

Statutory Issue Paper No. 157

Use of Net Asset Value

STATUS

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Type of Issue:

Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper introduces substantive revisions to *SSAP No. 100—Fair Value* (resulting in a *SSAP No. 100R—Fair Value*) to incorporate guidance allowing net asset value (NAV) per share as a practical expedient to fair value when specific conditions exist. These revisions are considered substantive changes as the use of NAV is a new concept being reflected within SSAP No. 100. Prior to these substantive revisions, the use of NAV was limited to certain situations identified in specific SSAPs. With the proposed revisions, the use of NAV will be permitted as a measurement method, as a practical expedient to fair value, in accordance with the investment characteristics detailed in the new guidance. Exhibit A of this Issue Paper details the adopted statutory accounting revisions to SSAP No. 100.

DISCUSSION

2. The substantive revisions intend to adopt *ASU 2009-12: Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)* and *ASU 2015-07: Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*. The adoption, with inclusion of conditions from these ASUs for when NAV is permitted, was supported as it would result with similar concepts between statutory accounting and U.S. GAAP, thereby allowing insurance reporting entities the ability to reflect the same measurement method / valuation when reporting an investment at “fair value.”

3. With the substantive revisions to SSAP No. 100, revisions were also considered to remove illustrations from SSAP No. 100 for the disclosure of fair value by financial instrument, as well as the SSAP No. 100 Exhibit A - Implementation Guidance and Disclosure Illustrations. These revisions were supported as illustrations for the required disclosures are captured in the Annual Statement Instructions and do not need to be duplicated in the SSAP. Although the removal of these illustrations are considered nonsubstantive, as they were captured in the same agenda item as the substantive revisions, these changes are also shown in this issue paper.

Overview of U.S. GAAP Guidance:

4. In 2009 and 2015 the FASB issued guidance regarding a practical expedient to measure the fair value of an investment on the basis of net asset value (NAV) per share of the investment (or its equivalent):

- a. *ASU 2009-12: Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*: This ASU amended FASB *Subtopic 820-10, Fair Value Measurement and Disclosures – Overall*, to permit, as a practical expedient, a reporting entity to measure the fair value of an investment, if certain conditions were met, on the basis of NAV per share of the investment (or its equivalent) if the NAV of the investment is calculated in a manner consistent with the measurement principles of *FASB Topic 946*:

Financial Services – Investment Companies. The ASU specified that the investments captured within the revisions (reported at NAV) would be classified as either Level 2 or Level 3 of the fair value hierarchy, depending on whether the reporting entity had the ability to redeem the investment at NAV. (If the reporting entity could redeem at NAV, the investment was considered Level 2. If the reporting entity would not be able to redeem the investment at NAV, then the investment was considered Level 3.) The ASU required disclosures on the investments in scope of the amendments (permitted to be reported at NAV), regardless of whether the practical expedients were applied. Pursuant to the guidance in ASU 2009-12, reporting entities would be permitted to utilize NAV if both of the following conditions were met:

- i. The investment does not have a readily determinable fair value.
 - ii. The investment is in an entity that met the conditions to be considered an “Investment Company” within FASB Codification Topic 946.
- b. *ASU 2015-07: Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent):* This ASU removed the guidance from ASU 2009-12 requiring investments held at NAV to be included within the fair value hierarchy as either Level 2 or Level 3 investments. Rather, the guidance in ASU 2015-07 added a reference for investments measured at NAV in the fair value reconciliation. This ASU also removed the requirement to include disclosures for all investments eligible for the NAV practical expedient, and limited the disclosures to investments the entity elected to measure the fair value using that practical expedient.

5. Additionally, in *ASU 2013-08: Investment Companies - Amendments to the Scope, Measurement, and Disclosure Requirements*, the FASB revised the guidance for determining an “investment company” within Topic 946. Pursuant to the revisions from ASU 2013-08, an investment must not have a readily determinable fair value, and be an investment in an investment company (defined under (946-10-15-4 through 15-8) in order for a reporting entity to utilize NAV as a practical expedient to fair value.

6. The definition of Net Asset Value per Share from the FASB Codification Master Glossary is as follows:

Net Asset Value per Share - See Topic(s) 820, 946: Net asset value per share is the amount of net assets attributable to each share of capital stock (other than senior equity securities, that is, preferred stock) outstanding at the close of the period. It excludes the effects of assuming conversion of outstanding convertible securities, whether or not their conversion would have a diluting effect.

7. In considering the proposed revisions, it was identified that although NAV is often considered an estimate of fair value, NAV may not represent the fair value of an investment in all instances. The FASB identifies that certain attributes of the investments (such as restrictions on redemption at the measurement date) and transaction prices from principal-to-principal or brokered transactions may indicate that it is necessary to make adjustment to the NAV to estimate the actual fair value of the investment.

8. In reviewing the U.S. GAAP guidance for statutory accounting, it was also identified that International Financial Reporting Standards does not provide a practical expedient to measure the fair value of certain investments at net asset value per share. As such, the U.S. GAAP guidance reflected in ASU 2009-12 (which introduced the concept of NAV), and the amendments in ASU 2015-07 differs from IFRS.

Overview of Statutory Accounting Guidance

9. Existing statutory guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* and *SSAP No. 26R—Bonds* permit the use of NAV in specific situations. It is noted that these situations may not qualify under the FASB provisions as fair value may be readily available:

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

7. 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 (SSAP No. 7)*. 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.

SSAP No. 26R—Bonds:

24. SVO-identified investments shall be initially reported at cost, including brokerage and other related fees. Subsequently, SVO-identified investments shall be reported at fair value,¹ with changes in fair value recorded as unrealized gains or losses) unless the reporting entity has elected use 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 investments within scope of this statement.

Footnote 1: For these investments, net asset value (NAV) is allowed as a practical expedient to fair value.

10. Guidance in *SSAP No. 100—Fair Value* defines fair value consistent with U.S. GAAP concepts:

4. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

11. *SSAP No. 100* also incorporates the U.S. GAAP Fair Value Hierarchy:

a. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. (Paragraphs 23-26 of *SSAP No. 100*).

b. Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. (Paragraphs 27-36 of *SSAP No. 100*).

c. Level 3: Unobservable inputs for the asset or liability. (Paragraph 37 of *SSAP No. 100*).

Excerpts of ASU Guidance Considered for Statutory Accounting:

12. The guidance from ASU 2009-12, as adjusted from 2015-07, as of April 2017:

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-15-4 Paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall apply only to an investment that meets both of the following criteria as of the reporting entity’s measurement date:

a. The investment does not have a **readily determinable fair value**

- b. The investment is in an investment company within the scope of Topic 946 or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in Topic 946.

820-10-15-5 The definition of *readily determinable fair value* indicates that an equity security would have a readily determinable fair value if any one of three conditions is met. One of those conditions is that sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. The definition notes that restricted stock meets that definition if the restriction expires within one year. If an investment otherwise would have a readily determinable fair value, except that the investment has a restriction expiring in more than one year, the reporting entity shall not apply paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A to the investment.

Categorizing Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) within the Fair Value Hierarchy

820-10-35-54B An investment within the scope of paragraphs 820-10-15-4 through 15-5 for which fair value is measured using net asset value per share (or its equivalent, for example member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) as a practical expedient, as described in paragraph 820-10-35-59, shall not be categorized within the fair value hierarchy. In addition, the disclosure requirements in paragraph 820-10-50-2 do not apply to that investment. Disclosures required for an investment for which fair value is measured using net asset value per share (or its equivalent) as a practical expedient are described in paragraph 820-10-50-6A. Although the investment is not categorized within the fair value hierarchy, a reporting entity shall provide the amount measured using the net asset value per share (or its equivalent) practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to the line items presented in the statement of financial position in accordance with paragraph 820-10-50-2B.

Measuring the Fair Value of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-35-59 A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-60 If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of Topic 946, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-61 A reporting entity shall decide on an investment-by-investment basis whether to apply the practical expedient in paragraph 820-10-35-59 and shall apply that practical expedient consistently to the fair value measurement of the reporting entity's entire position in a particular investment, unless it is probable at the measurement date that the reporting entity will sell a portion of an investment at an amount different from net asset value per share (or its equivalent) as described in the following paragraph. In those situations, the reporting entity shall account for the portion of the investment that is being sold in accordance with this Topic (that is, the reporting entity shall not apply the guidance in paragraph 820-10-35-59).

820-10-35-62 A reporting entity is not permitted to estimate the fair value of an investment (or a portion of the investment) within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share of the investment (or its equivalent) as a practical expedient if, as of the reporting entity's measurement date, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent). A sale is considered probable only if all of the following criteria have been met as of the reporting entity's measurement date:

- a. Management, having the authority to approve the action, commits to a plan to sell the investment.
- b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
- c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).
- d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-50-6A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 and that are measured using the practical expedient in paragraph 820-10-35-59 on a recurring or nonrecurring basis during the period, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from **net asset value per share** (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, a reporting entity shall disclose, at a minimum, the following information for each class of investment:

- a. The fair value measurement (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.
- b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).
- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.

- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

13. Guidance on whether a reporting entity is an Investment Company is captured in FASB Topic 946:

Assessment of Investment Company Status

946-10-15-4 An entity regulated under the Investment Company Act of 1940 is an investment company under this Topic.

946-10-15-5 An entity that is not regulated under the Investment Company Act of 1940 shall assess all the characteristics of an investment company in paragraphs 946-10-15-6 through 15-7 to determine whether it is an investment company. The entity shall consider its purpose and design when making that assessment.

946-10-15-6 An investment company has the following fundamental characteristics:

- a. It is an entity that does both of the following:
 - 1. Obtains funds from one or more investors and provides the investor(s) with investment management services
 - 2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.
- b. The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.

946-10-15-7 An investment company also has the following typical characteristics:

- a. It has more than one investment.
- b. It has more than one investor.
- c. It has investors that are not **related parties** of the **parent** (if there is a parent) or the investment manager.
- d. It has ownership interests in the form of equity or partnership interests.
- e. It manages substantially all of its investments on a **fair value** basis.

946-10-15-8 To be an investment company, an entity shall possess the fundamental characteristics in paragraph 946-10-15-6. Typically, an investment company also has all of the characteristics in the preceding paragraph. However, the absence of one or more of those typical characteristics does not necessarily preclude an entity from being an investment company. If an entity does not possess one or more of the typical characteristics, it shall apply judgment and

determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company.

946-10-15-9 The implementation guidance in Section 946-10-55 is an integral part of assessing investment company status and provides additional guidance for that assessment.

Exhibit A – Illustrated Revisions to SSAP No. 100 for Historical Purposes:

(The entire SSAP has been included, but the revisions do not begin until paragraph 39.)

Fair Value

SCOPE OF STATEMENT

1. This statement defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

Summary Conclusion

2. This standard applies under other accounting pronouncements that require or permit fair value measurements, but this standard does not require any new fair value amendments. However, the application of this standard may change current practice. This standard does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of this standard.

3. This standard applies under other statutory accounting pronouncements that require or permit fair value measurements, except as follows:

- a. This standard does not eliminate the practicality exceptions to fair value measurements in accounting pronouncements within the scope of this standard.
- b. This standard does not apply under *SSAP No. 22—Leases* (SSAP No. 22) and other accounting pronouncements that address fair value measurements for purposes of lease classification to measurement under SSAP No. 22. This scope exception does not apply to assets acquired or liabilities assumed in a business combination that are required to be measured at fair value under *SSAP No. 68—Business Combinations and Goodwill* (SSAP No. 68), regardless of whether those assets and liabilities are related to leases. This standard does not apply to share-based payment transactions captured within *SSAP No. 104R—Share-Based Payments* (SSAP No. 104R).

Definition of Fair Value

4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Components of the Fair Value Definition

5. **Asset/Liability** - A fair value measurement is for a particular asset or liability. Therefore, the measurement should consider attributes specific to the asset or liability, for example, the condition and/or location of the asset or liability and restrictions, if any, on the sale or use of the asset at the measurement date. The asset or liability might be a standalone asset or liability (for example, a financial instrument or an operating asset) or a group of assets and/or liabilities (for example, an asset group, a reporting unit, or a business).

6. **Price** - A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale). The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement

date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

7. **Principal (or Most Advantageous) Market** - A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. The most advantageous market is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s). In either case, the principal (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or otherwise determined using a valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

8. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs represent the incremental direct costs to sell the asset or transfer the liability in the principal (or most advantageous) market for the asset or liability. Transaction costs are not an attribute of the asset or liability; rather, they are specific to the transaction and will differ depending on how the reporting entity transacts. However, transaction costs do not include the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market. If location is an attribute of the asset or liability (as might be the case for a commodity), the price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall be adjusted for the costs, if any, that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market.

9. **Market Participants** - Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that are:

- a. Independent of the reporting entity; that is, they are not related parties;
- b. Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary;
- c. Able to transact for the asset or liability; and
- d. Willing to transact for the asset or liability; that is, they are motivated but not forced or otherwise compelled to do so.

10. The fair value of the asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity should identify characteristics that distinguish market participants generally, considering factors specific to (a) the asset or liability, (b) the principal (or most advantageous) market for the asset or liability, and (c) market participants with whom the reporting entity would transact in that market.

11. **Application to Assets** - A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. In broad terms, highest and best use refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

12. The highest and best use of the asset establishes the valuation premise used to measure the fair value of the asset. Specifically:

- a. In-use – The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use). For example, that might be the case for certain nonfinancial assets. If the highest and best use of the asset is in-use, the fair value of the asset shall be measured using an in-use valuation premise. When using an in-use valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets as a group and that those assets would be available to market participants. Generally, assumptions about the highest and best use of the asset should be consistent for all of the assets of the group within which it would be used.
- b. In-exchange – The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis. For example, that might be the case for a financial asset. If the highest and best use of the asset is in-exchange, the fair value of the asset shall be measured using an in-exchange valuation premise. When using an in-exchange valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset standalone.

13. Because the highest and best use of the asset is determined based on its use by market participants, the fair value measurement considers the assumptions that market participants would use in pricing the asset, whether using an in-use or an in-exchange valuation premise.

14. *Application to Liabilities* - Consideration of non-performance risk (own credit-risk) should not be reflected in the fair value calculation for liabilities (including derivative liabilities) at subsequent measurement. At initial recognition, it is perceived that the consideration of own-credit risk may be inherent in the contractual negotiations resulting in the liability. The consideration of non-performance risk for subsequent measurement is inconsistent with the conservatism and recognition concepts as well as the assessment of financial solvency for insurers, as a decrease in credit standing would effectively decrease reported liabilities and thus seemingly increase the appearance of solvency. Furthermore, liabilities reported or disclosed at “fair value” shall not reflect any third-party credit guarantee of debt.

Fair Value at Initial Recognition

15. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price represents the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price). Conceptually, entry prices and exit prices are different. Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

16. In many cases, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the reporting entity shall consider factors specific to the transaction and the asset or liability. For example, a transaction price might not represent the fair value of an asset or liability at initial recognition if:

- a. The transaction is between related parties.
- b. The transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
- c. The market in which the transaction occurs is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the principal or most advantageous market. For example, those markets might be different if the reporting entity is a securities dealer that transacts in different markets, depending on whether the

counterparty is a retail customer (retail market) or another securities dealer (inter-dealer market).

- d. For liabilities, differences may exist as non-performance risk (own credit risk) is not reflected in the fair value (i.e., exit price) determination of all liabilities (including derivatives).

Valuation Techniques

17. Valuation techniques consistent with the market approach, income approach, and/or cost approach shall be used to measure fair value. Key aspects of those approaches are summarized below:

- a. **Market approach.** The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.
- b. **Income approach.** The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multiperiod excess earnings method, which is used to measure the fair value of certain intangible assets.
- c. **Cost approach.** The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives).

18. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available shall be used to measure fair value. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

19. Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are used) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, new markets develop, new information becomes available, information previously used is no longer available, or valuation techniques improve. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3). The disclosure provisions of SSAP No. 3

for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to Valuation Techniques

20. In this standard, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

- a. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
- b. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy

21. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

22. The availability of inputs relevant to the asset or liability and the relative reliability of the inputs might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation techniques. For example, a fair value measurement using a present value technique might fall within Level 2 or Level 3, depending on the inputs that are significant to the measurement in its entirety and the level in the fair value hierarchy within which those inputs fall.

Level 1 Inputs

23. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as discussed in paragraphs 24 and 25.

24. If the reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets or liabilities individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level measurement.

25. In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the

measurement date. The reporting entity should establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level measurement.

26. If the reporting entity holds a position in a single financial instrument (including a block) and the instrument is traded in an active market, the fair value of the position shall be measured within Level 1 as the product of the quoted price for the individual instrument times the quantity held. The quoted price shall not be adjusted because of the size of the position relative to trading volume (blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

27. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market)
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

28. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the condition and/or location of the asset or liability, the extent to which the inputs relate to items that are comparable to the asset or liability, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

29. The reporting entity should evaluate the following factors to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities). The factors include, but are not limited to:

- a. There are few recent transactions.
- b. Price quotations are not based on current information.
- c. Price quotations vary substantially either over time or among market makers (for example, some brokered markets).
- d. Indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- e. There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the reporting entity's estimate of expected cash flows,

- considering all available market data about credit and other nonperformance risk for the asset or liability.
- f. There is a wide bid-ask spread or significant increase in the bid-ask spread.
 - g. There is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities.
 - h. Little information is released publicly (for example, a principal-to-principal market).

The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of the evidence, there has been a significant decrease in the volume and level of activity for the asset or liability.

30. If the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly). Further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with this standard. Significant adjustments also may be necessary in other circumstances (for example, when a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale).

31. This standard does not prescribe a methodology for making significant adjustments to transactions or quoted prices when estimating fair value. Paragraphs 17-19 discuss the use of valuation techniques in estimating fair value. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, the reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within that range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed.

32. Even in circumstances where there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Determining the price at which willing market participants would transact at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability depends on the facts and circumstances and requires the use of significant judgment. However, the reporting entity's intention to hold the asset or liability is not relevant in estimating fair value. Fair value is a market-based measurement, not an entity-specific measurement.

33. Even if there has been a significant decrease in the volume and level of activity for the asset or liability, it is not appropriate to conclude that all transactions are not orderly (that is, distressed or forced). Circumstances that may indicate that a transaction is not orderly include, but are not limited to:

- a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- c. The seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced).

- d. The transaction price is an outlier when compared with other recent transactions for the same or similar asset or liability.

The reporting entity shall evaluate the circumstances to determine whether the transaction is orderly based on the weight of the evidence.

34. The determination of whether a transaction is orderly (or not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability. Accordingly, the reporting entity shall consider the following guidance:

- a. If the weight of the evidence indicates the transaction is not orderly, the reporting entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price when estimating fair value or market risk premiums.
- b. If the weight of the evidence indicates the transaction is orderly, the reporting entity shall consider that transaction price when estimating fair value or market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances such as the volume of the transaction, the comparability of the transaction to the asset or liability being measured at fair value, and the proximity of the transaction to the measurement date.
- c. If the reporting entity does not have sufficient information to conclude that the transaction is orderly or that the transaction is not orderly, it shall consider that transaction price when estimating fair value or market risk premiums. However, that transaction price may not be determinative of fair value (that is, that transaction price may not be the sole or primary basis for estimating fair value or market risk premiums). The reporting entity shall place less weight on transactions on which the reporting entity does not have sufficient information to conclude whether the transaction is orderly when compared with other transactions that are known to be orderly.

In its determinations, the reporting entity need not undertake all possible efforts, but shall not ignore information that is available without undue cost and effort. The reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is party to the transaction.

35. Regardless of the valuation technique(s) used, the reporting entity shall include appropriate risk adjustments. Risk-averse market participants generally seek compensation for bearing the uncertainty inherent in the cash flows of an asset or liability (risk premium). A fair value measurement should include a risk premium reflecting the amount market participants would demand because of the risk (uncertainty) in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. Risk premiums should be reflective of an orderly transaction (that is, not a forced or distressed sale) between market participants at the measurement date under current market conditions.

36. When estimating fair value, this standard does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, when the reporting entity has determined that the quoted prices provided by those parties are determined in accordance with this standard. However, when there has been a significant decrease in the Volume or level of activity for the asset or liability, the reporting entity should evaluate whether those quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risks). In weighting a quoted price as an input to a fair value measurement, the reporting entity should place less weight (when compared with other indications of fair value that are based on transactions) on quotes that do not reflect the result of transactions. Furthermore, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighting the available evidence, with more weight given to quotes based on binding offers.

Level 3 Inputs

37. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for

situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

Inputs Based on Bid and Ask Prices

38. If an input used to measure fair value is based on bid and ask prices (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where in the fair value hierarchy the input falls (Level 1, 2, or 3). This standard does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread.

Utilizing Net Asset Value Per Share as a Practical Expedient to Fair Value (New Section)

39. A reporting entity may utilize net asset value per share (NAV)¹ as a practical expedient to fair value in either of the following situations, unless, as prescribed in paragraph 44, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent):

- a. When a SSAP specifically identifies NAV as a permitted practical expedient.
- b. When the conditions specified in paragraph 40 are met.

40. Pursuant to paragraph 39, a reporting entity is permitted to utilize NAV as a practical expedient to fair value when the investment meets both of the following criteria:

- a. The investment does not have a readily determinable fair value as defined in paragraph 41.
- b. The investment is in an investment company or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements consistent with the measurement principles of an investment company.

(Paragraph 40 reflects current guidance in FASB Codification 820-10-15-4.)

41. An equity security has a readily determinable fair value if it meets any of the following conditions:

- a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations

¹ Net asset value per share is the amount of net assets attributable to each share of capital stock (other than senior equity securities, that is, preferred stock) outstanding at the close of the period. It excludes the effects of assuming conversion of outstanding convertible securities, whether or not their conversion would have a diluting effect. (This footnote reflects the definition of Net Asset Value Per Share from the FASB Codification Master Glossary.)

systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year².

- b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets identified in paragraph 39.a.
- c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

(Paragraph 41 reflects current guidance in FASB Codification 820-10-15-5 and the definition for “Readily Determinable Fair Value” in the Codification Master Glossary.)

42. An entity is considered an investment company if it qualifies under the following assessments:

- a. An entity regulated under the Investment Company Act of 1940.
- b. An entity that is not regulated under the Investment Company Act of 1940, but that possesses all of the following fundamental characteristics:
 - i. The entity 1) obtains funds from one or more investors and provides the investors with investment management services and 2) commits to its investors that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.
 - ii. The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.
- c. The following characteristics are not required, but are typically found in an investment company. If the entity does not possess one or more of these typical characteristics, the reporting entity shall conduct further assessments to determine whether the entity’s activities are consistent with those of an investment company:
 - i. The entity has more than one investment.
 - ii. The entity has more than one investor.
 - iii. The entity has investors that are not related parties of the parent or the investment manager.
 - iv. The entity has ownership interests in the form of equity or partnership interests.
 - v. The entity manages substantially all of its investments on a fair value basis.

(Paragraph 42 reflects current guidance in FASB Codification 946-10-15-4 through 15-8 for assessing whether an entity is an “Investment Company.”)

43. If a reporting entity is permitted under paragraph 39 to utilize NAV as a practical expedient, the reporting entity shall identify whether the holdings of the investment company, in determining NAV, are measured at fair value as of the reporting entity’s measurement date. If the NAV of the investment obtained from the entity is not as of the reporting entity’s measurement date, or is not based on a fair

² If an investment would otherwise have a readily determinable fair value, except that the investment has a restriction expiring in more than one year, the reporting entity is not permitted to use NAV for that investment.

value measurement of the underlying investments, the reporting entity shall consider whether an adjustment to the most recent NAV is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated on the basis of underlying investments held at fair value.

(Paragraph 43 intends to reflect the guidance in FASB Codification 820-10-35-59 and 820-10-35-60. The FASB guidance reference to the “Measurement Principles of Topic 946” in lieu of fair value, but NAIC staff believes the intent of the FASB guidance is to reflect an NAV that is calculated when the underlying investments are reported at fair value.)

44. A reporting entity shall decide on an investment-by-investment basis whether to apply the practical expedient in paragraph 39 and shall apply that practical expedient consistently to the fair value measurement of the reporting entity’s entire position in a particular investment, unless it is probable at the measurement date that the reporting entity will sell a portion of an investment at an amount different from NAV. In those situations, the reporting entity shall account for the portion of the investment that is being sold at fair value, as defined in paragraph 4, without use of the NAV practical expedient.

(Paragraph 44 reflects current guidance in FASB Codification 820-10-35-61.)

45. A reporting entity is not permitted to estimate the fair value of an investment (or a portion of the investment) using the NAV of the investment (or its equivalent) as a practical expedient if, as of the reporting entity’s measurement date, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent). A sale is considered probable only if all of the following criteria have been met as of the reporting entity’s measurement date:

- a. Management having the authority to approve the action commits to a plan to sell the investment.
- b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
- c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer’s due diligence procedures).
- d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

(Paragraph 45 reflects current guidance in FASB Codification 820-10-35-62.)

46. An investment reported at NAV as a practical expedient pursuant to paragraph 39, shall not be categorized within the fair value hierarchy. Although the investment is not categorized within the fair value hierarchy, a reporting entity shall separately identify NAV (or its equivalent) as required under paragraph 46.a. and 46.b. to permit reconciliations.

(Paragraph 46 intends to reflect current guidance in FASB Codification 820-10-35-54B.)

Disclosures

~~39.~~47. A reporting entity shall disclose information that helps users of the financial statements to assess both of the following: (1) For assets and liabilities that are measured and reported³ at fair value or NAV in

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. 26 this security is considered to still be reported at amortized cost.

the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements; (2) For fair value measurements in the statement of financial position determined using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet these objectives, the reporting entity shall disclose the information in paragraphs 3947.a. through 3947.f. for each class of assets and liabilities measured and reported⁴ 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.

- a. The fair value/NAV measurements at the reporting date.
- b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). (Investments reported at NAV shall not be captured within the fair value hierarchy, but shall be separately identified.)
- c. For assets and liabilities held at the reporting date, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for the transfers, and the reporting entity's policy for determining when transfers between levels are recognized. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
- d. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
- e. For fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to the following:
 - i. Total gains or losses for the period recognized in income or surplus.
 - ii. Purchases, sales, issues, and settlements (each type disclosed separately)
 - iii. The amounts of any transfers into or out of Level 3, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- f. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out of Level 3. Examples of policies for when to recognize the transfers are as follows:
 - i. The actual date of the event or change in circumstances that caused the transfer
 - ii. The beginning of the reporting period
 - iii. The end of the reporting period.

~~40.48.~~ For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. ~~The fair value~~ disclosures required by paragraph 3947.a., 3947.b. and 3947.c. on a gross basis

⁴ See footnote 1

- b. The reconciliation disclosures required by paragraph ~~39~~47.d., ~~39~~47.e. and ~~39~~47.f. on either a gross or net basis

~~41-49.~~ The quantitative disclosures required in paragraphs ~~39-40~~47-48 of this standard shall be presented using a tabular format. (See Exhibit A.)

~~42-50.~~ The reporting entity shall disclose the fair value hierarchy and the method used to obtain the fair value measurement, or the use of NAV, for all items in which fair value is disclosed within the annual statement investment schedules. This disclosure is satisfied by the completion of the investment schedules in the Annual statement and is not required quarterly.

51. For investments measured using the NAV practical expedient pursuant to paragraph 39, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share. To meet that objective, a reporting entity shall disclose, at a minimum, the following information for instances in which the investment may be sold below NAV, or if there are significant restrictions in the liquidation of an investment held at NAV:

- a. The NAV along with a description of the investment / investment strategy of the investee.
- b. If the investment that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem the investment.
- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. If a group of investments would otherwise meet the criteria in paragraph 45 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 39, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

(Paragraph 51 reflects guidance in FASB Codification 820-10-50-6A.)

~~43-52.~~ The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this standard with the fair value information disclosed under other accounting pronouncements (for example, disclosures about fair value of financial instruments) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements, if practicable.

Disclosures about Fair Value of

Financial Instruments

44.53. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 45.54. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported in the “not practicable” column with additional disclosure as required in paragraph 47.

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
<i>Type of Financial Instrument:</i>						
Bonds						
Common Stock						
Perpetual Preferred Stock						
Mortgage Loans						
Etc.						

If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, the aggregate carrying amount for those items shall be reported in the “not practicable” column with additional disclosure as required in paragraph 46 of SSAP No. 100.

<i>Not Practicable to Estimate FV</i>	Carrying Value	Effective Interest Rate	Maturity	Explanation
<i>Individual Security Reporting by Type or Class of Financial Instrument:</i>				
Mortgage Loans:				
Description 1				A
Description 2				A
Etc.				

A — It was not practicable to determine the fair value of these financial instruments as a quoted market price was not available and the cost of obtaining an independent appraisal appears excessive considering the materiality of the instruments to the reporting entity.

45.54. The disclosures about fair value prescribed in paragraph 44.53 are not required for the following:

- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in SSAP No. 12—Employee Stock Ownership Plans (SSAP No. 12), SSAP No. 92—Postretirement Benefits Other Than Pensions (SSAP No. 92),

SSAP No. 102—Pensions (SSAP No. 102) and *SSAP No. 104R—Share-Based Payments* (SSAP No. 104R).

- b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103R—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 103R)
- c. Insurance contracts, other than financial guarantees and deposit-type contracts
- d. Lease contracts as defined in *SSAP No. 22—Leases* (SSAP No. 22)
- e. Warranty obligations and rights
- f. Investments accounted for under the equity method
- g. Equity instruments issued by the entity
- h. Deposit liabilities with no defined or contractual maturities

~~46-55.~~ If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the following shall be disclosed:

- a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and
- b. The reasons why it is not practicable to estimate fair value.

~~47-56.~~ In the context of this standard, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the entity. Practicability, that is, cost considerations, also may affect the required precision of the estimate; for example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases, the fair value of that class or of the portfolio should be disclosed. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset should be disclosed.

Relevant Literature

~~48-57.~~ This standard adopts with modification *FAS 157, Fair Value Measurements*; (FAS 157) *FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*, (FSP FAS 157-1) and *FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). Modifications from FAS 157, FSP FAS 157-1 and FSP FAS 157-4 include:

- a. See revision to paragraph 3.b. from adoption of *SSAP No. 104R—Share-Based Payments* (SSAP No. 104R).
- b. This standard does not adopt the scope exclusions within paragraph 3 of FAS 157 for accounting pronouncements that require or permit measurements that are similar to fair value but that are not intended to measure fair value, including (a) accounting pronouncements that permit measurements that are based on, or otherwise use, vendor-

- specific objective evidence of fair value and (b) inventory pricing. These items are excluded as they are not prevalent within statutory accounting.
- c. This standard does not adopt guidance from FAS 157 regarding the consideration of non-performance risk (own credit risk) in determining the fair value measurement of liabilities. The consideration of own credit-risk in the measurement of fair value liabilities is inconsistent with the statutory accounting concept of conservatism and the assessment of financial solvency for insurers. The fair value determination for liabilities should follow the guidance adopted from FAS 157, with the exception of the consideration of own-performance risk.
 - d. This standard includes revisions to reference statutory standards or terms instead of GAAP standards or terms.
 - e. This standard incorporates the guidance from SSAP No. 27 regarding disclosures about fair value of financial instruments. This incorporated SSAP No. 27 guidance was adopted from *FAS 107, Disclosures about Fair Value of Financial Instruments* (FAS 107) and was revised to adopt *FSP FAS 107-1 and APB-1, Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB-1). For statutory purposes, the incorporation of this guidance within one standard results in having one comprehensive standard addressing fair value measurements and disclosures.

4958. In August 2010, this statement adopted with modification the new and revised disclosure requirements within *ASU 2010-06, Fair Value Measurements and Disclosures – (Topic 820) – Improving Disclosures about Fair Value Measurements* (ASU 2010-06). GAAP revisions within ASU 2010-06 that modify the FASB Codification on aspects originally added by *ASU 2009-05, Fair Value Measurements and Disclosures, Measuring Liabilities at Fair Value* (ASU 2009-05) and *ASU 2009-12, Fair Value Measurements and Disclosures, Investment in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)* (ASU 2009-12) are not adopted, as the underlying GAAP guidance within ASU 2009-05 and ASU 2009-12 has not been considered for statutory accounting. When ASU 2009-05 and ASU 2009-12 are reviewed for statutory accounting, the GAAP guidance considered will reflect the revisions from ASU 2010-06. Subsequent nonsubstantive revisions to the guidance adopted from ASU 2010-06 were incorporated within this Statement in November 2010 to clarify the disclosure requirements for statutory accounting. These revisions removed the distinction between recurring and non-recurring fair value measurements and clarified disclosure requirements for assets and liabilities measured and reported at fair value in the statement of financial position.

59. In November 2017, substantive revisions, as detailed in Issue Paper No. 157, were incorporated to this statement to adopt *ASU 2009-12: Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and *ASU 2015-07: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. These substantive revisions incorporated new guidance allowing reporting entities to utilize net asset value per share as a practical expedient to fair value when certain conditions are met.

5060. Paragraphs 44-4753-56 adopt FAS 107 as amended by *FASB Statement No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments* (FAS 119), except that paragraph 15(c) of FAS 119 relating to disclosure of financial instruments held or issued for trading is rejected and *FASB Emerging Issues Task Force No. 85-20, Recognition of Fees for Guaranteeing a Loan*. Financial instruments named within paragraph 8 of FAS 107 that are exempt from disclosure are adopted to the extent applicable for statutory accounting and are reflected in paragraph 4554. This standard also adopts revisions to FAS 107 reflected in *FSP FAS 107-1 and APB-1, Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB-1), and thus requires disclosure in both annual and quarterly financial statements. In addition, this standard rejects FASB Statement No. 126, Exemptions from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, an amendment of FAS 107. FAS 119 is addressed in SSAP No. 31.

5461. This standard rejects *ASU 2013-03, Financial Instruments – Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities* (ASU 2013-03), *ASU 2016-01, Financial Instruments – Overall* (ASU 2016-01), *FSP FAS 157-2: Effective Date of FASB Statement No. 157* (FSP FAS 157-2)

and FSP FAS 157-3: *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS 157-3).

Effective Date and Transition

~~5262.~~ This standard shall be effective for December 31, 2010, annual financial statements, with interim and annual financial statement reporting thereafter. Early adoption is permitted for December 31, 2009, annual financial statements, with interim and annual reporting thereafter. Nonsubstantive disclosure revisions adopted in August and November 2010 to paragraphs ~~39-4047-48~~ and the corresponding disclosure illustrations are initially effective for year-end 2010 financial statements, with interim and annual reporting thereafter. Nonsubstantive revisions adopted March 2011 to paragraphs ~~3947.a., 3947.e.ii., 4250 and 4453~~ are effective January 1, 2012, with interim and annual reporting thereafter as required in the SSAP. (Paragraph ~~4250~~ is satisfied by the annual statement investment schedules and is not required quarterly.) Revisions to adopt ASU 2009-12 and 2015-07, and provide guidance for allowing net asset value per share as a practical expedient to fair value when certain conditions are met, as detailed in Issue Paper No. 157 is effective January 1, 2018, with early adoption permitted.

~~Exhibit A – implementation guidance and disclosure illustrations~~

~~53.~~ For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, this Standard requires a reporting entity to disclose a description of the valuation techniques(s) and the inputs used in the fair value measurement. A reporting entity might disclose the following to comply with the input disclosure requirement of paragraph ~~39.d.~~:

- ~~a.~~ Quantitative information about the input, for example, for certain debt securities or derivatives, information such as, but not limited to, prepayment rates, rates of estimated credit losses, interest rates (for example the LIBOR swap rate) or discount rates and volatilities.
- ~~b.~~ The nature of the item being measured at fair value, including the characteristics of the item being measured that are considered in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity might disclose the following:
 - ~~i.~~ The types of underlying loans (for example, prime loans or subprime loans)
 - ~~ii.~~ Collateral
 - ~~iii.~~ Guarantees or other credit enhancements
 - ~~iv.~~ Seniority level of the tranches of securities
 - ~~v.~~ The year of issue
 - ~~vi.~~ The weighted average coupon rate of the underlying loans and the securities
 - ~~vii.~~ The weighted average maturity of the underlying loans and the securities
 - ~~viii.~~ The geographical concentration of the underlying loans
 - ~~ix.~~ Information about the credit ratings of the securities
- ~~c.~~ How third party information such as broker quotes, pricing services, net asset values and relevant market data was considered in measuring fair value.

~~54.~~ In addition, a reporting entity should provide any other information that will help users of its financial statements to evaluate the qualitative information disclosed. For example, a reporting entity might disclose the following with respect to its investment in a class of residential mortgage backed securities:

~~As of December 31, 20X1, the reported fair value of the reporting entity's investments in Level 3, NAIC rated 6, residential mortgage-backed securities was \$XXXX. These securities are senior tranches in a securitization trust and have a weighted average coupon rate of XX percent and a weighted average maturity of XX years. The underlying loans for these securities are residential subprime mortgages that originated in California in 2006. The underlying loans have a weighted average coupon rate of XX percent and a weighted average maturity of XX years. These securities are currently rated below investment grade. To measure their fair value, the reporting~~

entity used an industry standard pricing model, which uses an income approach. The significant inputs for the pricing model include the following weighted averages:

- a. — Yield: XX percent
- b. — Probability of default; XX percent constant default rate
- c. — Loss severity; XX percent
- d. — Prepayment: XX percent constant prepayment rate

55. — Fair Value Measurements at Reporting Date: For assets and liabilities measured and reported⁵ at fair value at the reporting date, this Statement requires quantitative disclosures about the fair value measurements for each class of assets and liabilities. For assets, that information might be presented as follows. (This chart is an example, and the categories utilized by a reporting entity shall reflect the investments held by the reporting entity.)

(Paragraph 39.c. also requires that the reporting entity also disclose any significant transfers to or from Levels 1 and 2 and the reasons for those transfers. This disclosure requirement is not satisfied by the disclosure below and shall be reflected separately within the notes to financial statements.)

<i>(In millions)</i>	Level 1	Level 2	Level 3	Total
<i>Description for each class of asset or liability:</i>	-	-	-	-
Perpetual Preferred Stock				
Industrial and Misc.				
Parent, Subsidiaries and Affiliates				
Total Perpetual Preferred	\$	\$	\$	\$
Redeemable Preferred Stock				
Industrial and Misc.				
Parent, Subsidiaries and Affiliates				
Total Redeemable Preferred	\$	\$	\$	\$
Bonds				
U.S. Governments				
Industrial and Misc.				
Hybrid Securities				
Parent, Subsidiaries and Affiliates				
Total Bonds	\$	\$	\$	\$
Common Stock				
Industrial and Misc.				
Parent, Subsidiaries and Affiliates				
Total Common Stock	\$	\$	\$	\$
Derivatives	-	-	-	-
Interest Rate Contracts				
Foreign Exchange Contracts				
Credit Contracts				
Commodity Futures Contracts				
Commodity Forward Contracts				

⁵ See footnote 1

<i>(In millions)</i>	Level 1	Level 2	Level 3	Total
Total Derivatives	\$	\$	\$	\$
Separate Account Assets				
Total	\$	\$	\$	\$

56. Fair Value Measurements in Level 3 of the Fair Value Hierarchy: For assets and liabilities measured and reported⁶ at fair value categorized within Level 3 of the fair value hierarchy, this Statement requires a reconciliation from the opening balances to the closing balances for each class of assets and liabilities, except for derivative assets and liabilities, which may be presented net. For assets, the reconciliation may be presented as follows: (This chart is an example, and the categories provided will be revised in accordance with the investments held by the reporting entity.)

(Paragraph 39.e.iii. requires disclosures on the transfers in and/or out of Level 3. This disclosure requirement is satisfied by the following table.)

	(1) Balance 01/01/20X X	(2) Transfer s into Level 3	(3) Transfer s out of Level 3	(4) Total gains and (losses) include d in Net Income	(5) Total gains and (losses) include d in Surplus	(6) Purchase s	(7) Issue s	(8) Sale s	(9) Settlement s	(10) Balance at 12/31/20X X
RMBS		(a)								
CMBS		(b)	(c)							
Derivative Assets										
Derivative s Liabilities										
.....										
.....										
.....										
Total										

Example Footnotes:

- (a) — Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity for these securities.
- (b) — The reporting entity's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.
- (c) — Transferred from Level 3 to Level 2 because of observable market data became available for these securities.

⁶ See footnote 1

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