otherwise be admitted](#) shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. [To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.](#)

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—Bonds includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and/or SSAP No. 97.

Effective Date and Transition

22. ____ This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4, requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

- **A/S Blank and Instructions** (*This reflects what is proposed to be adopted in 2023-12BWG.*)

Collateral Loans	
Unaffiliated.....	3199999
Affiliated.....	3299999

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

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 2022-11: Collateral for Loans clarified guidance on the criteria for collateral in order for a collateral loan to qualify as an admitted asset.
- Blanks Agenda Item 2023-12BWG incorporates revisions as part of the bond project to capture debt securities that do not qualify as bonds on Schedule BA. The revisions within this blanks item incorporate minor revisions to the instructions for collateral loans.

Information or issues (included in Description of Issue) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A**Recommendation:**

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this agenda item with proposed revisions to incorporate a new disclosure to SSAP No. 21R, for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. NAIC staff recommends that the Working Group direct a corresponding blanks proposal to allow for concurrent exposure.

Proposed Revisions to SSAP No. 21R: *(Only new edits are tracked. Prior adopted revisions are shown clean.)*

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of a qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets*;
- b. Nonadmitted Asset—In accordance with SSAP No. 20—*Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans and the collateral loans admitted and nonadmitted by qualifying investment type.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—*Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Proposed Schedule BA Reporting Changes:

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)

Unaffiliated.....

Affiliated.....

Bonds (SSAP No. 26R)

Unaffiliated.....

Affiliated.....

Asset-Backed Securities (SSAP No. 43R)

Unaffiliated.....

Affiliated.....

Preferred Stocks (SSAP No. 32R)

Unaffiliated.....

Affiliated.....

Common Stocks (SSAP No. 30R)

Unaffiliated.....

Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....

Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....

Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48R)

Unaffiliated.....

Affiliated.....

Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)

Unaffiliated.....

Affiliated.....

Other Qualifying Investment Category

Unaffiliated.....

Affiliated.....

Collateral Does Not Qualify as an Investment

Unaffiliated.....

Affiliated.....

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets.

Proposed Data-Captured Disclosure:

Aggregate Collateral Loans by Qualifying Investment Collateral:

<u>Collateral Type</u>	<u>Aggregate Collateral Loan</u>	<u>Admitted</u>	<u>Nonadmitted</u>
<u>Cash, Cash Equivalents & ST Investments</u>			
<u>Bonds</u>			
<u>Asset-Backed Securities</u>			
<u>Preferred Stocks</u>			
<u>Common Stocks</u>			
<u>Real Estate</u>			
<u>Mortgage Loans</u>			
<u>Joint Ventures, Partnerships, LLC</u>			
<u>Subsidiary, Affiliated and Controlled Entities</u>			
<u>Other Qualifying Investments</u>			
<u>Collateral Does not Qualify as an Investment</u>			
<u><i>Total</i></u>			

Pursuant to SSAP No. 21R, nonadmittance of a collateral loan is required when the fair value of the collateral is not sufficient to cover the collateral loan or if the collateral securing the loan is not a qualifying investment. This includes situations in which collateral in form of joint ventures, partnerships, LLCs or SCAs is not supported by an audit as required by SSAP No. 48 or SSAP No. 97.

The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets. All collateral loans secured by collateral that does not qualify as an investment are is required to be nonadmitted under SSAP No. 21R.

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to incorporate a new disclosure to SSAP No. 21R for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. Comments are requested on whether any of the proposed reporting lines should be combined.

On February 20, 2023, the Statutory Accounting Principles (E) Working Group took the following two actions:

- 1) The Working Group **adopted** the exposed revisions to SSAP No. 21R incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21R are shown below:

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

- 2) The Working Group exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

February 20, 2024, Exposed Schedule BA Reporting Changes:

(Tracking shows changes from the prior exposure.)

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

~~Cash, Cash Equivalent & Short Term Investments (SSAP No. 2R)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

Bonds and Asset-Backed Securities (SSAP No. 26R & SSAP No. 43R)

Unaffiliated.....
 Affiliated.....

~~Asset Backed Securities (SSAP No. 43R)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

Preferred Stocks (SSAP No. 32R)

Unaffiliated.....
 Affiliated.....

Common Stocks (SSAP No. 30R)

Unaffiliated.....
 Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....
 Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....
Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)

Fixed Income Investments (Unaffiliated)
Fixed Income Investments (Affiliated)

Common Stocks (Unaffiliated)
Common Stocks (Affiliated)

Real Estate (Unaffiliated)
Real Estate (Affiliated)

Mortgage Loans (Unaffiliated)
Mortgage Loans (Affiliated)

Other (Unaffiliated)
Other (Affiliated)

Unaffiliated.....
Affiliated.....

~~Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

Other ~~Qualifying~~ Investment Category

Cash, Cash Equivalent and Short-Term Investments (Unaffiliated)
Cash, Cash Equivalent and Short-Term Investments (Affiliated)

Other Long-Term Invested Assets (Unaffiliated)
Other Long-Term Invested Assets (Affiliated)

Unaffiliated.....
Affiliated.....

~~Collateral Does Not Qualify as an Investment~~

~~Unaffiliated.....~~
~~Affiliated.....~~

Non-Collateral Loans

Related Party/Affiliated Loans

All Other Non-Collateral Loans

Unaffiliated.....
Affiliated.....

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/02-20-24/Adoptions/23-28 - Collateral Loan Reporting.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/02-20-24/Adoptions/23-28-CollateralLoanReporting.docx)

**Revisions to the
As of March 2024, Accounting Practices and Procedures Manual**

On **March 16, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2019-21	SSAP No. 21R	Principles-Based Bond Project & Residual Interests <i>New SAP Concept</i> Effective January 1, 2025	Adopted revisions provide guidance for debt securities that do not qualify as bonds under the principles-based bond definition, with a January 1, 2025, effective date. Adopted revisions prescribe accounting guidance (measurement method) for all residual interests regardless of legal form. This specific guidance is effective January 1, 2025, but can be early adopted for 2024.
2022-14 2022-14a 2022-14b 2022-14c	SSAP No. 93R SSAP No. 94R SSAP No. 34 SSAP No. 48	New Market Tax Credit Project <i>New SAP Concept</i> Effective January 1, 2025	Adopted revisions expand and amend guidance within SSAP No. 93 to include all tax credit investments regardless of structure and type of state or federal tax credit program. Revisions to SSAP No. 94R expand and amend guidance to include both purchased state and federal tax credits. Revisions in SSAP No. 34 and SSAP No. 48 include consistency revisions in response to the changes made to SSAP No. 93 and SSAP No. 94R.
2023-25	Appendix D	ASU 2023-03 – SEC Updates <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions reject ASU 2023-03 as not applicable for statutory accounting.
2023-27	Appendix D	ASU 2023-04 – SEC Updates, Crypto <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions reject ASU 2023-04 as not applicable for statutory accounting.
2023-29	Annual Statement Instructions	IMR Preferred Stock Revisions will be considered by the Blanks (E) Working Group for year-end 2024.	Adopted proposed revisions to the annual statement instructions which direct perpetual preferred stock (including SVO-Identified Preferred Stock ETFs), and mandatory convertible preferred stock through the AVR. This proposal did not result in SSAP revisions.

Ref #	SSAP/ Appendix	Title	Summary
2023-30	SSAP No. 97	SSAP No. 97 Admissibility Requirements <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions align the language in SSAP No. 97, paragraph 24, with the existing guidance provided in paragraphs 26 and 27.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national_meetings/a_national_meeting_materials/2024/03-16-24_spring_national_meeting/adoptions/00_-_adoptions_3.16.2024_toc.docx

The Revisions Shown in this Document are Effective January 1, 2025

Revisions to SSAP No. 21R—Other Admitted Assets

Bond Definition – Debt Securities that Do Not Qualify as Bonds

Residual Tranches or Interests/Loss Positions

Adopted March 16, 2024

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted new statutory accounting guidance for “Debt Securities that Do Not Qualify as Bonds” and for “Residual Tranches or Interests/Loss Positions” within *SSAP No. 21—Other Admitted Assets*. The new sections are shown below. (Existing guidance from SSAP No. 21, paragraph 22 under ‘Effective Date and Transition’ is duplicated within and becomes paragraph 40 after the revisions.) The revisions are effective Jan. 1, 2025. Reporting entities may elect to adopt the residual guidance (detailed in paragraphs 28-37) for year-end 2024.

Debt Securities That Do Not Qualify as Bonds

20. The guidance within paragraphs 20-27 of this statement shall apply for any security, as defined in *SSAP No. 26R—Bonds*, whereby there is a fixed schedule for one or more future payments (referred to herein as debt securities), but for which the security does not qualify for bond reporting under SSAP No. 26R as an issuer credit obligation or an asset backed security. Investments in scope of this guidance are limited to:

- a. Debt securities for which the investment does not reflect a creditor relationship in substance.
- b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.
- c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

21. Debt securities as described in this statement meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The guidance in these paragraphs shall not be inferred to other securities or investment structures that are not otherwise addressed in statutory accounting, nor shall it be applied to any investments that are captured within other statutory accounting guidance.

22. Debt securities in scope of this standard that do not qualify as bonds under SSAP No. 26R and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets if the underlying collateral primarily qualify as admitted invested assets. As detailed in paragraph 31, in the section pertaining to residual tranches, any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26R also only qualify as admitted assets to the extent the underlying collateral primarily qualifies as admitted invested assets.

23. Debt securities in scope of this statement shall be initially reported at acquisition at cost, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets*.

24. Debt securities captured in scope of this statement shall be reported at the lower of amortized cost or fair value. Changes in measurement to reflect a lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses.

The Revisions Shown in this Document are Effective January 1, 2025

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities* for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

26. Investment income shall be recorded, with assessments for collectability and nonadmittance completed and recognized, pursuant to *SSAP No. 34—Investment Income Due and Accrued*.

27. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:

- a. Fair values in accordance with *SSAP No. 100R—Fair Value*.
- b. Concentrations of credit risk in accordance with *SSAP No. 27*;
- c. Basis at which the securities are stated;
- d. The adjustment methodology used for each type of security (prospective or retrospective);
- e. Descriptions of sources used to determine prepayment assumptions.
- f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.
- g. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:
 - i. The amortized cost basis, prior to any current-period other-than-temporary impairment.
 - ii. The other-than-temporary impairment recognized in earnings as a realized loss.
 - iii. The fair value of the security.
 - iv. The amortized cost basis after the current-period other-than-temporary impairment.
- h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):
 - v. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
 - vi. The aggregate related fair value of securities with unrealized losses.
- i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been

The Revisions Shown in this Document are Effective January 1, 2025

in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100R.

- j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.
- k. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:
 - i. The aggregate carrying value of the investments not evaluated for impairment, and
 - ii. The circumstances that may have a significant adverse effect on the fair value.
- l. For securities sold, redeemed, or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

Residual Tranches or Interests/Loss Positions

28. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

29. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined. Additionally, it would be expected that the equity position in an ABS Issuer, as defined in SSAP 26R, would be classified as a residual tranche.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

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- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
 - d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
 - e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.
30. Residual tranches or interests do not qualify for bond reporting. Residuals shall follow the accounting and admittance guidance within this statement and are required to be reported on Schedule BA: Other Long-Term Invested Assets.
31. As stated in [paragraph 22](#), residuals are permitted to be admitted assets if debt securities from the same structure qualify (or would qualify) as admitted assets. If the debt security from a structure is (or would be) nonadmitted due to the requirements under [paragraph 22](#), then any residual interests or first loss positions held from the same structure also do not qualify as admitted assets and shall be reported as nonadmitted assets.
32. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values if acquired along with debt tranches from the securitization). Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of amortized cost or fair value under the Allowable Earned Yield method detailed in [paragraphs 33-34](#), with temporary reductions in fair value reported as an unrealized loss, or 2) at the calculated practical expedient method detailed in [paragraph 35](#).
33. For purposes of this statement for residuals only, amortized cost shall be defined as the cost to acquire the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield shall be established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. The Allowable Earned Yield is not to be updated after acquisition.
34. Interest income shall be recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. To the extent that the Allowable Earned Yield, applied to the current amortized cost, exceeds the cash distributions received, such unrecognized interest income may be carried forward to future periods to be recognized when sufficient cash distributions are received. To the extent cash distributions exceed the Allowable Earned Yield (including any unrecognized interest carried forward), the amortized cost shall be reduced by the excess. As a result of this method, the amortized cost shall not be increased unless there is a subsequent investment (i.e., an additional purchase with additional consideration remitted).
35. Reporting entities may elect a practical expedient in lieu of the Allowable Earned Yield detailed in [paragraphs 33-34](#) and calculate Book/Adjusted Carrying Value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero. Once the residual has a zero BACV, distributions received shall be recognized as interest income.
- a. Reporting entities applying the practical expedient shall continue to report residuals on Schedule BA, including those with a zero BACV. Any subsequent distributions shall be reported as interest income until the structure matures/terminates, is unwound, or no longer meets the definition of a residual.

The Revisions Shown in this Document are Effective January 1, 2025

- b. Reporting entities are required to apply the practical expedient to all residuals held.
 - c. Reporting entities that wish to discontinue use of the practical expedient approach and move towards the Allowable Earned Yield method are required to specify and disclose an explicit transition date, and only apply the Allowable Earned Yield method to residuals acquired after that date. Residuals held prior to the disclosed accounting method transition date shall continue to follow the practical expedient until those residuals mature/terminate or are unwound.
36. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis, with required assessment anytime that fair value is less than the reported value.
- a. For residuals measured using the Allowable Earned Yield method, as detailed in paragraphs 33-34, an OTTI shall be considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield, is less than amortized cost. Upon identification of an OTTI, the reporting entity shall recognize a realized loss equal to the difference between the amortized cost and the present value of expected cash flows, with the present value of expected cash flows becoming the new amortized cost to which the Allowable Earned Yield is applied. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraphs 33-34. Subsequent recoveries in cash flows shall not result in increases to the amortized cost.
 - b. For residuals measured under the practical expedient, as detailed in paragraph 35, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV. The reporting entity shall recognize a realized loss equal to the difference between the fair value and the BACV, with the fair value becoming the new BACV. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraph 35. Subsequent recoveries in cash flows shall not result in increases to the BACV.
37. Residuals recognized on Schedule BA as of December 31, 2024, and accounted for under a different SSAP, shall follow the following measurement transition guidance as of January 1, 2025:
- a. Reporting entity shall determine whether they will follow the Allowable Earned Yield method detailed in paragraphs 33-34, or the practical expedient detailed in paragraph 35, for all residuals.
 - b. Residuals previously accounted for under SSAP No. 26R or SSAP No. 43R shall prospectively apply the Allowable Earned Yield measurement method elected under this Statement using the amortized cost as of December 31, 2024 as the starting point in the calculation. Residuals that will follow the practical expedient shall be recognized on January 1, 2025 at the lower of amortized cost or fair value as of December 31, 2024, realizing any unrealized loss existing at that date.
 - c. Residuals reported under the equity method or fair value as of December 31, 2024 (as they were previously captured in scope of SSAP No. 30R, 32R or 48) with unrealized gains or losses recognized, shall recognize any unrealized position as realized, with the reported value as of December 31, 2024 becoming the January 1, 2025 cost basis for subsequent measurement under this statement.

Effective Date and Transition

~~22~~40. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance for structured settlements

The Revisions Shown in this Document are Effective January 1, 2025

when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4 requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

41. Revisions adopted March 16, 2024, to add guidance for “Debt Securities That Do Not Qualify as Bonds” and for “Residual Tranches or Interests/Loss Positions” are initially effective Jan. 1, 2025, to correspond with the effective date of the principles-based bond definition. The guidance for residual tranches is permitted for early application. Reporting entities that apply this guidance in 2024 shall continue to follow the transition guidance in paragraph 37 using the modified dates that correspond to the reporting entity’s application date.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24 Spring National Meeting/Adoptions/19-21 - SSAP No. 21R - 2-1-24.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/19-21-SSAPNo.21R-2-1-24.docx)

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

Issue: New Market Tax Credits

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: The New Market Tax Credits (NMTC) Program was established by Congress in December 2000 and permits individual and corporate taxpayers to receive a non-refundable tax credit against federal income taxes for making equity investments in financial intermediaries known as Community Development Entities (CDEs). CDEs that receive the tax credit allocation authority under the program are domestic corporations or partnerships that provide loans, investments, or financial counseling in low-income urban and rural communities. The tax credit provided to the investors total 39% of the total cost of the investment and is claimed over a seven-year period. The CDEs in turn use the capital raised to make investments in low-income communities. CDEs must apply annually to the CDFI Fund to compete for NMTC allocation authority. The NMTC program is currently subject to expiration but has been extended to Dec. 31, 2025. The NMTC Extension Act of 2021 (introduced February 2021) would make the NMTC program permanent, modify the credit to provide for an inflation adjustment to the limitation amount for the credit after 2021, and allow an offset against the alternative minimum tax for the credit.

The success of the federal NMTC program has led to states adopting their own NMTC legislation. Per one noted article, the majority of state NMTC programs follow the federal rules with some modifications that vary from state to state. State modifications have been noted to specifically target smaller businesses, simplifying the application process, prohibiting the use of real estate business, and capping the amount of tax credits that can be allocated to one project. The economic impact of the state NMTC programs is typically less than the impact of federal NMTC programs because the economic return to investors for state tax credits is generally lower than what they receive for federal credits. Some states require that state tax credits can only be used in conjunction with federal credits. Pairing federal and state programs is beneficial to the qualifying business as they keep more of the investment without an obligation to return as the investors receives more tax credits.

Overview of Federal Program:

- Federal government authorizes an annual credit authority for NMTCs (amount of tax credits available).
- The Community Development Fund Institutions (CDFI fund) is a division of the U.S. Treasury responsible for implementing the NMTC program. Since there are limited tax credits each year, the CDFI fund has a competitive application process for the right to grant tax credits to investors and to make qualified NMTC investments.
- The right to grant tax credits is referred to as “NMTC Allocation” and is awarded to Community Development Entities (CDEs) that invest in low-income communities. The CDEs offer the tax credits to cash investors, and then use the cash to make investments (typically loans to a qualifying project – a “Qualifying Active Low-Income Community Business” - QALICB) that further the mission and objectives of the NMTC program.

- The program specifies that the investor must provide cash as an equity investment (qualified equity investment – QEI) and it must stay invested in the CDE and the resulting NMTC qualifying project (QALICB) for a period of seven years.
 - The restrictions are specific that the investment is an equity investment as stock (other than nonqualified preferred) in an entity that is a corporation for federal tax purposes or any capital interest in an entity that is a partnership for federal tax purposes. (The investor is generally a 99.99% or 100% equity owner.)
- NMTC investments must remain in a qualified business for a seven-year period. Any principal amount repaid during that period must be reinvested by the CDE until the seven-year period expires. Most CDEs and investors avoid the reinvestment requirement and structure interest-only loans that prohibit principal repayment within the seven-year timeframe.
 - The 39% tax credit is provided as 5% of the investment in the first 3 years and then 6% of the investment for the next 4 years.
 - For tax purposes, the basis adjustment in the qualified equity investment is reduced by the amount of any new market tax credits on each credit allowance date.
 - Programs that cease to qualify are subject to tax credit recapture.
- Investors enter these transactions recognizing that the original investment amount will not be fully returned. Rather, a portion (or perhaps all) of the equity investment will be unpaid without an obligation to return from the borrowing business. NMTC investments with these terms have specific maturing terms / actions. One approach could be that an option (put/call) is held by the investor that gives them the right to sell its equity investment to the borrower for a nominal price.
- The designs are often complex and introduce leverage lenders to maximize tax credits to the equity investor:
 - Equity investor provides \$3M to acquire 100% equity interest in an investment fund.
 - Investment fund borrows \$7M from a leverage lender.
 - This results with a \$10M qualifying NMTC transaction, resulting with the equity investor receiving \$3.9M in tax credits over 7 years from an initial \$3M investment.
 - The investment fund provides two loans to the qualified low-income business (QALICB). The first loan is for the \$7M leverage loan, the second is for the \$3M equity investment.
 - Both loans only pay interest for the seven-year period to meet the NMTC terms.
 - At the conclusion of the 7 years, the project sponsor purchases the second loan via a ‘put/call’ agreement, converting the \$3M into a permanent subsidiary for the project.
 - The borrower / project sponsor refinances the \$7M loan to repay the leverage lender.
 - The ultimate result is that the equity investor received \$3.9M over 7 years in tax credits for \$3M.
- Example without leverage lender:
 - Investor provides a \$10M NMTC Investment
 - Investor receives \$3.9M in tax credits over seven years.
 - Investor receives \$7.4M of original investment at the end of the seven years.
 - Borrower keeps \$2.6M of the original investment to further their low-income qualifying activities.
 - Investor receives a net return of \$1.3M. (\$10M less \$3.9M tax credits less return of 7.4M principal.)

FASB Discussion

The FASB has a current Emerging Issues Task Force project to assess whether the proportional amortization method of accounting, which is used for Low-Income Housing Tax Credits (LIHTC), should be expanded to investments in tax credit structures beyond LIHTC. The proportional amortization method results in the tax credit investment being amortized in proportion to the allocation of tax credits in each period and allows the investment amortization and tax credits to be presented on a net basis within the income tax line item. Currently, investments in other tax credit structures are typically accounted for using the equity method or the cost method. Under the equity and cost methods, investment gains/losses and tax credits are presented on a gross basis on an entity's income statement. The FASB has received two requests asking that the proportional amortization method be made applicable to New Market Tax Credit Structures as well as other investment structures that are made primarily for the purpose of receiving tax credits and other tax benefits. The FASB added a project to the Emerging Issues Task Force agenda on Sept. 22, 2021. The FASB Task Force reached a consensus-for-exposure on June 16, 2022, that the proportional amortization method can be elected on a tax credit program by tax credit program basis. This proposed ASU was exposed in August 2022, with comments due Oct. 6, 2022. A final ASU is expected later in 2022 or early in 2023 (ASU 2023-02 was issued in March of 2023).

IRS Provisions – The NMTC is captured as a nonrefundable ‘general business credit’ and is limited to tax liability. If tax liability is not sufficient to take the credit, then the tax credit is subject to carryforward / carryback provisions. Per instructions from the *2021 Instructions for Form 3800 – General Business Credit*, general business credits that cannot be used because of a tax liability limit are first carried-back 1 year through an amended return. If there are unused credits after carrying back 1 year, the tax credit can be carried forward to each of the 20 tax years after the year of the credit.

Inflation Reduction Act Provisions – The Inflation Reduction Act was signed by President Biden on Aug. 16, 2022. Although there are several elements within the Act, it includes a 15% corporate minimum tax rate for corporations with at least \$1 billion in income and includes numerous investments in climate protection, clean energy production and tax credits aimed at reducing carbon emissions. Although the Act has been signed, several elements are pending further application guidance. From preliminary information, the act allows for general business credits, such as the low-income housing tax credit (LIHTC), new markets tax credit (NMTC), historic tax credit (HTC) and renewable energy tax credits (RETCs) to be taken against the minimum tax. **However, further monitoring of application / interpretation guidance that is still forthcoming is required to assess the actual application and impact of tax credits on companies subject to the minimum tax.**

Statutory Accounting Considerations:

- Although the design is an equity investment of stock or interest in a corporation or partnership, which would normally be subject to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, the intent of NMTC investments is for tax credits and not equity returns. As such, this structure is closer to the existing low-income housing tax credits guidance in *SSAP No. 93* than the partnership / LLC guidance in *SSAP No. 48*.
- Although *SSAP No. 93—Low Income Housing Tax Credit Property Investments* provides guidance for an equity investment, that provides tax credits with a limited (or zero) residual investment value, the guidance in *SSAP No. 93* is specific to LIHTC programs.
- It has been identified that there are structures that have been designed to resemble fixed-income notes that do not pay regular cash interest, but rather provide NMTC tax credits as interest returns. These structures are in substance that same as other investments in NMTC, with an underlying equity interest in the CDE that generates tax credits. However, they have been structured with a guarantee for compensatory interest in the form of cash for the amount of the tax credit expected to have been received that year. These structures are also being considered within scope of this agenda item. Such structures have to meet specific criteria to qualify for tax credits under the IRS rules.

Existing Authoritative Literature:***SSAP Authoritative Guidance:***

- **SSAP No. 93—Low Income Housing Tax Credit Property Investments**

This statement establishes accounting principles for investments in federal certain state sponsored Low Income Housing Tax Credit (LIHTC) properties owned through limited liability entities that are flow-through entities for tax purposes. The guidance requires LIHTC investments to be initially recorded at cost and carried at proportional amortized cost unless the investment is identified as impaired. Under the proportional amortization method, amortization of the LLC investment is recognized in the income statement as a component of net investment income/expense and the current tax credit is accounted for as a component of income tax expense:

- Federal tax credits are recognized in the income statement as an offset to federal taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 101—Income Taxes*.
- State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized.
- Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 101.

SSAP No. 93 indicates that immediate recognition of the entire benefit of the tax credit to be received during the term of the investment in a low-income housing project is not appropriate. It also indicates that low-income housing tax credits shall not be recognized in the financial statements before their inclusion in the investor's tax return.

- **SSAP No. 94R—Transferable and Non-Transferable State Tax Credits**

This statement establishes accounting principles for investments transferable and non-transferable state tax credits, with an explicit exclusion for LIHTCs (or similar tax credits) captured in scope of SSAP No. 93.

Guidance for admittance of state tax credits under this statement varies based on whether it is transferable or non-transferable:

Transferable – Per the SSAP, all the following criteria must be met for admittance:

- 1) The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise sell or transfer the credit;
- 2) The transferable state tax credit will expire is not used by a predetermined date; and
- 3) The transferable state tax credit can be applied against either state income tax or state premium tax.

Non-Transferable – Per the SSAP, all the following criteria must be met for admittance:

- 1) Successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity's acquisition of the state tax credit and is not permitted to carry-over, carry-back, obtain a refund, sell or assign the credit;
- 2) The non-transferable state tax credit will expire if not used by the predetermined date; and
- 3) The non-transferable state tax credits can be applied against either state income tax or state premium tax.

Review of Existing Statutory Accounting Guidance for NMTC and Overall Application:

- Existing statutory accounting guidance does not encompass federal NMTC (or other federal tax credits), as SSAP No. 93 is limited to LIHTC and SSAP No. 94 is specific to state tax credits.
- Provisions in SSAP No. 93 do not fully address earned (received) tax credits that carryforward for future use.
- The admittance criteria in SSAP No. 94 are applied to characteristics that perhaps may not be factors that would impact admittance:
 - A tax credit that does not expire would be precluded as an admitted asset under the guidance.
 - A non-transferable tax credit that can be carried-forward, carried-back, able to be refunded or that can be sold or assigned is precluded as an admitted asset under the guidance.

Statutory Accounting Reporting Guidance:

Guaranteed and non-guaranteed federal low-income housing tax credits have separate reporting lines on Schedule BA along with an “all other” low-income housing tax credit line. The guidance is specific that these lines are only for low-income tax credits (or tax credits for affordable housing) that are in the form of a partnership or limited liability company. Non-qualifying LIHTC are to be reported in the “All Other” category. With this current guidance, there is no explicit reporting provision for tax credits that are not captured in LIHTC.

Reporting Lines and Instructions:

Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated	3599999
Affiliated	3699999
Non-Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated	3799999
Affiliated	3899999
Guaranteed State Low Income Housing Tax Credit	
Unaffiliated	3999999
Affiliated	4099999
Non-Guaranteed State Low Income Housing Tax Credit	
Unaffiliated	4199999
Affiliated	4299999
All Other Low Income Housing Tax Credit	
Unaffiliated	4399999
Affiliated	4499999

Low Income Housing Tax Credit

- Include: All Low-Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:
- A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.
 - B. Non-guaranteed Low Income Housing Tax Credit Investments.

- I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
- II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.
- III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the “All Other” category.

Statutory Accounting RBC Impact:

Life: The RBC factors for LIHTC are captured as part of the real estate on LR007:

(17)	Federal Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 75	0.0014
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 76	0.0260
(19)	State Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 77	0.0014
(20)	State Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 78	0.0260
(21)	All Other Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 79	0.1500
(22)	Total Schedule BA Real Estate	Lines (16) + (17) + (18) + (19) + (20) + (21)	

P/C and Health: The RBC factors for LIHTC are captured as components of other long-term assets. The reporting lines and factors are the same as they are for life (as shown above).

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): None.

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 recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Staff also recommends that the Working Group expose changes to SSAP No. 34—*Investment Income Due and Accrued* and SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*, which detail miscellaneous changes which update the scope of each statement for the proposed updates to SSAP No. 93 and SSAP No. 94R. The following are key revisions to SSAP No. 93R and 94R are proposed for exposure:

- *SSAP No. 93R—Investments in Tax Credit Structures* – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
 - Various editorial changes to the admittance test described in paragraph 18 to clarify technical aspects of the assessment.
 - Addition of a Glossary of key terms at the end of the SSAP.
 - Revised guidance effective date to be 1/1/2025, applied prospectively without option to early adopt.

- Added a new paragraph to the Impairment of Tax Credit Investments section to provide guidance on tax credit programs which allocate variable amounts of tax credits.
 - Clarified in footnote 4 that tax credit strips derived from tax equity investments are not an example of an investment structure exempt from the audit requirement.
 - Added disclosures for unused tax credits allocated from tax credit investments as these tax credits would not be within the scope of SSAP No. 94R disclosures.
- SSAP No. 94R—State and Federal Tax Credits – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
 - Revised guidance effective date to be 1/1/2025 with early adoption permitted.
 - Added language to clarify that awarded tax credits (neither purchased nor allocated from an investment) are not within the scope of SSAP No. 94R.
 - Added commitment and contingency guidance to the Accounting and Disclosure sections.
 - Other SSAPs – In response to the proposed revisions to SSAP Nos 93 and 94R, NAIC staff recommends the following:
 - SSAP No. 34—Investment Income Due and Accrued – Staff proposes revisions to clarify that tax credits earned or purchased are not within the scope of SSAP No. 34.
 - SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies – Staff proposes revisions which update paragraph 2 for the new tax credit investment language.

Interested parties' comment letter recommended revisions which would narrow the scope of the paragraph 18 admittance test to only tax credit investments which allocate non-transferable tax credit and prohibit the sale of ownership interests. NAIC staff did not revise the SSAP No. 93R draft for these recommendations but intends to continue working with industry to address their concerns that the new guidance may nonadmit previously admitted tax credit investments.

Additionally, NAIC staff requests comments on the annual statement reporting categories for tax credit investment RBC. The current RBC categories are LIHTC Investment specific and are mapped to the real estate grouping.

Staff Review Completed by: William Oden and Julie Gann - NAIC Staff, May 2023

Status:

December 13, 2022 - Fall National Meeting Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits. Although this agenda item is focusing on NMTC, it is recommended that consideration be given to guidance that does not name specific designs, such as NMTC or other specific tax credits, so that it can be applicable for all qualifying tax equity investments. This guidance will consider the proposed FASB guidance as well as admittance and impairment provisions, recognizing that tax credits cannot be used to provide direct payment to policyholders, but rather are utilized to impact a reporting entity's tax liability. This agenda item also recommends a review of SSAP No. 94—Transferable and Non-Transferable State Tax Credits to ensure the guidance properly reflects items that should be captured in scope and appropriate admittance provisions. With the proposal of a new or revised SSAP, this agenda item is proposed to be captured as a 'New SAP Concept' with a corresponding issue paper. Along with statutory accounting revisions, a resulting blanks proposal and a potential RBC referral are anticipated to update blanks reporting and RBC references accordingly. As detailed within, all Schedule BA reporting lines and RBC instructions (for both federal and state) only reference Low-Income Housing Tax Credits. The BA instructions also need to be updated as the concept for 'guaranteed' provisions from a CRP-rated entity seems to only be applicable to limited NMTC designs, as a guarantee may disqualify an entity from being able to use tax credits under IRS provisions.

On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed a discussion document to expand current statutory accounting guidance for low-income housing tax credits to capture all tax equity investments that provide general federal business tax credit and state premium tax credits if they meet specified criteria.

On February 10, 2023, NAIC staff received Interested Parties' comment letter on the exposed discussion document which were presented to the Working Group:

Interested parties agree with having uniformity in accounting and reporting for equity investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. We are providing responses to the questions exposed in the Discussion Paper in this document. There are two key take aways from our responses:

1. Interested parties ask the Working Group to consider allowing for the reporting of both the amortization of the investments and the use of the tax credits themselves in the same income statement line similar to what is required under U.S. GAAP.
2. Interested parties have concerns regarding tax credit investments that are issued in debt form and requiring those investments to be reported on Schedule BA instead of Schedule D. Interested parties believe that tax credit investments issued in debt form are better suited for Schedule D reporting.

March 22, 2023 – Spring National Meeting Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to proceed with drafting revised statutory accounting guidance and a related issue paper to expand the guidance in SSAP No. 93 for tax credits, as well as to draft revisions to SSAP No. 94—Transferable and Non-Transferable State Tax Credits for future Working Group discussion. NAIC staff proposes to consider the feedback from interested parties on the discussion document as well as the revised FASB guidance, which is expected to be issued in the near future, in updating the proposed revised statutory accounting guidance for subsequent exposure consideration.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits.

May 16, 2023 – Interim Meeting Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose the draft revisions to SSAP No. 93 and SSAP No. 94R, which intend to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria.

On May 16, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 93 and 94R. The revisions to SSAP No. 93 propose adoption with modification of *ASU 2023-02—Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* and expansion of the SSAP scope to include all tax credit programs and tax investment structures. The revisions to SSAP No. 94R expand the scope of the SSAP to include all state and federal tax credits whether purchased or allocated, and that tax received should be recorded at face value with losses realized immediately and gains deferred.

On June 20, 2023, NAIC staff received Interested Parties' comment letter on the exposed revisions to SSAP Nos. 93 and 94R. Interested Parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses.

The comments provided on SSAP No. 93 were:

1. Interested Parties noted that paragraph 3 does not provide specific direction for which SSAPs would be applicable for tax credit investment which do not fall within SSAP No. 93.
 - a. NAIC Staff agreed with the recommendation and updated paragraph 3 to provide readers with specific SSAPs which could apply to non-qualifying equity or debt structure tax credit investments.
2. Interested Parties noted that the current draft directed readers to refer to SSAP 94R for how to account for tax credits allocated from tax credit investments. They felt that this cross-reference was confusing and could potentially lead to conflicting interpretations.
 - a. To reduce confusion, NAIC Staff opted to remove the paragraph directing readers to SSAP 94R and instead pulled in the specific paragraphs from SSAP 94R which would be applicable to tax credits allocated from tax credit investments.
3. Interest Parties noted that they were unclear on whether the tax credits earned, or the tax credit investments were subject to the admittance criteria detailed in Paragraphs 18(a)-(c). Interested Parties feels that admissibility concerns are adequately addressed by the tax opinion and audit requirements. Additionally, if NAIC Staff's concern is the admittance of tax credits carried forward to a future period, then this should be adequately addressed by the admittance rules detailed in *SSAP No. 101–Income Taxes for Deferred Tax Assets*. Interested Parties suggested that paragraphs 18(a)-(c) be deleted in full.
 - a. NAIC Staff noted that the admittance rules detailed in paragraphs 18(a)-(c) do NOT provide guidance on the admittance of allocated tax credits. For tax credit investment structures to fall within the scope of SSAP 93, substantially all benefits must be from tax credits or other tax benefits which essentially means that balance of a tax credit investment represents a future stream of tax credits and tax benefit. As such, the admittance rules in paragraph 18(a)-(c) would require a company to assess its ability to utilize that future stream of tax credits to what amount of the tax credit investment would be non-admitted. If the company's projections determine it will be unable to substantially utilize the future stream of tax credits (i.e., the tax credit investment balance) then potentially all or a portion of the tax credit investment would be considered non-admitted as the company is unable to utilize the future stream of tax credits to offset tax liabilities.
4. Interested Parties noted that GAAP requires retrospective adoption of ASU 2023-02 and that this would result in GAAP vs. Statutory accounting differences.
 - a. NAIC Staff noted that prospective adoptions of accounting updates are often simpler to implement than retrospective adoptions. However, since this would lead to unintended variance between GAAP and Stat NAIC Staff has updated SSAP 93 to be adopted on the retrospective basis to conform with the GAAP adoption requirements.

The comments provided on SSAP No. 94R were:

1. Interest Parties requested that paragraph 1 of the scope of statement section be amended to clarify which types of tax credits are within scope of SSAP No. 94R. Interested Parties feel that the key difference between SSAP 94R and SSAP 93 is that the former is for purchased tax credits and the latter is for tax credits earned from investments.
 - a. NAIC Staff generally agree with the comments provided but opted to remove the term “certificate” from the requested changes. The intent of SSAP No. 94R is to provide guidance on all purchased state and federal tax credits, not just certificated tax credits. NAIC Staff also included language to clarify the scope of SSAP No. 94R for allocated tax credits, as detailed in the next bullet point.
2. Interested Parties noted that they do not believe allocated tax credits from SSAP No. 93 investments should be within the scope of SSAP No. 94R as the guidance was confusing and could potentially lead to conflicting interpretations. Additionally, Interested Parties believe that tax credits from investments vs. purchased tax credits are distinctly different assets. The only similarity in accounting for the tax credits relates to instances when the credits earned under a SSAP No. 93 investment cannot be utilized in the current year. Under that scenario, a DTA would be recorded, which would be subject to the admissibility rules under SSAP No. 101.
 - a. NAIC Staff elected to remove tax credits allocated from SSAP No. 93 investments from the scope of SSAP No. 94R to avoid confusion. However, NAIC Staff note that tax credits earned from

- investments bear many similarities to purchased tax credits. Irrespective of how the tax credit are acquired, they represent the same type of financial instruments which can be utilized as an offset to tax liabilities, sold, or redeemed for cash as a tax refund. Additionally, irrespective of how the tax credits are earned they are recorded at face value upon acquisition. The only significant difference is that tax credits purchased at a premium or discount may result in a recognized loss or deferred gain, respectively, whereas any premium or discount on an allocated tax credit is recognized as part of proportional amortization calculation.
- b. NAIC Staff amended the draft to exclude tax credits allocated from SSAP No. 93 investments in response to the Interested Party comments on SSAP No. 93. However, NAIC Staff did include language noting that allocated tax credits earned from tax credit investments NOT within the scope of SSAP No. 93 should refer to SSAP 94R for guidance on how to record allocated tax credits. NAIC staff noted that without this language there would be no guidance within Accounting Practices and Procedures Manual for allocated tax credits from investments which fall outside the scope of SSAP No. 93.
3. Interested Parties noted that most tax certificates reduce a reporting entity's tax liability and do not directly impact the income statement at the time they are used. In addition, interested parties believe that upon purchase, the tax credits should be reported as an other-than-invested asset since the asset represents a right to receive future benefits. As the tax credits become available for use, a reduction to the insurer's income tax payable or premium/state taxes payable should take place.
 - a. NAIC Staff disagrees with this proposed change as purchased federal tax credits would be reported as other-than-invested assets, versus allocated federal tax credits which would report as a deferred tax asset. This would result in the same type of asset being reported on two separate lines based on the manner in which it was acquired. As noted above, NAIC Staff's position is that allocated and purchased tax credits are substantially the same assets irrespective of the way in which they are acquired. Additionally, the Interested Parties also propose that if a tax credit cannot be utilized in the same period in which it was purchased it should be transferred to Deferred Tax Assets. NAIC Staff notes that this does not resolve the short-term reporting discrepancy noted previously and adds further complications to the accounting process by requiring a reporting line transfer if the asset is held for longer than a year.
 4. Interested Parties noted that the accounting for purchased tax credits in the SSAP No. 94R exposure is different from the current guidance in that the credits will be recorded at face value instead of at cost. This is not an issue perse but Interested Parties did want to point out this discrepancy as compared to the accounting treatment for other assets like bonds and mortgage loans.
 - a. NAIC Staff's position is that tax credits, whether received via purchase or allocation, do not represent investments, and has opted to propose accounting guidance that differs from bonds or mortgage loans. The position that tax credits do not represent investments was the main reason for the original SSAP No. 94R guidance which required state tax credits be recorded to Other Than Invested Assets and effectively required companies tax credits purchased at a discount at cost and effectively defer the gain off the balance sheet. NAIC Staff felt that it would be less confusing and provide a more accurate financial picture to record the tax credit at face value and defer any gains from discount purchases on the balance sheet.
 5. Interested Parties proposed changes to Exhibit B to reflect a pro-rata utilization of purchased tax credits in relation to the quarterly accrual of income tax liabilities. The main purpose of these changes were to reflect Interested Parties' proposed changes in item #2.
 - a. NAIC Staff made these changes to Exhibit B and believe that this method of recognizing tax credit utilization is applicable to exposed draft of SSAP No. 94R.

Outside of the changes made in response to Interested Parties' Comment Letter, both Exhibits in SSAP No. 93 were revised to provide example journal entries of the Proportional Amortization method. Additionally, the assumptions in Exhibit B were revised so it would provide a journal entry example for a residual sale at the end of the proportional amortization period. A new footnote was also added to SSAP No. 94R on page 2 based verbal comments received

from the public. The new footnote provides clarification on what processes constitute a purchase vs an allocation of tax credits.

August 13, 2023 - Summer National Meeting Recommendation:

NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Additionally, NAIC staff recognizes that revisions to the annual statement Schedule BA reporting lines will need to be considered, as well as how those reporting lines flow through to the AVR. NAIC staff recommends that the Working Group direct staff to work with interested parties throughout the interim to discuss to allow subsequent (or interim) exposure.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

On September 29, 2023, NAIC received Interested Parties' comment letter on the exposed revisions to SSAP No. 93 and 94R. Interested Parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses (effective October 11, 2023). The comments provided on SSAP No. 93 are below and have been summarized for brevity and clarity:

- 1) Interested Parties noted that SSAP 93 Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. However, Interested Parties suggest that this admittance criteria only be applicable to investments which do not allocate transferable or refundable tax credit and if the reporting entity is contractually restricted from selling its ownership interest. Additionally, Interested Parties suggest deleting paragraphs 18a and 18b as admissibility is adequately addressed through the impairment analysis required in paragraph 25; mainly that since both the tax credits and investment are saleable there is not a significant concern about the reporting entity's ability to utilize these investments and their tax credit returns for policyholder liabilities.
 - i. NAIC staff noted that Interested Parties' argument is twofold, first is that the usage of the investment fair value as a carve out in paragraphs 18a and 18b are confusing due to the requirement to test for impairment based on fair value. NAIC staff amended paragraph 18a to clarify that the carve out allows for admittance of the fair value of unallocated transferable/certificated tax credits rather than the fair value of the tax credit investment. The tax credit investment balance includes other tax benefits which cannot be sold apart from the investment ownership. The intent of paragraph 18a is to allow a reporting entity to at least admit the fair value of the tax credits which can be sold, which is potentially higher than the admitted amount calculated in paragraph 18.
 - ii. The second part of Interested Parties' argument is that since these investments may be sold, the admittance assessment of the reporting entity's ability to utilize the tax credits is not needed unless the reporting entity contractually restricted from the selling the investment. As part of this comment, it was noted that these investments may be actively managed and are readily saleable. NAIC staff noted that acquiring tax credit investments with the intent of re-sale puts an insurance company in a similar position as a syndicator in which tax credit investments are developed or acquired for the purpose of sale. SSAP 93 was revised under the assumption that tax credit investments are acquired for the purpose of obtaining returns through the receipt of tax credits and other tax benefits rather than through the sale of the tax credit investment. NAIC staff does not believe the paragraph 18 admittance criteria should be amended to provide a carve out for actively managed tax credit investments as it is not feasible to delineate between tax credit investments purchased for sale vs. purchased for generation of tax benefits without introducing some kind of

available-for-sale and held-to-maturity framework which is not compatible with statutory accounting concepts. NAIC staff noted that restrictions which prevent investors from selling their ownership represent a minority of tax credit programs. As such, limiting the scope of paragraph 18 to only tax credit investments which cannot be sold would effectively carve out the majority of tax credit investment structures from its scope. Additionally, the assertion that these investments are readily saleable does not change the fact that the balance sheet value of a tax credit investment is predicated on the assumption that the company can use the tax credits and benefits and if they company cannot use these tax credits then the investment returns have no value. Until the investment has been sold, its ability to satisfy future policyholder obligations is beholden to the company's ability to utilize the generated tax credits and benefits. Interested Parties noted that there are other investments which do not have as stringent admittance criteria as have been proposed in paragraph 18. NAIC staff note that other investments generate returns primarily through the receipt of fungible cash income or by providing a claim to the entity's earnings and assets (bonds, stocks, joint ventures, partnerships and LLCs). In comparison, the main purpose of a tax credit investment is to provide returns in the form of tax credits and other tax benefits, and this purpose is further borne out by the commonly used partnership flip structure for tax credit investments and that once the tax credits have been fully allocated the residual value of a tax credit investment is typically nominal.

- iii. Additionally, the requirement to assess tax credit investments by looking at the company's ability to realize future tax credits is not a new concept. Under existing OTTI guidance companies are required to record OTTI if the company determines it is probable that future tax benefits will not be received as expected (SSAP No. 93 paragraph 17, sentence 1). Per SSAP No. 93 paragraph 17, to determine if OTTI has occurred companies are required to assess whether the investment will continue to issue the tax credits as anticipated (see sentence 5) AND whether the company will be able to realize/utilize the future tax benefits to be received (see sentences 2 and 3). As part of the re-write of SSAP No. 93 Staff moved the requirement to assess the company's ability to utilize future tax credits out of impairment to admissibility. As currently revised, the impairment test specifically addresses the functionality of the investment whereas the paragraph 18 admittance test specifically addresses the ability of the company to realize/utilize the future tax benefits. This change intended to simplify the impairment analysis by focusing on investment functionality, but also because Staff felt that the company's ability to utilize/realize future tax benefits was more accurately characterized as an admittance concern rather than an impairment of the investment itself.

2) Interested Parties suggested a number of editorial changes to affect clearer guidance in paragraphs 18 and 18a. These included clarifying that the paragraph 18 assessment of unallocated tax credit utilization should be performed over the life of the tax credits rather than the life of the investments, including its carryforward periods. Interested Parties also suggested clarifying in paragraph 18 that tax planning strategies are to be used when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. In paragraph 18a Interested Parties suggested removing the sentence detailing what to do if fair value is not non-determinable.

- i. NAIC staff agreed with substantially all the editorial clarifications suggested by Interested Parties and updated accordingly.

3) Interested Parties suggested adding a definitions section to the guidance regarding the following terminology:

“unallocated tax credits” - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.

“current portion” - the credits to be allocated within one year of the reporting period.

- i. NAIC staff agreed with the suggestion by Interested Parties to add definitions and updated accordingly with some minor modifications. NAIC staff also added some additional definitions to provide clarifications on other terms used in SSAP 93.
- 4) Interested Parties suggested that the new SSAP 93 be applied prospectively effective 1/1/2025, but no early adoption.
- i. NAIC staff agreed with the changes suggested by Interested Parties and updated accordingly.

The comments provided on SSAP No. 94R are below and have been summarized for brevity:

- 5) Interested parties suggested that the revised SSAP 94R also be applied prospectively effective 1/1/2025 with early adoption permitted. Additionally, Interested Parties suggested a clarification of the scope of SSAP 94R by adding the following language to paragraph 1:

“This statement establishes statutory accounting principles for state and federal tax credits that are purchased by the reporting entity without being an bond or equity investor in the entity from which the tax credit were purchased.”

- i. NAIC staff agrees with prospective application of SSAP 94R with an effective date of 1/1/2025, however we have elected to not include the changes to the scope of SSAP 94R. The reasoning is that this guidance intends to exclude tax credits allocated from SSAP 93 investments, which does not specifically identify which tax credit investment structures are within scope of the guidance. However, NAIC staff did make other adjustments to the scope paragraph to better clarify that tax credits from SSAP No. 93 investments are not within scope of SSAP 94R.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions made to SSAP Nos. 34, 48R, 93, and 94R as part of the new market tax credit project. Revisions to SSAP No. 93 include a glossary of key terms, impairment guidance on variable tax credit allocations, disclosures on unused tax credits, and editorial changes to paragraph 18. Revisions to SSAP No. 94R include guidance clarifying that awarded tax credits are not within scope and commitment/contingency language. The exposure includes new revisions to SSAP Nos. 34 and 48 which clarified that tax credits are not within the scope of investment income guidance and updated for new SSAP No. 93 language, respectively. Additionally, the Working Group requested comments from regulators and industry on new RBC reporting categories.

On January 29, 2024, the Statutory Accounting Principles (E) Working Group exposed, through an evote, further revisions made to SSAP Nos. 93R and 94R as part of the New Market Tax Credit project. Revisions to SSAP No. 93 and 94R included minor consistency and clarifying revisions. More substantial revisions were made to SSAP No. 93 in response to concerns raised by interested parties over the administrative burden of the paragraph 18 admittance tests (now referred to as the Prospective Utilization Assessment). The Prospective Utilization Assessment was revised to remove the initial assessment of the current portion of unallocated tax credits and replaced with language that required companies to perform the Prospective Utilization Assessment only if certain conditions exist.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 93, updated for the corrections to example 2, and SSAP No. 34, SSAP No. 48, and SSAP No. 94R to expand and amend statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits. The effective date of the revisions is January 1, 2025.

The Working Group also directed staff to:

1. Sponsor a blanks proposal on the annual statement reporting categories for tax credit investment RBC by using the suggestion from the interested parties comment letter to maintain the same categories but without reference to LIHTC (bullet 1) and to also update/clarify the instructions accordingly.
2. Send a referral to the Life Risk-Based Capital (E) Working Group to inform them of the planned reporting line changes, which may indicate review of the RBC charges as different categories of tax credits will be reported in the form.
3. To draft an Issue Paper to document the discussions and revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/22-14-NMTC.docx>

Note: The issue paper will include the final revisions made to SSAP No. 93—Low-Income Housing Tax Credit Property Investments shown as tracked changes. ASC references will be removed from the final document.

Spring National Meeting Adoption: Revisions to SSAP No. 93 made **after** the exposure on January 31, 2024, have been shown as tracked changes highlighted in grey. This document represents the final adopted version of SSAP No. 93R.

Statements of Statutory Accounting Principles No. 93 - Revised

Investments in Tax Credit Structures

STATUS

Type of Issue.....	Common Area
Issued	June 13, 2005; Conceptually revised March 16, 2024
Effective Date	January 1, 2006; Conceptual revisions detailed in Issue Paper No. xxx effective January 1, 2025
Affects.....	No other pronouncements
Affected by	No other pronouncements
Interpreted by	INT 06-07
Relevant Appendix A Guidance	None

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SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for qualifying tax credit investments¹ in programs made primarily for the purpose of receiving allowable general business federal tax credits and/or state tax credits, including state premium tax credit programs. Although these investments are often in the form of equity, this statement shall be applied to all investments (regardless of the structure of the investment) that qualify pursuant to [paragraph 2](#).

2. A reporting entity that invests in projects or programs that generate general business federal tax credits, corresponding state tax credits or state premium tax credits that meet the following conditions at the time of initial investment are required to capture the investment in scope of this statement:

- a. It is probable that the tax credits allocable to the investor will be available.
- b. Reporting entity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying projects.
- c. Substantially all the projected benefits are from tax credits and other tax benefits, determined on a discounted basis using a discount rate that is consistent with the cash flow assumptions utilized by the reporting entity for the purpose of deciding to invest in the project.
- d. The reporting entity's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.

3. [Tax credit investments that do not meet the conditions in \[paragraph 2\]\(#\) shall be captured within the statutory accounting statement that addresses the underlying investment structure. Equity structured tax credit investments would generally fall within SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Debt structured tax credit investments should be assessed in accordance with SSAP No. 26R—Bonds to determine eligibility for reporting as a bond.](#) ~~Investments in tax credit structures that do not meet the conditions in [paragraph 2](#) shall be captured within the statutory accounting statement applicable to the investment held.~~

4. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors, to make venture capital investments in “qualified” businesses, are not within the scope of this statement. Although associated with tax credits, the reporting entity is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the reporting entity will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with *Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

5. Investments in tax credit structures are generally acquired to obtain a positive yield through tax credits and other tax benefits. The value of the investment is primarily based on the value of the remaining stream of tax credits and deductible expenses available to the reporting entity investor. The primary purpose of investing in these tax credit structures is to generate tax credits which benefit reporting entities. most

¹ The scope of *ASC 323-740—Investments—Equity Method and Joint Ventures—Income Taxes—Proportional Amortization Method* only extends to income tax equity investments, whereas this statement is intended to capture all tax credit investments which meet [the criteria in paragraphs 2.a-2.d](#), regardless of structure. This includes, but is not limited to, tax equity investments and tax credit debt investments.

commonly through a reduction in tax liability or, when ~~transferability is permitted~~ by IRS or state tax provisions, through the sale of ~~the-certificated/transferable~~ tax credits.

6. Investments in tax credit structures held by reporting entities meet the definition of an asset as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement.

Accounting

7. This guidance addresses the methodology for measuring an investment that is accounted for using the proportional amortization method. At initial recognition, investments in scope of this statement shall be recorded at cost.

8. Subsequent to initial recognition, the investment shall be carried at proportional amortized cost. Under the proportional amortization method, the reporting entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor. The amortization amount shall be calculated as follows (ASC 323-740-35-2):

- a. The initial investment balance less any expected residual value of the investment, multiplied by;
- b. The percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the reporting entity over the amortization timeframe (life of the investment) ~~the life of the investment~~.

9. Reporting entities shall recognize tax credits in the period they are allocated to the investor for tax purposes. Unless all tax credits are allocated to the reporting entity at the date of initial investment, immediate recognition of the entire benefit of the tax credits to be received during the term of the investment project that generates tax credits and other tax benefits is not permitted. Tax credits shall not be recognized in the financial statements before the year in which the tax credits arisisis are allocated. (ASC 323-740-25-5)

10. Any expected residual value of the investment shall be excluded from the proportional amortization calculation. Non-tax related benefits received from the investment shall be included as a component of net investment income when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included as a capital gain or loss at the time of the sale. (ASC 323-740-35-5) Determination of gain or loss will depend on the reported value (e.g., residual value at the end of the amortization timeframe) compared to the amount received in exchange for the investment. Liquidation of the investment commonly occurs at the end of the tax credit timeframe through a put or call agreement, often reflecting a nominal residual value that was established at the time of acquisition. The liquidation amount from such agreements shall reflect the expected residual value when available.

11. At the end of the amortization timeframe ~~(life of the investment)~~, if the reporting entity retains the investment, the investment shall be subsequently measured and assessed within the statutory accounting statement applicable to the investment held. Retained investments will remain on Schedule BA until disposal and cannot exceed the initial expected residual value.

12. Exhibit A illustrates the application of accounting guidance in two examples that generate tax credits and tax benefits using the proportional amortization method. The first example illustrates the application of a standard project. The second example illustrates the application of accounting guidance in a project that has expected residual value and generates non-tax related benefits in addition to tax credits and other tax benefits using the proportional amortization method. (ASC 323-740-35-3)

Application of Proportional Amortization Method

13. Under the proportional amortized cost method, the amortization of the investment is to be recognized in the income statement as an expense component of the net investment income calculation. Non-tax related benefits received from operations, or sale of the investment should be accounted for in accordance with [paragraph 10](#).

14. Tax credits and other tax benefits, not to include amortization of the investment, shall be reflected as follows:

- a. ~~Tax credits allocated are to be recorded, and assessed for admittance, in accordance with SSAP No. 94R Transferable and Non-Transferable Tax Credits.~~ Tax credits shall be recognized in the period that they are allocated to the reporting entity for tax purposes:
 - i. Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—Income Taxes. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101.
 - ii. State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested assets (not to be reported net).
 - iii. Use of tax credits carried forward in a ~~Tax credits carried forward to a~~ future period shall be reflected as an offset to the corresponding income or premium tax in the tax reporting year in which the tax credit is utilized.
 - iv. Tax credits allocated from tax credit investments, as defined within this SSAP, and held by reporting entities meet the definition of assets as specified in SSAP No. 4 and are admitted assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits ~~are~~ is subject to SSAP No. 101.
- b. Federal tax benefits other than tax credits (e.g., tax benefits from investment depreciation) shall be recognized in the year allocated pursuant to SSAP No. 101—~~Income Taxes~~. When utilized, the federal tax benefits are recognized as a component of income tax expense.
- c. State tax benefits other than tax credits shall be recognized in the year allocated ~~shall be recognized in the year allocated~~ gross of any related state tax liabilities pursuant to SSAP No. 101. When utilized, the state tax benefits are recognized as a component of taxes, licenses, and fees.

Admittance ~~Requirements~~ of Tax Credit Investments

15. Although investments in tax credit programs do not represent investments that can be ~~directly readily~~ liquidated for policyholder claims, the reduction of tax liability or ~~sale~~transfer of allocated tax credits represents a benefit that supports admittance of these investments, but only if the tax credits will be received and can be utilized by the reporting entity. Investments in tax credit programs that will not result in any of the anticipated tax credits or that will result in tax credits which cannot be utilized or ~~sold~~transferred by the reporting entity shall be considered impaired and should refer to paragraphs 27 and 28.

16. Reporting entities shall, at initial investment, obtain a clean² fund level tax opinion³ on the validity of the credits and structure of the underlying program and investment fund. Investments not supported by an initial tax opinion shall be nonadmitted. If the program is a permitted syndicated program with a yield guarantee, the opinion must verify that the investment and guarantee ~~have~~ been properly structured under IRS or state tax provisions ~~rules~~ and the guarantee does not disqualify the reporting entity from obtaining ~~federal general business~~the tax credits.

17. Reporting entities shall annually obtain U.S. GAAP or U.S. tax basis audited financial statements on the investment fund. In the event audited U.S. GAAP or U.S. tax basis financial statements are not obtained or the audit receives an opinion other than unqualified, the asset shall be nonadmitted. If the audited financial statements are in-process but not completed as of the annual statement filing deadline, the reporting entity may admit the investment based on the results of the immediately preceding prior year audited financial statements. A lag in reporting shall be consistent from period to period.

- a. Other tax credit investments – If the reporting entity has a tax credit investment which by virtue of its structure cannot be audited, the investment is exempt from the annual audit requirement. One example of this type of investments would be tax credit debt investments⁴ which do not involve any amount of equity ownership as a component of the investment. This type of tax credit debt investment is exempt from the annual audit requirement, but the reporting entity is still required to obtain a clean tax opinion, in accordance with paragraph 16, to support admittance at initial investment.

Prospective Utilization Assessment

18. The prospective utilization assessment, as detailed below in paragraphs 19-21, must be performed annually by the reporting entity if any of the following circumstances exist in either the current or prior reporting period:

- a. Reporting entity records a valuation allowance against a deferred tax asset (DTA) balance.
- b. Reporting entity becomes aware of other facts and circumstances which indicate that it will, more likely than not, be unable to substantially utilize the unallocated tax credits. Such instances include, but are not limited to:
 - i. If the reporting entity holds an investment which allocates state premium tax credits and intends to decrease premium volume in that state, it may affect whether or not the unallocated tax credits in that state can be utilized.
 - ii. If the reporting entity holds an investment allocating state income tax credits and records a valuation allowance in its U.S. GAAP financial statements against state DTA balances, including the same state as the tax credit investment, it cannot ignore the circumstances that led to the valuation allowance, even though statutory accounting does not permit state DTAs.

² While not quantified or defined in either the Internal Revenue Code or state regulations, common industry standards consider a “should” opinion to be the minimum degree of confidence associated with a clean tax opinion. For the purposes of this statement, a “should” opinion must represent a probability of success no less 70%. Any tax credit investment which receives a tax opinion with a degree of confidence less than “should” is to be nonadmitted.

³ A fund level tax opinion for the purposes of this statement is defined as a full IRS Circular 230 tax opinion which covers from the fund level through to the underlying assets generating the tax credit benefits. The fund level is defined as the entity, or level, at which the investor comes directly into the investment without any intermediaries.

⁴ Common examples of tax credit debt investments are Tax Credit Strips derived from tax credit bonds, Qualified Tax Credit Bonds, and Build America Tax Credit Bonds. Tax opinions received on these tax credit investments are also referred to as “bond counsels.” Tax Credit Strips derived from tax equity investments would not qualify for the paragraph 17.a carve out as the source of the stripped tax credits is auditable.

19. Prospective Utilization Assessment – ~~A~~ If any of the circumstances detailed in paragraph 18 exist, the reporting entity is required to ~~first~~ assess the future utilization of the investment’s ~~current portion of~~ unallocated tax credits against ~~the~~ estimated tax liabilities ~~for both the tax year in which the tax credits can be initially utilized as well as any applicable carryback periods.~~ Based on this assessment, if the reporting entity does not expect to substantially utilize the ~~current portion of unallocated investment tax credits,~~ the reporting entity shall perform an ~~expanded assessment to~~ and determine the extent to which it will be able to utilize the investment’s unallocated tax credits over the life of the ~~investment~~ tax credits. If assessment projections identify that the investment’s unallocated tax credits ~~from investments in tax credit programs~~ will exceed what can be utilized under IRS or state tax provisions ~~(current and other applicable tax periods),~~ the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within current, carryback, and carryforward periods. ~~Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized within the carryforward periods then the entire investment shall be nonadmitted.~~ In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond those allowed under prudent and feasible tax-planning strategies ~~actual experience~~ to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity ~~can~~ may subsequently admit a previously nonadmitted tax credit investment, based on subsequent assessments in which the reporting entity determines that they will be able to utilize the unallocated tax credits.

18:20. Additional Admittance to Prospective Utilization Assessment – If the tax credit investment allocates tax credits with the following features, the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment nonadmitted under paragraph 19 can be admitted:

- a. Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions ~~are~~ shall admitted up to the lesser of the proportional amortized cost; or fair value of the unallocated tax credits. ~~If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.~~
- b. Tax credit investments which allocate tax credits eligible for direct payment ~~are~~ shall admitted up to the lesser of the proportional amortized cost; or the estimated proceeds from unallocated tax credits.
- e. ~~For all other tax credits, if a reporting entity does not expect to fully utilize investment tax credits in the upcoming tax year or for a carryback year, the reporting entity shall perform an assessment to determine the extent it will be able to utilize the tax credits over the life of the investment. If assessment projections identify that the tax credits from investments in tax credit programs will exceed what can be utilized under IRS or state tax provisions (current and other applicable tax periods), the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized. Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized then the entire investment shall be nonadmitted. In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond actual experience to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity can subsequently admit a previously nonadmitted tax credit investment, based on subsequent assessments in which the reporting entity determines that they will be able to utilize the tax credits.~~

19:21. For tax credit investments which have an amortization timeframe greater than the tax credit allocation timeframe (as demonstrated in ~~both examples within~~ Exhibit A), the reporting entity would still,

~~if required,~~ perform the prospective utilization assessment ~~same assessment detailed in paragraph 18~~ but on the reporting entity's ability to utilize the remaining stream of anticipated tax benefits.

Future Contributions and Additional Tax Credits

~~20-22.~~ Many tax credit investments require future contributions by the investor, that may be contingent on a variety of conditions, such as receiving representations, contract performance, meeting occupancy requirements, etc. A liability shall be recognized for delayed ~~equity~~ contributions which result in additional tax credits that are unconditional and legally binding, and a liability shall also be recognized for ~~equity~~ contributions which result in additional tax credits that are contingent upon a future event when that contingent event becomes probable pursuant to the loss contingency guidance in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. (ASC 323-740-25-3) Liabilities or loss contingencies recognized for future contributions which result in additional tax credits shall be reported as 'Payable for Securities' until remitted or until the obligation is otherwise eliminated.

~~21-23.~~ If a commitment to provide future contributions is not required to be recognized pursuant to paragraph 22, the commitment shall be disclosed in the notes to the financial statements with other commitments.

~~22-24.~~ Additional contributions that do not result in additional tax credits for the reporting entity investor shall be immediately expensed as a component of net investment income.

~~23-25.~~ If additional contributions result in additional tax credits for the reporting entity, the proportional amortization method for the tax credit investment shall be adjusted, on a prospective basis, to reflect the increased cost with the revised expected ~~income~~-tax credits and ~~income~~-other tax benefits.

~~26.~~ In the event a reporting entity obtains additional tax credits without the reporting entity making additional contributions, the reporting entity shall not adjust the book/adjusted carrying value of the tax credit investment. (The proportional amortization method shall not be adjusted to reflect the expected additional tax credits.) Rather, the tax credit shall be recognized when allocated pursuant to paragraph 14.

Impairment of Tax Credit Investments

~~24-27.~~ Reporting entities with investments in tax credit programs shall complete and document an impairment analysis at each reporting period. For this analysis, the reporting entity shall compare the current book/-adjusted carrying value to the fair value of the investment. (~~In lieu of~~ if fair value is not determinable, an entity can compare book/-adjusted carrying value to the present value of future tax credits and other tax benefits discounted at a risk-free rate of return.) If book/-adjusted carrying value is higher, the difference between book/-adjusted carrying value and fair value shall be recognized as an other-than-temporary impairment^(INT 06-07) to the tax credit investment. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value (~~discounted value present value~~).

~~25-28.~~ An other-than-temporary impairment shall also be considered to have occurred if a previously allocated tax credit has been recaptured or if it is probable that future tax credits will not be allocated as expected. If a project no longer qualifies for tax credits, the entire investment, less any residual established at initial recognition, shall be written off as other-than-temporarily impaired. If the reporting entity experiences a tax credit recapture, the reporting entity shall assess whether future tax credits and other benefits will qualify for use by the reporting entity. If future credits will not be generated or will be subject to future recapture, then the reporting entity shall write-off the investment as other-than-temporarily impaired so that the resulting investment value only reflects expected qualifying tax credits and other benefits expected to be allocated. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries or revision to tax credit expectations.

~~26~~29. Certain tax credit programs allocate variable amounts of tax credits (for example, clean energy production tax credit programs) which will result in regular differences between actual allocated tax credits and estimated tax credit allocations as calculated upon acquisition of the investment. Variable tax credits allocated in excess of estimates should be accounted for in accordance with paragraph 26. If the allocated variable tax credits are less than estimates by more than 10% or consistently allocate less than the estimated amounts over multiple allocation periods, then the reporting entity must either recognize an other-than-temporary impairment or specifically address within its impairment analysis the reason why consistently diminished tax credit returns do not represent an impairment event. Note that if the company determines it is probable that the total amount of anticipated variable tax credits will not be received, it would still be considered an other-than-temporary impairment in accordance with paragraph 28.

Disclosures

~~27~~30. A reporting entity shall disclose information that enables users of its financial statements to understand the following information about its ~~tax~~ investments in projects that generate tax credits and other tax benefits from tax programs captured in scope of this statement: (ASC 323-740-50-1)

- a. The nature of its investments in projects that generate tax credits and other tax benefits.
- b. The effect of the recognition and measurement of its investments in projects that generate tax credits and other tax benefits and the related tax credits on its financial position and results of operations.

~~28~~31. To meet the objective of paragraph 30, a reporting entity shall disclose the following information about its ~~tax~~ investments in projects that generate tax credits and other tax benefits from a tax credit program in scope of this statement:

- a. The amount of tax credits and other tax benefits recognized during the reporting period(s).
- b. The balance of the investments recognized in the statement of financial position for the reporting period(s) presented.
- c. The amount of investment amortization and non-income tax related activity recognized as a component of net investment income, and other returns allocated that were recognized outside of income tax expense.
- d. An aggregate schedule of tax credits expected to be generated each year for the subsequent five years and thereafter, disaggregated by transferable/certificated and non-transferable.
- e. Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of contributions that are contingent commitments related to tax credit investments and the year(s) that contingent commitments are expected to be paid shall be disclosed.

~~29~~32. The following disclosures shall be included if applicable to tax credit investments:

- a. If the underlying ~~property-project~~ is currently subject to any regulatory reviews and the status of such review. (Example: Investigations by the housing authority.)
- b. Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments in scope. (ASC 323-740-50-1A)

~~30~~33. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

- a. A description of the impaired assets and the facts and circumstances leading to the impairment; and
- b. The amount of the impairment and how fair value was determined.

34. The following disclosures pertain only to those tax credits allocated from tax credit investments and are unused as of the reporting period(s). For purposes of this disclosure, total unused tax credits represent the entire amount of tax credits available:

- a. Carrying value of tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related tax liabilities by jurisdiction and in total.
- b. Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable.
- c. Method of estimating utilization of remaining tax credits or other projected recovery of the current carrying value.
- d. Impairment amount recognized in the reporting period(s), if any.
- e. Identify tax credits by transferable/certificated and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.

~~34.~~35. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~32.~~36. This statement adopts with modification *Accounting Standards Update (ASU) 2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. The ASU is modified for the following statutory concepts:

- a. This statement is applicable to all federal and state tax credit programs earned through any tax credit investment structure that meets the requirements in paragraph 2. Under the ASU, use of the proportional amortization method is an election and only pertains to income tax equity investment structures in which the reporting entity does not exercise significant influence. With this statement, the U.S. GAAP election to use the proportional amortization method is rejected and use of proportional amortization for investments within the scope of this statement is required. The guidance is expanded for state premium tax credits.
- b. Investments that meet the criteria of this statement are required to use a proportional amortization method as prescribed in this statement. This method requires the tax credits and benefits to be recognized in proportion to the percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be allocated by the reporting entity over the life of the investment. This statement requires a gross presentation on the financial statements. Under the ASU, a practical expedient is allowed for the calculation of proportional amortization but has been rejected with this statement.
- c. Federal tax credits shall be recognized in the income statement as an offset to federal income taxes in the tax reporting year in which the tax credit is utilized in accordance with SSAP No. 101. State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized.

- d. Tax benefits allocated, other than tax credits, shall be accounted for pursuant to SSAP No. 101. Amortization shall be reported as a component of net investment income.
- e. Reporting entities shall follow the guidance in paragraphs 22 and 23 regarding the recognition of contingent commitments from SSAP No. 5R to equity contributions.
- f. This statement has specific impairment and nonadmittance requirements.
- g. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).
- h. Disclosures should be followed as indicated in the disclosures section in this statement.
- ~~h.i.~~ The examples detailed in Exhibit A were modified to better illustrate the statutory accounting method for tax credit investments.

Effective Date and Transition

~~33.~~37. This statement is effective for reporting periods beginning on or after January 1, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance previously in paragraph 3 of this statement superseded paragraph 1 of SSAP No. 48. In 2011, this guidance was moved to SSAP No. 48 and deleted from this statement. The original guidance included in this standard is retained for historical purposes in Issue Paper No. 125. The guidance from ASU 2014-01 is effective for reporting periods beginning on or after January 1, 2015, with early adoption permitted.

38. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. XXX, were adopted. These revisions, effective January 1, 2025, expanded the scope of SSAP No. 93 to include all federal and state tax credit investment structures and provide new guidance on the accounting, recognition, and reporting of tax credit investment structures. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credit investment structures to reflect the guidance in the conceptual revisions. Additionally, all tax credit investment structures which fall within the scope of this statement not currently reported on Schedule BA are to be transferred to Schedule BA as of the effective date.

Glossary

39. The following definitions are provided for the purposes of this statement.

- a. Unallocated tax credits – The portion of tax credits expected to be earned and allocated to the reporting entity through the tax credit investment structure.
- ~~i. Current portion – The tax credits to be allocated within one year of the reporting period.~~
- b. Transferable/Certificated – The tax credits are certified for sale (certificated tax credits) or saleable through the execution of a state or federal transfer form (transferable tax credits).
- c. More Likely Than Not – Refers to a likelihood of more than 50%.

REFERENCES

Relevant Issue Papers

- Issue Paper No. 125—Accounting for Low-Income Housing Tax Credit Property Investments
- Issue Paper No. XX—XXX

EXHIBIT A – APPLICATION OF PROPORTIONAL AMORTIZATION METHOD***Example 1: ~~Application of Proportional Amortization Method for Qualifying Investment~~ Qualifying Tax Credit Investment Structure***

~~This example is based on paragraph 323-740-55-5 of the Accounting Standards Codification which illustrates the application of a standard project. The amount and timing of amortization in the proportional amortization method is consistent with the statutory modifications; therefore, the table incorporated in this exhibit is based on the proportional amortization table. The statutory income statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

Terms:

~~Date of Investment: January 1, 20X1~~

~~Purchase Price of Investment: \$100,000~~

On January 1, 20X1, ABC Insurance Company purchases a 5% equity stake in a tax credit investment structure for \$100,000. The allocated tax credits are transferable, and ABC anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a \$100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership finances the project cost of \$4,000,000 with 50% equity and 50% debt.
5. The annual tax credit allocation (equal to 4% of the project's original cost) will be received for a period of 10 years.
6. The investor's tax rate is 40%.
7. For simplicity, the project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.
8. The project's taxable loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor is limited to the \$100,000 investment.
9. It is assumed that all requirements are met to retain allocable tax credits so there will be no recapture of tax credits.
10. The investor expects that the estimated residual value of the investment will be zero.

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)
	100,000					
1	90,909	9,091	8,000	7,273	2,909	10,909
2	81,818	9,091	8,000	7,273	2,909	10,909
3	72,727	9,091	8,000	7,273	2,909	10,909
4	63,636	9,091	8,000	7,273	2,909	10,909
5	54,545	9,091	8,000	7,273	2,909	10,909
6	45,454	9,091	8,000	7,273	2,909	10,909
7	36,363	9,091	8,000	7,273	2,909	10,909
8	27,272	9,091	8,000	7,273	2,909	10,909
9	18,181	9,091	8,000	7,273	2,909	10,909
10	9,090	9,091	8,000	7,273	2,909	10,909
11	6,666	2,424		7,273	2,909	2,909
12	4,242	2,424		7,273	2,909	2,909
13	1,818	2,424		7,273	2,909	2,909
14	0	1,818		5,451	2,183	2,183
15	0					0
Total		100,000	80,000	100,000	40,000	120,000

- (1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).
- (2) Initial investment of \$100,000 x (total tax benefits allocated during the year in Column (6) / total anticipated tax benefits over the life of the investment of \$120,000).
- (3) Annual 4% tax credit on \$200,000 tax basis of the underlying assets.
- (4) Depreciation (on \$200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of \$100,000.
- (5) Column (4) x 40% tax rate.
- (6) Column (3) + Column (5).

Initial Year

<u>Tax credit investment</u>	<u>100,000</u>	
<u>Cash</u>		<u>100,000</u>
<i>To record the purchase of tax credit investment</i>		

Years 1-10

<u>Amortization expense</u>	<u>9,091</u>	
<u>Tax credit investment</u>		<u>9,091</u>
<u>Federal tax credits</u>	<u>8,000</u>	
<u>Income tax expense</u>		<u>8,000</u>
<i>To record annual receipt of allocated tax credits and proportional amortization of investment.</i>		

	<u>Income taxes payable</u>	<u>8,000</u>	
	<u>Federal tax credits</u>		<u>8,000</u>
	<i>To record annual utilization of allocated tax credits.</i>		
<hr/>			
<u>Year 11-13</u>			
	<u>Amortization expense</u>	<u>2,424</u>	
	<u>Tax credit investment</u>		<u>2,424</u>
	<i>To record annual proportional amortization of tax credit investment.</i>		
<hr/>			
<u>Year 14</u>			
	<u>Amortization expense</u>	<u>1,818</u>	
	<u>Tax credit investment</u>		<u>1,818</u>
	<i>To record annual proportional amortization of tax credit investment.</i>		

Example 2: Qualifying Tax Equity Credit Investments Structure with Non-Income Tax Related Benefits

~~This example is based on paragraphs 323-740-55-11 through 323-740-55-14 of the Accounting Standards Codification and illustrates a tax equity investment that generates non-income tax related benefits in addition to tax credits and other income tax benefits.~~

~~The amount and timing of amortization in the proportional amortization method is consistent with the statutory modifications; therefore, the table incorporated in this exhibit is based on the proportional amortization table. The statutory income statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

Terms:

~~Date of Investment: January 1, 20X1~~

~~Purchase Price of Investment: \$100,000~~

On January 1, 20X1, T&A Insurance Company purchased a 5% equity stake in a tax credit investment structure for \$100,000. The allocated tax credits are non-transferable, and T&A anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a \$100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership will receive production tax credits based on the energy the project produces. The credits will be allocated over a four-year period.
5. The tax equity investor will receive cash proceeds based on 2% of the project's cash generated during the life of the ~~project~~investment.
6. The investor's tax rate is 40%.
7. All requirements are met to retain allocable income tax credits such that there will be no recapture of income tax credits.
- ~~8. The investor expects that the estimated residual value of the investment will be zero.~~
- ~~9.8.~~ 8. All of the conditions are met to require use of the proportional amortization method.
9. After 10 years, the tax equity investor has a right to require that the project sponsor purchase the tax equity investor's equity interest for a nominal amount. It is assumed that the Put option will be exercised and has a contractually agreed upon residual value of \$1,000.
10. In Years 1-3 the investor is able to utilize all allocated tax credits in the same period they were received. In Year 4, the investor is only able to utilize half of that year's allocated tax credit and defers the remainder for utilization in Year 5.

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)	Non-Tax Related Cash Returns (7)
	100,000						
1	79,399 79,605	20, 395 601	20,000	8,300	3,320	23,320	58
2	58,799 59,210	20, 395 601	20,000	8,300	3,320	23,320	58
3	38,198 38,815	20, 395 601	20,000	8,300	3,320	23,320	58
4	17,597 18,420	20, 395 601	20,000	8,300	3,320	23,320	58
5	14,664 15,516	2,9 04 33		8,300	3,320	3,320	58
6	11,731 12,612	2,9 04 33		8,300	3,320	3,320	58
7	8,799 9,708	2,9 04 33		8,300	3,320	3,320	58
8	5,866 6,804	2,9 04 33		8,300	3,320	3,320	58
9	2,933 3,900	2,9 04 33		8,300	3,320	3,320	58
10	0 1,000	2,9 00 33		8,300	3,320	3,320	58
Total	<u>1,000</u>	100 99,000	80,000	83,000	33,200	113,200	580

- (1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).
- (2) Initial investment, less residual value of \$1,000, of \$~~100~~99,000 x (total tax benefits allocated during the year in Column (6)) / total anticipated tax benefits over the life of the investment of \$113,200).
- (3) These tax credits have been generated through the production of electricity, which generates production tax credits. The tax equity investor is not receiving renewable energy credits or carbon offsets.
- (4) Depreciation /other tax losses passed on to the investor.
- (5) Column (4) x 40% tax rate.
- (6) Column (3) + Column (5).
- (7) Non-income-tax-related benefits recognized in current-period pre-tax earnings when allocated. This represents the cash proceeds allocated by the tax equity investor based on the cash generated from the project.

Initial Year

Tax credit investment	100,000	
Cash		100,000
<i>To record the purchase of tax credit investment</i>		

Years 1-3

Amortization expense	20,395	
Tax credit investment		20,395
Federal tax credits	20,000	
Income tax expense		20,000
Cash		58
Investment Income		58

To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.

Income taxes payable	<u>20,000</u>	
Federal tax credits		<u>20,000</u>

To record annual utilization of allocated tax credits.

Year 4

Amortization expense	<u>20,395</u>	
Tax credit investment		<u>20,395</u>
Federal tax credits	<u>20,000</u>	
Income tax expense		<u>20,000</u>
Cash	<u>58</u>	
Investment Income		<u>58</u>

To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.

Income taxes payable	<u>10,000</u>	
Federal tax credits		<u>10,000</u>
Income tax expense	<u>10,000</u>	
Deferred tax expense		<u>10,000</u>

To record the portion of allocated tax credits utilized in the current year and defer the remainder. (Federal tax credit account should be mapped to the DTA reporting line as any balance remaining at year-end would be a DTA)

Year 5

Amortization expense	<u>2,904</u>	
Tax credit investment		<u>2,904</u>
Cash	<u>58</u>	
Investment Income		<u>58</u>

To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.

Income taxes payable	<u>10,000</u>	
Federal tax credits		<u>10,000</u>
Deferred tax expense	<u>10,000</u>	
Income tax expense		<u>10,000</u>

To record utilization of deferred tax credit.

Years 6-9

Amortization expense	<u>2,904</u>	
Tax credit investment		<u>2,904</u>
Cash	<u>58</u>	
Investment Income		<u>58</u>

To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.

Year 10

<u>Amortization expense</u>	<u>2,900</u>	
<u>Tax credit investment</u>		<u>2,900</u>
<u>Cash</u>	<u>58</u>	
<u>Investment Income</u>		<u>58</u>
<u><i>To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.</i></u>		
<u>Cash</u>	<u>1,000</u>	
<u>Tax credit investment</u>		<u>1,000</u>
<u><i>To record sale of interest in tax credit investment at stated residual value.</i></u>		

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24 Spring National Meeting/Adoptions/22-14a - SSAP No 93R - Investments in Tax Credit Structures.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/22-14a-SSAPNo93R-InvestmentsinTaxCreditStructures.docx)

Spring National Meeting Adoption: Revisions to SSAP No. 94R made after the exposure on January 31, 2024, have been shown as tracked changes highlighted in grey. This document represents the final adopted version of SSAP No. 94R.

Statements of Statutory Accounting Principles No. 94 - Revised

~~Transferable and Non-Transferable~~ State and Federal Tax Credits

STATUS

Type of Issue	Common Area
Issued	June 12, 2006; Substantively revised December 7, 2011; Conceptually revised - March 16, 2024.
Effective Date	December 31, 2006; Substantive revisions detailed in Issue Paper No. 145 effective December 31, 2011; Conceptual revisions detailed in Issue Paper No. XXX effective XXX.
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

STATUS	1
SCOPE OF STATEMENT	2
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SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for ~~transferable and non-transferable~~ state ~~and federal~~ tax credits ~~that are purchased¹ by the reporting entity without being an investor in the entity from which the tax credit were earned/purchased.~~ Tax credits allocated from investments NOT within the scope of *SSAP 93R—Investments in Tax Credit Structures* should refer to this statement for tax credit accounting guidance. ~~Additionally, Tax credits that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts). Tax credits which have been awarded² to the reporting entity are not within the scope of this statement and should refer to *SSAP No. 101—Income Taxes*.~~
2. ~~Tax credits allocated from, and investments in, Low Income Housing Tax Credits credit structures,~~s as discussed in *SSAP No. 93R SSAP No. 93R—Low Income Housing Tax Credit Property Investments*~~*Investments in Tax Credit Structures*~~, which involve investments in projects or programs that generate general business federal tax credits or state tax credits, are not within the scope of this statement. ~~However, the tax credits received from tax credit investments are within the scope of this statement.~~
3. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors ~~(insurance companies)~~, in order to make venture capital investments in “qualified” businesses, are not within the scope of this statement. Although associated with tax credits, the insurance company is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the ~~insurance company~~ investors will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the ~~insurance company~~ investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

4. Both state and federal governments have enacted laws that create programs by which tax credits are granted to entities under certain specified conditions. The terms of these tax credits vary based on the issuing jurisdiction and from program to program.~~The criteria in paragraphs 5 and 6 are for transferable state tax credits (i.e., credits which may be sold or assigned). The criteria in paragraphs 7 and 8 are for non-transferable state tax credits (i.e., those which cannot be sold or assigned to other parties).~~
5. ~~Some states have enacted laws that create programs by which transferable state tax credits are granted to entities under certain specified conditions (e.g., an entity makes an investment in a particular industry). The terms of these state tax credits vary from state to state and, within a state, from program to program. However, many of these transferable state tax credit programs share the following four characteristics:~~
 - a. ~~The tax credit is nonrefundable;~~

¹ The process to purchase a tax credit typically involves the acquisition of a tax credit certificate (certificated tax credits) or the execution of a state or federal transfer form (transferable tax credits). Tax credits which have been received through other means are indicative of tax credits allocated from an investment (For example, if the tax credits are received through a schedule K-1) and may be within scope of SSAP No. 93.

² For the purposes of this statement, awarded tax credits are tax credits issued to the reporting entity which were neither purchased nor allocated from an investment structure. A common example of an awarded tax credit are Job Creation tax credits which are a type of performance-based tax credit program.

~~Transferable and Non-Transferable~~ State and Federal ~~State~~-Tax Credits

SSAP No. 94R

- ~~b. The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise resell or transfer the credit;~~
- ~~c. The transferable state tax credit will expire if not used by a predetermined date; and~~
- ~~d. The transferable state tax credit can be applied against either state income tax or state premium tax.~~

~~6. For purposes of this statement, such programs will be referred to as “transferable state tax credits.” The criteria in paragraphs 5.b., 5.c. and 5.d. must be present in order for the transferable state tax credit to receive the accounting treatment described in this statement. When a reporting entity purchases a transferable state tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e. limited partnership).~~

~~Non-Transferable State Tax Credits~~

~~7. If the original or subsequent holder of the transferable tax credit is not able to transfer the tax credit, then the admissibility criteria in paragraph 8 for non-transferable tax credits apply. These non-transferable state tax credits share the following characteristics:~~

- ~~a. The tax credit is nonrefundable;~~
- ~~b. The successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity’s acquisition of the state tax credit and is not permitted to carry over, carry back, obtain a refund, sell or assign the credit;~~
- ~~c. The non-transferable state tax credit will expire if not used by the predetermined date; and~~
- ~~d. The non-transferable state tax credit can be applied against either state income tax or state premium tax.~~

~~5. The criteria in paragraphs 7.b., 7.c. and 7.d. must be present in order for the non-transferable state tax credit to receive the accounting treatment described in this statement.~~ For the purposes of this statement, “tax credits” must be issued by either a federal or state governmental entity and must be refundable³ or can be applied against income tax or premium tax in accordance with permitted IRS or state tax provisions. Tax credits which may be sold or otherwise transferred to another entity are referred to as “transferable tax credits” whereas all other tax credits are referred to as “non-transferable.”

~~6. When a reporting entity purchases a transferable or certificated tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e., limited partnership).~~ Direct payment elections are non-revocable and supersede the transferability of tax credits, as such, once the election has been made the tax credit would be considered a non-transferable tax credit.

~~Transferable and non-transferable state tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in SSAP No. 4—Assets and Nonadmitted Assets and~~

³ Direct payment tax credits are synonymous with refundable tax credits, as such the terms are used interchangeably within this statement.

~~are admissible assets to the extent that they comply with the requirements of this statement. If the criteria in paragraphs 6 or 8 are not met, the tax credits are nonadmitted.~~

Acquisition Accounting

7. All tax credits within the scope of the statement must be recognized in the period they are allocated to or purchased by the reporting entity for tax purposes and must be recorded at face value upon receipt. ~~Transferable and non-transferable state tax credits are recorded at cost at the date of acquisition.~~ Tax credits acquired at a premium or discount to their face value must record the gain/loss as follows:

- a. Tax credits acquired at a discount must defer the gain as a miscellaneous liability upon receipt of the tax credit.
- b. Tax credits acquired at a premium must realize the loss within the income statement upon receipt of the tax credit.

8. Deferred g~~Gains on transferable and nontransferable~~ tax credits are deferred until the value of the ~~state~~ tax credits utilized exceeds the initial acquisition cost of the tax credits, or until the ~~state~~ tax credits are transferred to other entities or the direct payment election is utilized and the payment(s) or refund ~~is greater than~~ exceed the ~~initial carrying acquisition value~~ cost.

~~Balance Sheet Treatment~~

9. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

- a. Federal tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—Income Taxes. Federal tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported ~~net of~~ as a deferred tax asset (DTA) in accordance with SSAP No. 101.
- b. State tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested-assets (not to be reported net).

10. Use of carried forward tax credits in a future period shall be reflected as an offset to the corresponding income or premiums tax in the tax reporting year in which the tax credit is utilized.

~~8. Transferable and non-transferable state tax credits shall be established gross of any related state tax liabilities and reported in the category of other than invested assets (not reported net).~~

~~9. As transferable and non-transferable state tax credits are redeemed, the carrying value of the tax credits is reduced dollar for dollar by the amount of state tax credits applied toward the reporting entity's applicable state tax liability.~~

Income Statement Treatment

~~10.~~ Gains on transferable and non-transferable state tax credits are deferred until the value of the state tax credits utilized exceeds the cost of the state tax credits or until the state tax credits are sold to other entities and the payment received is greater than the book value.

~~11.~~ Losses on transferable and non-transferable state tax credits are recognized when known.

11. Gains and losses on ~~transferable and non-transferable state~~ tax credits are reflected in other income when realized.

12. A tax credit asset is considered purchased or allocated once the tax credit is received and available for use. If the reporting entity determines a commitment to purchase tax credits has met the definition of a liability, then the asset would be reported in other-than-invested assets as tax credits receivable.

Admittance

13. ~~Transferable and non-transferable~~ tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits are subject to SSAP No. 101.

Impairment

~~12.~~14. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the book/-adjusted carrying value amount of the ~~transferable or non-transferable state~~ tax credits. ~~State~~ tax credits should be evaluated for impairment at each reporting date.

~~13.~~15. When there is a decline in the realizability of a ~~transferable or non-transferable state~~ tax credit owned by the reporting entity that is other-than-temporary^(INT 06-07), the asset shall be written down to the expected realizable amount and the amount of the write down shall be accounted for as a realized loss. The expected realizable value is the new cost basis.

~~14.~~16. The new cost basis shall not be changed for subsequent recoveries in realizability.

Disclosures

~~15.~~17. The following disclosures shall be made in the financial statements for the reporting period(s) presented. For purposes of this disclosure, total unused ~~transferable and non-transferable state~~ tax credits represent the entire amount of ~~transferable and non-transferable state~~ tax credits available:

- a. Carrying value of ~~transferable and non-transferable state~~ tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related ~~state~~ tax liabilities by state jurisdiction and in total.;
- b. Total unused ~~transferable and non-transferable state~~ tax credits by state jurisdiction, disaggregated by transferable/certificated and non-transferable.;
- c. Method of estimating utilization of remaining ~~transferable and non-transferable state~~ tax credits or other projected recovery of the current carrying value.
- d. Impairment amount recognized in the reporting period(s), if any.

- e. Identify ~~state~~-tax credits by transferable/certificated and non-transferable classifications, and identify the admitted and ~~N~~onadmitted portions of each classification.

~~16.18.~~ Any commitment or contingent commitment to purchase tax credits shall be disclosed.

Effective Date and Transition

19. This statement is effective for reporting periods ending on or after December 31, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. Substantive revisions to 1) revising the title; 2) incorporating the criteria for non-transferable state tax credits as described in paragraphs 7 and 8; 3) adding a disclosure; and 4) updating terminology throughout the document as appropriate, are effective for reporting periods ending on or after December 31, 2011.

20. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. XXX, were adopted. These revisions, effective January 1, 2025, with early adoption permitted, expanded the scope of SSAP No. 94R to include all purchased, and certain allocated, state and federal income or premium tax credits and provide new guidance on the accounting, recognition, and reporting for state and federal tax credits within the scope of this statement. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credits within the scope of this statement to reflect the guidance in the conceptual revisions. For unutilized tax credits which were carried forward from prior to the effective date:

- a. Federal tax credits in other-than-invested assets are to be transferred and reported ~~net of~~ as a ~~deferred tax asset (DTA)~~ in accordance with SSAP No. 101.
- a.b. Tax credits previously recorded at acquisition cost should be adjusted to reflect the face value of the acquired tax credits with the corresponding loss immediately recognized or the gain deferred.

REFERENCES

Relevant Issue Papers

- Issue Paper No. 126—Accounting for Transferable State Tax Credits
- Issue Paper No. 145—Accounting for Transferable and Non-Transferable State Tax Credits
- Issue Paper No. XXX—XXX

EXHIBIT A – ACCOUNTING FOR TRANSFERABLE ~~STATE~~ TAX CREDITS

On 1/1/X1 SAM Insurance Company purchased transferable state tax credits for a cost of \$100,000. The transferable state tax credits are redeemable for \$160,000 and expire at the end of 12/31/X4. SAM initially expects to utilize the tax credits before expiration in their state of domicile in the amount of \$40,000 per year. In year X4, SAM sells the remaining \$30,000 in transferable state tax credits for \$20,000.

1/1/x1	Transferable state tax credits	100 160,000	
	<u>Deferred gains on acquired tax credits</u>		<u>60,000</u>
	Cash		100,000
	<i>To record the purchase of the tax credits</i>		
6/30/x1	Premium tax expense	40,000	
	Premium taxes payable to domiciliary state		40,000
	<i>To record premium tax expense and accrue the liability in Year 1.</i>		
10/1/x1	Premium tax payable	40,000	
	Transferable state tax credits		40,000
	<i>To record the use of tax credits in Year 1. The reporting entity expects to be able to utilize remaining tax credits before expiration.</i>		
6/30/x2	Premium tax expense	60,000	
	Premium taxes payable to domiciliary state		60,000
	<i>To record premium tax expense and accrue the liability in Year 2.</i>		
9/30/x2	Premium tax payable	60,000	
	Transferable state tax credits		60,000
	<i>To record the use of taxes credits in Year 2. The reporting entity expects to be able to utilize remaining tax credits before expiration.</i>		
6/30/x3	Premium tax expense	30,000	
	Premium taxes payable to domiciliary state		30,000
	<i>To record premium tax expense and accrue the liability in Year 3.</i>		
9/30/x3	Premium tax payable	30,000	
	<u>Transferable state tax credits</u>		30,000
	<u>Deferred gains on acquired tax credits</u>	<u>30,000</u>	
	<u>Other income</u>		<u>30,000</u>
	<i>To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. The Company intends to sell the remaining tax credits in year 4.</i>		
6/30/x4	Cash	20,000	
	<u>Other income</u>	<u>10,000</u>	
	<u>Transferable state tax credits</u>		<u>30,000</u>
	<u>Deferred gains on acquired tax credits</u>	<u>30,000</u>	
	Other income		20 30,000
	<i>To record the sale of the remaining tax credits.</i>		

EXHIBIT B – ACCOUNTING FOR NON-TRANSFERABLE ~~STATE~~ TAX CREDITS

On 7/1/X1 LJW Insurance Company purchased non-transferable ~~state~~-federal tax credits for a cost of \$100,000. The ~~state~~-federal tax credits are redeemable for \$110,000, ~~are not transferable~~ and expire on, April 15, 20x2. LJW expects to utilize the tax credits before expiration ~~in their state of domicile~~ in the amount of \$110,000. Tax credits are utilized pro-rata, approximately \$36,666 every quarter, from acquisition date to expiration date. The illustration below assumes that LJW Insurance Company’s quarterly income tax liability equals the amount of credits that were purchased.

7/1/x1	State - <u>Federal</u> tax credits	1 00 ,000	
	<u>Deferred gains on acquired tax credits</u>		<u>10,000</u>
	Cash		100,000
	<i>To record the purchase of the tax credits</i>		
9/30/x1	Premium - <u>Income</u> tax expense	200,000 <u>36,666</u>	
	<u>Income</u> Premium —taxes payable—to domiciliary state		200,000 <u>36,666</u>
	<i>To record <u>quarterly premium tax expense and accerue the income tax liability.</u></i>		
<u>10/1/x1</u>	<u>Income taxes payable</u>	<u>36,666</u>	
	<u>Federal tax credits</u>		<u>36,666</u>
	<i>To record the use of tax credits in the quarter.</i>		
<u>12/31/x1</u>	<u>Income tax expense</u>	<u>36,666</u>	
	<u>Income taxes payable</u>		<u>36,666</u>
	<i>To record quarterly income tax liability.</i>		
<u>1/1/x2</u>	<u>Income taxes payable</u>	<u>36,666</u>	
	<u>Federal tax credits</u>		<u>36,666</u>
	<i>To record the use of tax credits in the quarter.</i>		
<u>3/31/x2</u>	<u>Income tax expense</u>	<u>36,668</u>	
	<u>Income taxes payable</u>		<u>36,668</u>
	<i>To record quarterly income tax liability.</i>		
3/15/x2	Premium tax payable	110,000	
<u>4/1/x2</u>	<u>Income taxes payable</u>	<u>36,668</u>	
	<u>Deferred gains on acquired tax credits</u>	<u>10,000</u>	
	<u>Other Income</u>		<u>10,000</u>
	<u>Federal tax credits</u>		<u>36,668</u>
	Other Income		10,000
	Federal tax credits		100 <u>110,000</u>
	<i>To record the use of premium tax credits in the quarter in excess of cost and recognize a gain on premium tax credits in other income. (The additional \$90,000 of premium taxes payable would still be due.)</i>		

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/22-14b-SSAPNo94R-StateandFederalTaxCredits.docx>

Other SSAPs

Spring National Meeting Adoption: *This document represents the final adopted version of the revisions to SSAP No. 34 and SSAP No. 48R. The changes shown to SSAP No. 48R have not been amended to reflect the proposed formatting changes proposed in agenda item #2024-08: Consistency Revisions for Residuals.*

Proposed revisions to **SSAP No. 34—Investment Income Due and Accrued**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investment income due and accrued. This statement does not address the accounting for tax credits allocated or purchased, which are discussed in SSAP No. 93R—Investments in Tax Credit Structures and SSAP No. 94R—State and Federal Tax Credits.

Proposed revisions to **SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*, whether or not it is considered to be controlled by or affiliated with the reporting entity. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in *SSAP No. 40R—Real Estate Investments*, are excluded from this statement. This statement does not address the accounting for investments in joint ventures, partnerships, and and limited liability companies that invest in tax credit programs that and are in the scope of ~~hold an equity interest in either a tax syndication structure or tax equity fund invest in Low-Income Housing Tax Credit Properties as discussed in~~ *SSAP No. 93R—Low Income Housing Tax Credit Property Investments* Investments in Tax Credit Structures.

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

Issue: *ASU 2023-03—Amendments to SEC Paragraphs*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

In July of 2023 FASB issued *ASU 2023-03, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022, EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*, which amends SEC paragraphs from the Accounting Standards Codification based on the issuance of SEC Staff Accounting Bulletin (SAB) 120, the March 24, 2022 EITF meeting SEC staff announcement, and SAB Topic 6.B “Accounting Series Release No. 280 — General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. This ASU updates various aspects of SEC guidance on stock compensation and equity-based payments.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered 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): None.

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 *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-03, Amendments to SEC Paragraphs as not applicable to statutory accounting*. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

Staff Review Completed by: William Oden – October 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-03—Amendments to SEC Paragraphs as not applicable for statutory accounting*.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-03, Amendments to SEC Paragraphs* as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-25-ASU2023-03-SECUpdates.docx>

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

Issue: *ASU 2023-04—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

In August of 2023 FASB issued *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*, which amends SEC paragraphs from the Accounting Standards Codification for the issuance of SEC Staff Accounting Bulletin (SAB) 121 which provides guidance on accounting for obligations to safeguard Crypto-Assets an entity holds for its platform users.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered 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):

In May 2021, the Working Group issued INT 21-01: Accounting for Cryptocurrencies, which provided guidance for the statutory accounting treatment of cryptocurrencies. INT 21-01 establishes that directly held cryptocurrencies have not been identified in the Accounting Practices and Procedures Manual (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the Accounting Practices and Procedures Manual as an admitted asset.

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 *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-04, Amendments to SEC Paragraphs as not applicable to statutory accounting*. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are generally not applicable for statutory accounting purposes.

Staff Review Completed by: Jake Stultz – October 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-04—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121* as not applicable for statutory accounting.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121* as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-27-ASU2023-04-SECUpdates-Crypto.docx>

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

Issue: IMR / AVR Preferred Stock

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to update guidance for the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR) in the Annual Statement (A/S) Instructions for perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs. The existing IMR/AVR guidance is based on measurement of preferred stock based on NAIC designation. However, statutory accounting revisions effective in 2021 revised the measurement method for perpetual preferred stock to always reflect fair value, not to exceed any currently effective call price, regardless of NAIC designation. Furthermore, with dedicated reporting lines established to separate redeemable and perpetual preferred stock, the reporting of NAIC designations was revised and no longer references an “RP” or “P.” These revisions were incorporated as perpetual preferred stock is more akin to an equity instrument, as it is not required to be redeemed by the issuing entity or at the option of the investor. At the time of this measurement method change, corresponding revisions to the IMR/AVR instructions were not reflected. As such, the existing IMR/AVR guidance directs realized gains/loss treatment for all preferred stock based on the NAIC designation during the holding period and refers to the prior designation classifications.

This agenda item proposes to clarify that realized gains and losses on perpetual preferred stock shall not be added to the IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to the AVR. This agenda item does not propose to change the concepts for redeemable preferred stock, which is more akin to a debt instrument, but proposes to clarify the guidance so application based on the type of structure is clear. Separate reporting of perpetual preferred stock and redeemable preferred stock is already included on Schedule D-2-1: Preferred Stock.

For the revisions proposed in this agenda item, the guidance for redeemable preferred stock will not be revised and will continue to classify realized gains/losses between the IMR and AVR based on NAIC designation. This guidance indicates that if the designation was a 4-6 at any time during the holding period, the realized gain or loss would go to AVR as non-interest related gains or losses. This agenda item does not intend to confirm that the allocation approach for redeemable preferred stock is appropriate and is strictly focused on ensuring that the current annual statement instructions for IMR/AVR corresponds with the current accounting and reporting guidance for perpetual preferred stocks. As detailed in the recommendation, discussion on whether use of NAIC designation for redeemable preferred stock is appropriate is proposed to occur as part of the long-term IMR project.

Existing Authoritative Literature:

- **SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts*.

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all

invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

3. The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition

4. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

(This reflects 2023 guidance. Agenda item 2023-15 proposes revisions to address specific allocations to the IMR that may not reflect interest-related losses.)

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$_____ Transferred into the Reserve Net of Taxes of \$_____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in SSAP No. 43R—*Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that

occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as non-interest-related gains (losses).

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock’s current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

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 2019-04: SSAP No. 32 – Investment Classification Project, resulted with revisions to update the preferred stock accounting and reporting guidance. These revisions resulted with all perpetual preferred stock being reported at fair value, not to exceed any currently effective call price, with unrealized gains and losses accounted for in accordance with SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve*.
- Agenda Item 2023-14: SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7.
- Agenda Item 2023-15: IMR/AVR Specific Allocations considers revisions to the A/S instructions to address guidance that prescribes specific allocation to the IMR. These revisions were exposed in August 2023.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation. This agenda item proposes new guidance that corresponds to the accounting and reporting differences for redeemable and perpetual preferred stock, with all perpetual preferred stock being treated as an equity instrument similar to common stock. With this approach, all unrealized gains or losses on perpetual preferred stock will reverse to realized gains or losses in the AVR formula. The revisions also clarify that SVO-Identified Preferred Stock ETFs shall be treated as perpetual preferred stock (equities) as that is consistent with the guidance in SSAP No. 32R—*Preferred Stock*.

(Note: This item is proposed as a SAP Clarification as the revisions to SSAP No. 32R to revise the measurement method for perpetual preferred stock was a new SAP Concept. The revisions proposed in this agenda item simply update the IMR/AVR A/S instructions to correspond to those adopted changes.)

As discussed in the introduction, this agenda item does not propose to alter the current process of using NAIC designations for redeemable preferred stock in determining whether realized gains or losses should be allocated to IMR or AVR. However, it should not be perceived that this agenda item confirms retention of this existing approach. Discussion on the approach to allocate gains/losses incurred from redeemable preferred stock is recommended for review as part of the long-term project on IMR/AVR. Any comments received on this dynamic will be addressed as part of that project. As detailed in the A/S instructions, for preferred stock, the determination for AVR is based on whether the preferred stock was an NAIC 4-6 at any time during the holding period and not based on a change in NAIC designation.

Staff Note: Shaded guidance reflects sections that have proposed revisions that were exposed in agenda item 2023-15: IMR/AVR Specific Allocations. These changes are accepted only for ease of readability and to prevent confusion on the proposed revisions related to this agenda item. Whether the revisions from agenda item 2023-15 are adopted will depend on the discussion and action by the Working Group. With the exception of the added 'redeemable' in the first shaded paragraph, all of the edits proposed in this agenda item are in separate paragraphs from agenda item 2023-15.

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$ _____ Transferred into the Reserve Net of Taxes of \$ _____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and [redeemable preferred stocks](#) where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) ~~and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines)~~. Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. [\(Investments on the SVO-Identified Preferred Stock List are captured as perpetual preferred stock and treated as equity investments, with gains and losses excluded from IMR.\)](#)

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not

be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any redeemable preferred stock that had an NAIC/SVO designation of ~~4-6 RP4, RP5 or RP6 or P4, P5 or P6~~ at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and redeemable preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For redeemable preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified Bond ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Bond ETFs Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- **Other-Than-Temporary Impairment** – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- **Security Sold at a Loss Without Prior OTTI** – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- **Security Sold at a Loss with Prior OTTI** – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain with Prior OTTI** – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not

adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from [redeemable](#) preferred stock that had an NAIC/SVO designation of [4-6 RP4, RP5 or RP6 or P4, P5 or P6](#) at any time during the holding period should be reported as [non-interest-related gains \(losses\)](#) in the AVR.

However, for a convertible bond or [redeemable](#) preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock’s current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith

and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions, as illustrated above, to the annual statement instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation, and clarify that perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs shall reported as equities through AVR.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the proposed revisions to the annual statement instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation, and clarify that perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs, as well as all mandatorily convertible preferred stock (regardless of redeemable or perpetual) shall reported through the AVR. The adopted revisions are shown below. (Revisions from the exposure pertain to inclusion of guidance for mandatorily convertible preferred stock.) The proposed revisions will be considered by the Blanks (E) Working Group for year-end 2024. This agenda item did not result in SAP revisions.

Adopted Revisions:

Staff Note: Shaded guidance reflects sections with revisions discussed under agenda item 2023-15: IMR/AVR Specific Allocations. Agenda item 2023-15 should be reviewed for the adopted revisions to those sections. With the exception of the added 'redeemable' in the first shaded paragraph, all of the edits in this agenda item are in separate paragraphs from agenda item 2023-15.

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$_____ Transferred into the Reserve Net of Taxes of \$_____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in SSAP No. 43R—*Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and [redeemable preferred stocks](#) where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (hereafter subject to bond IMR guidelines) ~~and the SVO Identified Preferred Stock ETF List (hereafter subject to preferred stock IMR guidelines)~~. Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. [\(Mandatory convertible preferred stocks \(regardless of if redeemable or perpetual\) and investments on the SVO-Identified Preferred Stock List are captured as perpetual preferred stock and treated as equity investments, with gains and losses excluded from IMR.\)](#)

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on

a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any redeemable preferred stock that had an NAIC/SVO designation of ~~4-6 RP4, RP5 or RP6 or P4, P5 or P6~~ at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and redeemable preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For redeemable preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified Bond ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Bond ETFs Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stocks (regardless of if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with SSAP No. 43R—*Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- **Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses** shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- **Security Sold at a Loss Without Prior OTTI –** An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- **Security Sold at a Loss with Prior OTTI –** An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain with Prior OTTI –** An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain Without Prior OTTI –** An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from redeemable preferred stock that had an NAIC/SVO designation of ~~4-6, RP4, RP5 or RP6 or P4, P5 or P6~~ at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

However, for a convertible bond or redeemable preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-29-IMRPreferredStock.docx>

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

Issue: Admissibility Requirements of Investments in Downstream Holding Companies

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item is the result of regulator comments received on the existing guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 24, and is intended to update the language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. The current SSAP No. 97, paragraph 24 guidance states “if the downstream noninsurance holding company does not meet the requirements of paragraph 26, **audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments** in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.”

The issue with the existing paragraph 24 guidance is that as it summarizes other guidance it could be perceived as contradicting guidance provided in paragraph 27 related to the “look through” process. This process allows admitting audited investments in entities owned by an **unaudited downstream noninsurance holding company** SCA entity.

Existing Authoritative Literature:

***SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (bolding added for emphasis)**

Admissibility Requirements of Investments in Downstream Holding Companies

23. To meet the admissibility requirements of this statement, unless the limited exception to the audited financial statements requirement discussed in paragraphs 26 and 27 applies, an annual audit of the financial statements of SCA entities, including the downstream holding company valued under paragraphs 8.b.i through 8.b.iv. must be obtained. The requirement for audited financial statements may be met by utilizing any one of the following methods:

- a. Audited US GAAP financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities and non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences for paragraph 8.b.i., 8.b.ii. and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

- b. Audited foreign GAAP-basis financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA's domiciliary state.) The audited foreign GAAP basis financial statements shall include an audited footnote disclosure within the financial statements that reconciles each consolidated entity's net income and equity on a foreign basis of accounting to a U.S. GAAP basis. The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii. and paragraph 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or
- c. Individual audits of the downstream holding company and the downstream holding company's investments in individual SCA entities.

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.

25. A purchased downstream holding company is valued in accordance with the provisions of paragraphs 22-25 and the provisions of SSAP No. 68.

Limited Exceptions to the Audit Requirements for Downstream Noninsurance Holding Companies

26. This statement requires that investments in SCA entities be recorded using one of the valuation methods described in paragraph 8 in order to be admitted assets. Each of the paragraph 8.b. valuation methods require the financial statements of SCA entities, including downstream noninsurance holding companies, to be audited in order for the investments in SCA entities to be admitted assets. Likewise, SSAP No. 48 requires the financial statements of joint ventures, partnerships, and/or limited liability companies in which the downstream noninsurance holding company has a minor ownership interest or otherwise lacks control, i.e., ownership interest is less than 10% to be audited (U.S. GAAP) in order to be admitted assets. **There is a limited exception to the requirement to have audited financial statements of a downstream noninsurance holding company, provided that the entities owned by the downstream noninsurance holding company (paragraph 8.b.iii. entity) have audited financial statements as described in paragraphs 26 and 27.**

27. The process of admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity will be known as a "look through." In order to admit the investments in audited SCAs or the audited non-SCA SSAP No. 48 entities owned by an unaudited downstream noninsurance holding company, a reporting entity may apply the look through approach, provided all of the following conditions are met:

- a. The downstream noninsurance holding company is an 8.b.iii entity, and

- b. The downstream noninsurance holding company does not own any other assets which are material to the downstream holding company other than the audited SCA entities and/or audited non-SCA SSAP No. 48 entities, and
- d. The downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to the downstream noninsurance holding company.

If an investment in a downstream noninsurance holding company meets the requirements set forth above, the reporting entity can admit the individual audited SCA entities and/or audited non-SCA SSAP No. 48 entities; however, unaudited immaterial assets of the downstream noninsurance holding company are to be carried at the lesser of the paragraph 8 valuation or nonadmitted (e.g. some equity method investments are required to be carried at a negative value due to either statutory adjustments or to parental obligations to keep funding the subsidiary). If a holding company structure has more than one downstream non-insurance holding company, each downstream non-insurance holding company may be looked through, provided each downstream non-insurance holding company meets all of the conditions in paragraph 27.

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): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

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. 97—Subsidiary, Controlled and Affiliated Entities* to revise paragraph 24 language to better align it with the existing guidance provided in paragraphs 26 and 27.

Proposed edits to SSAP No. 97:

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required. ~~for the downstream noninsurance holding company and its SCA and non-SCA investments~~ in order for the investment in the downstream noninsurance holding company or individual SCAs to be classified as an admitted asset.

Staff Review Completed by: Jason Farr– NAIC Staff, November 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed consistency revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* to revise paragraph 24 language to better align it with the existing guidance provided in paragraphs 26 and 27.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 97, paragraph 24 with modification to remove the previously exposed revision “or individual SCAs” language as suggested by interested parties as not necessary. The adopted revisions better align it with the existing guidance provided in paragraphs 26 and 27.

Adopted edits to SSAP No. 97:

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required. ~~for the downstream~~

~~noninsurance holding company and its SCA and non-SCA investments~~ in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-30-SSAP97AdmissibilityRequirements.docx>

**Revisions to the
As of March 2024 Accounting Practices and Procedures Manual**

On **May 15, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2023-16	Schedule BA	Schedule BA Categories <i>SAP Clarification</i> No SSAP revisions	Adopted agenda item summarizing key revisions in the modified blanks proposal 2023-12BWG sponsored by the SAPWG, which is proposed to be effective January 1, 2025. This agenda item did not result in any SSAP revisions.
2024-13	SSAP No. 107	Update SSAP No. 107 Disclosures <i>SAP Clarification</i> Effective Year End 2024	Adopted revisions to SSAP No. 107 remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B was revised to remove the portion for the transitional reinsurance program and the risk corridors program.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/05-15-24/adoptions/00 - adoptions toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/05-15-24/adoptions/00%20-%20adoptions%20toc.docx)

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

Issue: Schedule BA Reporting Categories

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity’s classification as to the underlying asset characteristics:

- Bonds/Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bond /fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Existing Authoritative Literature:

A/S Instructions – Life, Accident and Health/Fraternal Companies

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated.....	0799999
Affiliated.....	0899999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated.....	0999999
Affiliated.....	1099999
Mortgage Loans	
Unaffiliated.....	1199999

Affiliated	1299999
Other Fixed Income Instruments	
Unaffiliated	1399999
Affiliated	1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	1599999
Affiliated	1699999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	1799999
Affiliated	1899999
Common Stocks	
Unaffiliated	1999999
Affiliated	2099999
Real Estate	
Unaffiliated	2199999
Affiliated	2299999
Mortgage Loans	
Unaffiliated	2399999
Affiliated	2499999
Other	
Unaffiliated	2599999
Affiliated	2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments	
Unaffiliated	4699999
Affiliated	4799999
Common Stock	
Unaffiliated	4899999
Affiliated	4999999
Preferred Stock	
Unaffiliated	5099999
Affiliated	5199999
Real Estate	
Unaffiliated	5299999
Affiliated	5399999
Mortgage Loans	
Unaffiliated	5499999
Affiliated	5599999
Other	
Unaffiliated	5699999
Affiliated	5799999

Schedule BA Classification Instructions/Guidance:**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:**Fixed Income Instruments**

Include: Leveraged Buy-out Fund.

A fund investing in the “Z” strip of Collateralized Mortgage Obligations.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See *SSAP No. 43R* for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

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):

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited

liability companies as those items would also be in scope of SSAP No. 48. With that change the category of “fixed income instruments” would be retained.

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 recommend that the Working Group include this item on their maintenance agenda as a SAP clarification/potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- Fixed-Income Instruments
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within ‘Activity to Date,’ revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Staff Review Completed by: Julie Gann - NAIC Staff, May 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions, as detailed below, to further define the investments captured on Schedule BA along with the continued proposed to combine non-registered private funds within the proposed reporting lines for joint ventures, partnerships, or limited liability companies. The Working Group also requested additional regulator and industry feedback on whether more specificity is needed since the existing Schedule BA descriptions are fairly broad.

Proposed Interested Parties' Edits to the Schedule BA Instructions from Separate Attachment:**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:**Fixed Income Instruments**

Include: [Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans](#) ~~Leveraged Buy-out Fund.~~

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds [or other underlying equity investments.](#)

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital

factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include: -Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans, ~~if held individually, would be reported on Schedule D—Part 1—Long-Term Bonds.~~

Common Stocks

Include: Investments with underlying collateral which are securities that represent a subordinate equity ownership, ~~if held individually, would be reported on Schedule D—Part 2—Section 2—Common Stocks~~

Preferred Stocks

Include: Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation, ~~if held individually, would be reported on Schedule D—Part 2—Section 1—Preferred Stocks~~

Real Estate

Include: Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and wholly-owned through a limited liability company, ~~if held individually, would be reported on Schedule A—Real Estate Owned~~

Mortgage Loans

Include: Investments with underlying collateral which is secured by a mortgage on real estate, ~~if held individually, would be reported on Schedule B—Mortgage Loans~~

Other

Include: Items that do not qualify for inclusion in the above subcategories.

On February 20, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After the discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

- 1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset.”
- 2) The Schedule BA reporting category for investments in “Joint Ventures, Partnerships and Limited Liability Companies” has been clarified to identify that investments captured within this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the “underlying characteristics of bonds” subcategory to include “collateral that has contractual principal and/or interest payments, excluding mortgage loans,” as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the “non-registered private fund” reporting category as those items shall be reported in the “joint ventures, partnerships and limited liabilities companies” reporting category if in scope of SSAP No. 48.
- 3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

On May 15, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG, which is proposed to be effective on January 1, 2025. After the discussion, the Working Group adopted this agenda item, resulting in no SSAP revisions, the adoption is to communicate support for the adoption of 2023-12BWG with the following three additional modifications to the blanks proposal:

- 1) Rename “Fixed Income Instruments” to “Bonds”:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets*. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization

tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure.

Fixed Income Instruments Bonds

Include: Investments with underlying collateral which, if held individually, would be reported as issuer credit obligations on Schedule D – Part 1 – ~~Long-Term Bonds~~ Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, auto loans, aircraft leases or train car leases.

2) Clarify Guidance for Schedule BA, Column 26 – Maturity Date

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not be limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

~~Use only for securities included in the following subtotal lines.
State the date the mortgage loan matures.~~

3) Correct Joint Venture, Partnerships and LLCs Reporting Line. (Change from exposure is shaded.)

As Exposed: Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of:~~

With Correction: Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of:~~

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

Issue: Update SSAP No. 107 Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item recommends updates to disclosure requirements in *Statement of Statutory Accounting Principles No. 107—Risk-Sharing Provisions of the Affordable Care Act* to remove disclosures related to transitional reinsurance and for the risk corridors programs which have expired.

In December 2014, the NAIC Statutory Accounting Principles (E) Working Group (SAPWG) issued SSAP No. 107 to provide accounting and disclosure guidance for the three risk-sharing provision programs of the Affordable Care Act (the “3Rs programs”). SSAP No. 107 covers the three risk sharing programs that were initially part of the Affordable Care Act, a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. Since that time, the 3Rs programs have changed significantly. Most notably, the temporary transitional reinsurance and risk corridors programs terminated at the end of 2016.

SSAP No. 107 introduced significant financial statement disclosure requirements for the 3Rs programs. The disclosures are required by SSAP No. 107, paragraphs 60-62. Exhibit B of SSAP No. 107 illustrates the roll-forward disclosure required by paragraph 61. These disclosure requirements are currently satisfied through detailed data tables included in Footnote 24E of the quarterly and annual financial statements.

Despite the passage of time and the termination of two of the 3Rs programs, the disclosure requirements outlined in SSAP No. 107 and the disclosure instructions for footnote 24E have not been updated or modified since inception. As a result, companies originally subject to the 3Rs programs are still required by SSAP No. 107 to include several tables in Footnote 24E, even though the majority of the information disclosed is either zero or blank because two of the programs were terminated several years ago. This agenda item proposal removal of the disclosures for the expired programs and also removal of the related roll-forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

Existing Authoritative Literature:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act

Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements by program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. through 60.c. Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
 - ii. Risk adjustment user fees payable for ACA Risk Adjustment
 - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
 - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
 - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- b. ACA Transitional Reinsurance Program
- i. Amounts recoverable for claims paid due to ACA Reinsurance
 - ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)
 - iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance
 - iv. Liabilities for contributions payable due to ACA Reinsurance - not reported as ceded premium
 - v. Ceded reinsurance premiums payable due to ACA Reinsurance
 - vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance
 - vii. Ceded reinsurance premiums due to ACA Reinsurance
 - viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments
 - ix. ACA Reinsurance Contributions – not reported as ceded premium
- c. ACA Temporary Risk Corridors Program
- i. Accrued retrospective premium due from ACA Risk Corridors
 - ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors
 - iii. Effect of ACA Risk Corridors on net premium income (paid/received)
 - iv. Effect of ACA Risk Corridors on change in reserves for rate credits

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

Exhibit B of SSAP No. 107 illustrates the roll forward required by the SSAP No. 107. paragraph 61 of the disclosures.

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): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Convergence with International Financial Reporting Standards (IFRS):Not Applicable

Sponsor Recommendation

We are respectfully requesting SAPWG to re-evaluate and amend the disclosure requirements of SSAP No. 107 and request BWG to update the quarterly and annual financial statement instructions for Footnote 24E to eliminate certain tables, or portions of tables, that are no longer applicable. Specifically, we are requesting elimination of the portions of each table related to the transitional reinsurance and risk corridors programs that are no longer valid.

Sherry Gillespie, Senior Director - Regulatory Finance
 UnitedHealthcare
 2884 School Ln, Green Bay, WI 54313
 February 1, 2024

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. 107—Risk-Sharing Provisions of the Affordable Care Act* as illustrated below. The revisions will remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. NAIC staff recommends that the Working Group direct a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

NAIC staff is aware that some states have federal waivers to operate reinsurance programs, but not all of the federal reinsurance waivers operate the same as the original transition program. To the extent the Working Group decides that new disclosures are needed for these reinsurance waiver programs, a future disclosure can be developed separately.

Staff Review Completed by: Robin Marcotte - NAIC Staff

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* which would remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. The Working Group also directed NAIC staff to prepare a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

Proposed Revisions:***SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures***

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by~~ [for the permanent risk adjustment](#) program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.c.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
- ii. Risk adjustment user fees payable for ACA Risk Adjustment
- iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
- iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
- v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)

~~b. ACA Transitional Reinsurance Program~~

- ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
- ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra liability)~~
- ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~
- ~~iv. Liabilities for contributions payable due to ACA Reinsurance not reported as ceded premium~~
- ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
- ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance~~
- ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
- ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
- ~~ix. ACA Reinsurance Contributions not reported as ceded premium~~

- e. ~~ACA Temporary Risk Corridors Program~~
 - i. ~~Accrued retrospective premium due from ACA Risk Corridors~~
 - ii. ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
 - iii. ~~Effect of ACA Risk Corridors on net premium income (paid/received)~~
 - iv. ~~Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions [for the risk adjustment program](#) specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk ~~corridors~~ [adjustment](#) balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances	Ref	Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1 Receivable	2 (Payable)	3 Receivable	4 (Payable)	5 Receivable	6 (Payable)	7 Receivable	8 (Payable)	9	10 Receivable	11 (Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
3. Subtotal ACA Permanent Risk Adjustment Program	4,000,000	8,000,000	3,000,000	9,000,000	1,000,000	-1,000,000	-800,000	1,000,000		200,000	0
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
7. Subtotal ACA Transitional Reinsurance Program	33,000,000	215,100	26,800,000	90,200	6,200,000	124,900	-6,110,000	76,100		90,000	201,000
e. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
3. Subtotal ACA Risk Corridors Program	12,000,000	150,000	14,000,000	250,000	-2,000,000	-100,000	1,750,000	100,000		-250,000	0
d. Total for ACA Risk-Sharing Provisions	49,000,000	8,365,100	43,800,000	9,340,200	5,200,000	-975,100	-5,160,000	1,176,100		40,000	201,000

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

On May 15, 2024, the Statutory Accounting Principles (E) Working Group incorporated additional revisions into what was exposed which also deleted SSAP No. 107, paragraph 62 as recommended by interested parties. The adopted revisions, which are effective for year-end 2024 reporting, are reflected below. Similar revisions will be recommended to the Blanks (E) Working Group proposal 2024-10BWG in the May meeting. The deletion of SSAP No. 107, paragraph 62 will also result in the deletion of Note 24E/F (2) and 24E/F (3) tables on the proposal 2024-10BWG.

Adopted SSAP No. 107 revisions:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by~~ **for the permanent risk adjustment** program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.e.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

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 - ii. Risk adjustment user fees payable for ACA Risk Adjustment—
 - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)—
 - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
 - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- ~~b. ACA Transitional Reinsurance Program~~
 - ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
 - ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)~~
 - ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance—~~
 - ~~iv. Liabilities for contributions payable due to ACA Reinsurance— not reported as ceded premium~~
 - ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
 - ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance—~~
 - ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
 - ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
 - ~~ix. ACA Reinsurance Contributions— not reported as ceded premium~~

e. ~~ACA Temporary Risk Corridors Program~~

- i. ~~Accrued retrospective premium due from ACA Risk Corridors~~
- ii. ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
- iii. ~~Effect of ACA Risk Corridors on net premium income (paid/received)~~
- iv. ~~Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions [for the risk adjustment program](#) specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

~~62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:~~

- a. ~~Estimated amount to be filed or final amounts filed with federal agency~~
- b. ~~Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
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<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/Adoptions/24-13-UpdateSSAPNo107Disclosures.docx>