

Date: 3/1/2024

2024 Spring National Meeting
 Phoenix, Arizona

Statutory Accounting Principles (E) Working Group
 Saturday, March 16, 2024
 9:00 - 11:00 AM ET

OVERVIEW AGENDA

HEARING AGENDA

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3. SAPWG Packet 2 – <i>Dale Bruggeman (OH)</i>		
• Ref #2019-21: SSAP No. 21R—Principles-Based Bond Project	TBD	TBD
• Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling	TBD	TBD
• Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts	TBD	TBD

OVERVIEW AGENDA

MEETING AGENDA

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5. SAPWG Meeting – Maintenance Agenda – Active List—Dale Bruggeman (OH)		
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6. SAPWG Meeting – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)		
• Review of U.S. GAAP Exposures	11	N
• Update on the IMR Ad Hoc Subgroup	11	O
• IAIS Audit and Accounting Working Group (AAWG Update)	11	None
➤ Comment Deadline for Ref #2022-14 and #2024-13 – Friday, April 19, 2024		
➤ Comment Deadline for all other items – Friday, May 31, 2024		

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
March 16, 2024**

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver/Steve Mayhew	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis/Richard Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on Mar. 7. This regulator session was pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings as the discussion previewed to preview the Fall National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

REVIEW AND ADOPTION OF MINUTES

1. Fall National Meeting (Attachment 1)
2. Jan. 10, 2024 (Attachment 2)
3. Jan. 29, 2024, E-vote (Attachment 3)
4. Feb. 20, 2024 (Attachment 4)

REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2022-14: New Market Tax Credits
2. Ref #2023-25: ASU 2023-03 – SEC Updates
3. Ref #2023-27: ASU 2023-04 – SEC Updates – Crypto
4. Ref #2023-29: IMR / AVR Preferred Stock
5. Ref #2023-30: Admissibility Requirements of Investments in Downstream Holding Companies
6. Ref #2023-31: Model 630 Mortgage Guaranty Insurance
7. Ref #2024-01: Bond Definition – Debt Securities Issued by Funds

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-14 (Wil)	New Market Tax Credits (NMTC)	5 – Agenda Item 6 – SSAP No. 93R 7 – SSAP No. 94R 8 – Other SSAPs	Comments Received	IP – 2

Summary:

On Dec. 1, 2023, the Working Group exposed revisions to *SSAP No. 34—Investment Income Due and Accrued*, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*, and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. On Jan. 29, the Working Group re-exposed, via e-vote, revisions to the SSAPs effected by the NMTC project with an accelerated comment period ending Feb. 9. These revisions were made in response to discussions with interested parties and regulators, specifically on certain aspects of the paragraph 18 admittance test (now referred to as the Prospective Utilization Assessment).

Interested Parties' Comments:

The Working Group exposed, through an e-vote, further revisions to SSAP No. 93R and SSAP No. 94R as part of the New Market Tax Credits project. Revisions to SSAP Nos. 34, 93R, and 94R included minor consistency and clarifying revisions and one notable revision to SSAP No. 93R. That revision was made in response to concerns raised by interested parties over the paragraph 18 admittance test (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. The drafts with these revisions were exposed with an accelerated comment period of February 9, 2024, to allow the Working Group the opportunity to adopt Ref #2022-14 at the Spring National Meeting.

Interested parties appreciate the opportunity to comment on the revisions exposed by the Working Group for SSAP No. 93 - *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 - *Transferable and Non-Transferable State Tax Credits*. We agree with the proposals and the most recent changes that were made in response to interested parties' feedback.

We understand that the Working Group would like feedback on the reporting categories that should be used to report tax credit investments in Schedule BA once the SSAP No. 93 changes are adopted. We have the following suggestions and comments with item No. 5 below addressing an inconsistency noted in the standard and not related to reporting categories:

1. Currently, Schedule BA has reporting sections for Guaranteed, Non-Guaranteed, and All Other Low Income Housing Tax Credit (LIHTC) investments. The RBC charges are driven by these categories and are 0.14%, 2.6%, and 15%, respectively. One suggestion could be to keep the same categories but remove all references to LIHTC tax credit investments if the expectation is that the RBC charges will remain the same regardless of tax credit program type.
2. Another suggestion is to keep the same categories, but to have two separate sections in each category, for debt and equity investments since the standard now scopes in all tax credit investments regardless of whether they are in debt or equity form. Since these investments are of high credit quality regardless of program, interested parties would expect that the RBC charges would stay the same as currently reported for LIHTC investments (as detailed in No. 1). We are happy to have further discussions on this topic understanding that it is not the Working Group, but rather Capital Adequacy that would make the ultimate decisions related to the RBC charge for these investments.

3. Another item to consider is that some tax credit investments in debt security form receive an NAIC designation from the SVO. Whether a specific reporting category will be needed for these investments depends on decisions made regarding RBC charges for these investments and whether they will be the same as they are currently for LIHTC investments. Therefore, interested parties would need more information on the expected RBC framework in order to provide more concise feedback on the appropriate reporting lines.
4. Interested parties also noted that the current annual statement instructions for LIHTC investments may need some clarity as there is diversity in interpretation as to what the instructions require. For example:
 - a. Under the non-guaranteed section, there is a reference to “level of leverage below 50%”. It is not clear why this requirement is included and whether this requirement is for the insurer to determine whether debt in the structure is below 50% of the total capitalization of the entity or how to classify the investment for accounting and reporting if leverage is higher than 50%. Interested parties note this requirement is not included in SSAP No. 93 and currently resides only in the Annual Statement instructions.
 - b. The “all other” category refers to non-qualifying LIHTC investments. Interested parties are not clear on what non-qualifying means. It may be helpful to include a definition of non-qualifying and ensure it is reflected in SSAP No. 93 as opposed to residing solely in the annual statement instructions. If non-qualifying relates to an investee’s qualifications to receive expected tax credits, then reporting entities will probably have to go to paragraph 28 to do an impairment analysis if the investee no longer qualifies and therefore, the tax credits will not emerge. However, paragraph 3 states that any investments that do not fall in the scope of SSAP No. 93 are to be accounted and reported consistent with the SSAP that addresses their underlying investment structure. If that is the case, then “non-qualifying” investments would not be reported in this section of Schedule BA and removal of the category may need to be considered.
5. Paragraphs 8 and 10 of the SSAP No. 93 exposure state that any expected residual value is to be excluded from the value of the investment that is amortized under the proportional amortization method. However, example 2 states that there is a residual value of \$1 thousand, but the full investment of \$100 thousand is being amortized. If the intent is to exclude residual value from the balance that is to be amortized, we suggest that the example be modified to reflect this requirement.

Recommendation:

NAIC has updated Example 2 in SSAP No. 93 accordingly to address the comments from interested parties.

NAIC staff recommends that the Working Group adopt the exposed revisions, updated for the corrections to example 2 in SSAP No. 93, and the revisions, which are as exposed, to SSAP No. 34, SSAP No. 48, and SSAP No. 94R. The effective date of the revisions is January 1, 2025.

NAIC staff also recommends that the Working Group direct 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 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. Direct staff to prepare a draft Issue Paper to document the discussions and revisions for agenda item 2022-14.**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-25 (Wil)	ASU 2023-03– SEC Updates	9 – Agenda item	No Comments	IP – 4

Summary:

On Dec. 1, 2023, the Working Group exposed revisions to *Appendix D—Nonapplicable GAAP pronouncements* which reject 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 to update various aspects of SEC guidance on stock compensation and equity-based payments.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2023-03 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.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-27 (Jake)	ASU 2023-04 – SEC Updates – Crypto	10 – Agenda item	No Comments	IP – 4

Summary:

On Dec. 1, 2023, the Working Group exposed revisions to *Appendix D—Nonapplicable GAAP pronouncements* which reject 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.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt 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.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-29 (Julie)	IMR / AVR Preferred Stock	11 – Agenda item	Comments Received	IP – 4

Summary:

On December 1, 2023, the Working Group exposed 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 the SVO-Identified Preferred Stock ETFs, shall be reported as equities through AVR. This exposure proposed revisions to the annual statement instructions only but is in line with the intent to clarify IMR/AVR reporting guidance. Pursuant to the long-term project, it is anticipated that guidance will ultimately be reflected in *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

Interested Parties' Comments:

Interested parties agree with the exposure but also question whether mandatorily redeemable preferred stock should be treated similarly.

Recommendation:

NAIC staff recommend that the Working Group adopt the exposed revisions to the annual statement instructions with modification to also reference mandatory convertible preferred stock (regardless of perpetual or redeemable status) as noted by interested parties' comments. These revisions will exclude all mandatory convertible preferred stock regardless of if redeemable or perpetual from the interest maintenance reserve and require reporting through asset valuation reserve. The guidance in *SSAP No. 32R—Preferred Stock* requires a fair value measurement for all mandatory convertible preferred stock investments.

The proposed revisions to reference mandatory convertible are minimal and reflected as shaded text in the guidance below. (The agenda item details the full scope of exposed revisions. Only the sections revised are shown below.)

Interest Maintenance Reserve

Include realized capital gains and losses on:

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond 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.)

Asset Valuation Reserve

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.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-30 (Jason/ Robin)	Admissibility Requirements of Investments in Downstream Holding Companies	12 – Agenda item	Comments Received	IP – 5

Summary:

On Dec. 1, the Working Group exposed revisions to the existing guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 24, 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. This agenda item is the result of regulator comments. 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.

Interested Parties’ Comments:

Interested parties note that paragraph 24 references paragraph 23, and paragraph 23 addresses the admissibility requirements of the downstream holding company and its SCA entities. As a result, we recommend that the proposed wording be modified slightly as follows:

“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.”

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*, paragraph 24, with the edit proposed by interested parties as illustrated below. After review, NAIC staff agrees with interested parties that the exposed addition of the phrase “or individual SCAs” is not necessary.

Proposed edits to SSAP No. 97 for adoption:

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 be classified as an admitted asset.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-31 (Robin)	Model 630 Mortgage Guaranty Insurance	13 – Agenda item	No Comments	IP – 5

Summary:

On Dec. 1, 2023, the Working Group exposed the project to address updates to the *Mortgage Guaranty Insurance Model Act* (Model #630). Model #630 is excerpted in *Appendix A-630 Mortgage Guaranty Insurance* which is referenced in *SSAP No. 58—Mortgage Guaranty Insurance*. In addition, SSAP No. 58 includes some excerpts from Model #630 regarding contingency reserves. The project will review the updated model for potential updates to SSAP No. 58 and Appendix A-630, with a focus on accounting and reporting issues. With the exposure, the Working Group requested comments on the proposed effective date.

Interested Parties' Comments:

Interested parties have no comments on this item.

Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to develop updates to SSAP No. 58 and Appendix A-630 for future Working Group discussion. Because there are less than ten mortgage guaranty insurers, and they are concentrated in the states of North Carolina, Pennsylvania and Wisconsin, NAIC staff will work with the affected states on the proposed effective date of the AP&P updates.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-01 SSAP No. 26R (Julie)	Bond Definition – Debt Securities Issued by Funds	14 – Agenda item	Comments Received	IP – 5 PineBridge – 8

Summary:

On January 10, 2024, the Working Group exposed revisions to both *SSAP No. 26R—Bonds* and the draft issue paper for the principles-based bond project, to clarify the guidance for debt securities issued by funds. The revisions intended to eliminate the rules-based provision, in which SEC registration for a fund is required, and instead permit debt securities issued by funds to be classified as issuer credit obligations if the fund represents an operating entity. The revisions included guidance to assist in determining whether a fund represents an operating entity, and the issue paper guidance continued to identify that collateralized fund obligations (CFOs) and other similar structures would be required to be assessed as asset-backed securities to determine if they qualify for bond reporting.

Interested Parties' Comments:

Interested parties appreciate the overall goal behind the refinements proposed in the exposure to provide consistency between funds, whether registered or not, for classification as ICOs. Interested parties propose one small change to the new language included within paragraph 12.

12. Likewise, distinguishing between a fund that represents an operating entity and a securitization vehicle that represents an ABS Issuer can involve similar ambiguity. Both types of entities may hold only passive investments and issue debt securities for which ultimate recourse upon default is to those investments. However, a clear distinction can generally be made by evaluating the substance of the entity and its primary purpose:

- a. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. **Marginal Prudent** amounts of debt may be issued to

fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. For 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations.

- b. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. Perhaps most distinctively, in addition to the characteristics detailed in Paragraph 8, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. There is generally little discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. This hardwiring of debtholder protections allows for the issuance of higher amounts of leverage than would be possible for a fund representing an operating entity, further supporting the entity's primary purpose of raising debt capital.

Changing “marginal” to “prudent” may seem rather innocuous. However, marginal seemingly connotes something very small, whereas prudent seems to be more in line with the spirit of the principle-based language within paragraph 12. Interested parties believe with this slight change, along with paragraph 12 and its primary purpose distinctions, the principle-based bond standard will achieve the stated goal of consistency for like funds.

PineBridge Investments Comments:

We appreciate the opportunity to comment on your exposure regarding clarifications to SSAP No. 26R on the treatment of debt securities issued by funds.¹ We support your effort to “eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches through the Bond Project.” We would like to share some facts to support the consistent statutory treatment for securities issued by business development companies (BDCs), closed-end funds (CEFs), and private funds.

First, as you noted in the exposure memo, that substance over form is an important principle. Under SSAP No. 26R, operations such as BDCs and CEFs, regardless of being public (or listed) or private (or unlisted), their debt issuances are treated as issuer credit obligation (ICOs). “Substance” rather than “form” dictates the ICO designation of BDCs and CEFs.

Second, we see similar substance across BDCs, CEFs, and many private funds regarding the following:

- There is a related operating entity whose primary purposes are managing assets and raising capital.
- All have a well-defined and hard-wired payment priority in the legal documents. For example, in an event of default, contractually BDCs and CEFs need to redeem senior debt first and then pay off junior obligations. Furthermore, BDCs and CEFs often have additional asset coverage tests; and if a coverage test is breached, mandatory redemption would take place such that senior debt is paid first to de-lever the capital structure. This is also how the “hardwiring” works in many rated feeder funds.
- There is no special purpose vehicle (SPV) within a typical fund construct.

Finally, rating agencies’ private fund methodologies and analysis align with those for CEFs and corporate bonds (both designated as ICO) in several ways:

- Multiple rating agencies apply their CEF methodology to rate private funds.
- Rating levels and the amount of debt issued by these funds intend to right-size the risks embedded in the investment vehicle, including but not limited to prudent leverage, portfolio mix, liquidity, legal construction, and management quality.
- Funds ratings typically do not carry a structured finance (SF) subscript and are generally assigned by the Financial Institutions Group within rating agencies, not their structured finance team. An entity level anchor rating is assigned first, and that is then notched up/down to reflect security level seniority or structural

¹ SAPWG 2024-01, Bond Definition – Debt Securities Issued by Fund, <https://content.naic.org/sites/default/files/inline-files/24-01%20-%20PBBD%20-%20SEC%20Funds.docx>

subordination. Typically, rating agencies would rate no more than three-classes of debt issued by a fund. This framework aligns well with how rating agencies analyze corporate bonds overall.

In summary, we support private funds with prudent leverage to be designated as ICO, consistent with the SSAP No. 26R classification for BDCs and CEFs.

Recommendation:

NAIC staff recommend that the Working Group re-expose this item with a distinct request for regulators and industry to provide comments that address the following:

- 1) Proposed language that assists with clarifying the scope of guidance and to the types of debt securities issued by funds that should be considered as operating entities.**
- 2) Proposed language to better define the extent of debt that may be issued to fund operations.**

These elements are requested as informal feedback and questions received during the exposure period has indicated that some companies have interpreted the proposed guidance to permit debt issued from feeder funds to be classified as issuer credit obligations (ICOs). **As the guidance was not intended to eliminate the assessment of feeder funds as asset-backed securities (ABS) to determine whether the debt instrument qualifies for bond reporting, particularly when the underlying feeder fund investments are equity interests, adoption of this item is not recommended as exposed.** With the detailed review and assessment that has occurred throughout the development of the bond project, NAIC staff cautions against moving forward with edits that could be interpreted in a way that results with application of the guidance differently than intended.

The intent of these exposed revisions was to simply eliminate differences that could occur in bond classification for debt issued by funds that have the purpose of raising equity capital that are seemingly identical except for SEC registration status. However, if the interpretation of the draft guidance could be expanded to include other fund designs, including feeder funds or funds that have the primary purpose of raising debt capital, then retention of the SEC-registration requirement shall be retained to ensure that the guidance is not inappropriately extrapolated. The intent of re-exposure is to provide opportunity for regulators and industry to suggest proposed guidance that will clearly distinguish between debt issued by funds that should qualify as ICOs and debt issuances from feeder funds, CFOs, or other ABS structures. It is also noted that the interested parties' proposed term for "prudent" is not sufficient for identifying the limitations of debt that can be issued by SEC-registered entities. Further suggestions on appropriate terms or descriptions are requested during the exposure period.

Staff Note: The principles-based bond definition reflected in SSAP No. 26R—Bonds is adopted and effective Jan. 1, 2025. The adopted guidance, which limits the classification to ICO to "bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act," is the authoritative guidance. The Working Group does not need to act to restrict the guidance for registered funds. Until/unless the Working Group elects to adopt guidance that permits debt issued by non-registered funds, then all debt issued by non-registered funds shall be assessed as ABS.

The comment letters are included in Attachment 15 (8 pages).

The following items will be in a separate packet.

1. Ref #2019-21: SSAP No. 21R—Principles-Based Bond Project [Comments pending - Hearing 2]
2. Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement
3. Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts

Statutory Accounting Principles (E) Working Group
Meeting Agenda
March 16, 2024

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2024-02: ASU 2023-01, Leases (Topic 842), Common Control Arrangements
2. Ref #2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets
3. Ref #2024-04: Conforming Repurchase Agreements
4. Ref #2024-05: A-791 Paragraph 2c
5. Ref #2024-07: Reporting of Funds Withheld and Modco Assets
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7. Ref #2024-09: SSAP No. 2R – Clarification
8. Ref #2024-10: SSAP No. 56R – Book Value Separate Accounts
9. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures
10. Ref #2024-12: Updates to SSAP No. 27
11. Ref #2024-13: Update SSAP No. 107 Disclosures
12. Ref #2024-14EP: Accounting Practices and Procedures Manual Editorial

Ref #	Title	Attachment #
2024-02 (Jake)	ASU 2023-01, Leases (Topic 842), Common Control Arrangements	A – Form A

Summary:

In March 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB’s post-implementation review to address issues that have been found during the implementation of the new lease guidance from ASU 2016-02, Leases (Topic 842). As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders’ concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine 1) whether a lease exists and, if so, 2) the classification of and accounting for that lease. The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist (including in situations in which an entity does not document existing unwritten terms and conditions upon transition to the practical expedient), an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842. The new U.S. GAAP guidance for this issue is only applicable to non-public entities.

The second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. U.S. GAAP guidance for life of leasehold improvements prior to this update generally agrees to that of statutory accounting. It was noted in the ASU that private company stakeholders noted that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (hereinafter referred to as common control leases) over a period shorter than the expected useful life of the leasehold improvements may result in financial reporting that does not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. While this issue originally

came from comments from private company stakeholders, the guidance for this issue is applicable for all lessees that are a party to a lease between entities under common control in which there are leasehold improvements, so this issue could potentially be relevant to insurers.

Recommendation:

NAIC staff recommends the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification, ASU 2023-01 in SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements and SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities, as illustrated in the Form A. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

Ref #	Title	Attachment #
2024-03 (Jake)	ASU 2023-08, Accounting for and Disclosure of Crypto Assets	B – Form A

Summary:

In December 2023, the FASB issued *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
3. Are created or reside on a distributed ledger based on blockchain or similar technology
4. Are secured through cryptography
5. Are fungible
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows and includes a roll forward of activity and balances.

As background, on May 20, 2021, the Working Group adopted *INT 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, and the Working Group adopted INT 21-01 to clearly establish that directly held cryptocurrencies do not meet the definition of an admitted asset. The INT established that directly held cryptocurrencies were not 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 AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to codify the guidance that was adopted in INT 21-01, and formally establish that directly held crypto assets are nonadmitted assets for statutory accounting.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification ASU 2023-08 for

statutory accounting. The agenda item proposes to adopt the definition of crypto assets from the ASU, but establishes that directly held crypto assets are nonadmitted assets for statutory accounting. The recommendation is to add guidance to *SSAP No. 20—Nonadmitted Assets* that clarifies that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions. Additionally, NAIC staff recommends that the Working Group expose the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item. The revisions to SSAP No. 20 are illustrated in the agenda item.

Ref #	Title	Attachment #
2024-04 (Julie)	Conforming Repurchase Agreements	C – Form A

Summary:

This agenda item has been developed in response to the January 2024 referral received from the Life Risk-Based Capital (E) Working Group (LRBCWG) pursuant to the ACLI request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs. As detailed within the ACLI-sponsored life RBC proposal, the request is to incorporate a concept of “conforming programs” for repurchase agreements, with the collateral attributed to these programs assigned a 0.2% (.0020) factor instead of a 1.26% (0.0126) factor. Per the Statutory Accounting Principles (E) Working Group (SAPWG) referral response dated Feb. 8, 2024, it was identified that the statutory accounting and reporting for securities lending and repurchase agreements are currently different. As a result, the SAPWG requested that the LRBCWG defer consideration of the proposal until the SAPWG has time to assess the differences and consider converging revisions (if deemed appropriate) before modifying the RBC formula.

This agenda item identifies initial statutory differences between securities lending and repurchase agreements as well as other items that should be reviewed for potential clarification on the “conforming agreement” securities lending concept currently captured in the general interrogatories. These items are summarized as follows:

- Documentation of Securities Lending Collateral: Securities lending collateral is detailed in Schedule DL: Securities Lending Collateral Asset for 1) collateral that an entity has received and reinvested, and 2) collateral received that the entity has not reinvested but for which the entity has the ability to sell or repledge. This schedule currently does not include repurchase agreement collateral. As detailed within the ACLI proposal, the ACLI identifies that repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers, with counterparties reflecting the key difference between the two funding structures. With these similarities, consistent reporting of the collateral may be appropriate to ensure financial regulators receive comparable information regardless of the legal form of the agreement. Furthermore, a review of year-end 2022 data identified that securities associated with securities lending transactions are declining, whereas securities associated with repurchase agreements are increasing.
- Blanks Reporting Revisions: Blanks reporting revisions will be required to incorporate a new general interrogatory to capture repurchase collateral from conforming programs and for that data to be pulled directly into the RBC formula. Additionally, the current guidance on what reflects a “conforming program” for securities lending is captured in the RBC instructions. To ensure consistency in reporting, consideration should occur on incorporating the guidance into the annual statement instructions. This would ensure that financial statement preparers, who may not have the RBC instructions, have the guidelines to properly assess whether a program should be classified as conforming or nonconforming.
- Assessment of Conforming Provisions: From a review of year-end 2022 financial statements, very few reporting entities reported any securities lending collateral as part of a nonconforming program. Although

the instructions identify what is permitted as “acceptable collateral,” from a review of the collateral reported on Schedule DL, reporting entities are classifying programs as conforming even though the reported Schedule DL collateral is outside the parameters of acceptable collateral. From initial assessments, it appears that there may be interpretation differences on whether the “acceptable collateral” requirement encompasses only the collateral received from the counterparty and not what the reporting entity currently holds due to reinvestment of the original collateral. From this information, clarification of the intent of the guidelines and what is conforming or nonconforming is proposed to be considered. It is also noted that the provisions to separate conforming and nonconforming programs in the RBC formula was incorporated before the great financial crisis, and significant changes to the accounting and reporting (Schedule DL) were incorporated because of how securities lending transactions impacted certain reporting entities during the crisis. For example, prior to Schedule DL, most of the security lending collateral was off-balance sheet, and now only collateral that an entity cannot sell or repledge is off-balance sheet. From a review of the detail, reporting entities are combining any off-balance sheet (which is limited) with what is captured on Schedule DL for inclusion in the “conforming program” securities lending general interrogatory.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and direct staff to work with industry in determining current application / interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral.

Ref #	Title	Attachment #
2024-05 (Robin)	A-791 Paragraph 2c	D – Form A

Summary:

The Valuation Analysis (E) Working Group (VAWG) sent a referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), Life and Health Reinsurance Agreements, Section 2.c’s, Question and Answer by removing the first sentence, which reads, “Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.” The referral notes that:

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner’s Standard Ordinary (CSO) rates as a “safe harbor,” at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to remove the first sentence of the A-791, paragraph 2c’s Question and Answer. In addition, the Working Group should notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

Ref #	Title	Attachment #
2024-07 (Jake)	Reporting of Funds Withheld and Modco Assets	E – Form A

Summary:

During 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Net Negative (Disallowed) Interest Maintenance Reserve*, as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group’s review process and discussions, it was noted that there were issues with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangement through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Funds withheld and modco arrangements are defined in the glossary to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*:

- Funds withheld assets - *“Assets that would normally be paid over to a reinsurer but are withheld by the ceding entity to permit statutory credit for nonadmitted reinsurance, to reduce a potential credit risk, or to retain control over investments. Under certain conditions, the reinsurer may withhold funds from the ceding entity.”*
- Modco arrangements - *“Indemnity life insurance that differs from coinsurance only in that the reserves are retained by the ceding entity, which represents a prepayment of all or a portion of the reinsurer’s future obligation. Periodically an adjustment is made to the mean reserve on deposit with the ceding entity. This is usually done quarterly but may be done more frequently. If the reserve increases, the increase in mean reserve less interest on the mean reserve held at the end of the previous accounting period is paid by the reinsurer to the ceding entity. If the mean reserve decreases, the decrease and interest are paid by the ceding entity to the reinsurer. The appropriate interest rate is defined in the treaty.”*

Although this issue of clarity of reporting of funds withheld and modco assets came from the IMR project, which is focused on life insurance, funds withheld and modco also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, that is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Ref #	Title	Attachment #
2024-08 (Julie)	Consistency Revisions for Residuals	F – Form A

Summary:

This agenda item has been developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize residual guidance within SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from their scope and direct companies to SSAP No. 21R.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This recommendation involves revisions to SSAP No. 26R—Bonds (Effective 2025), SSAP No. 30R—Unaffiliated Common Stock, SSAP No. 32R—Preferred Stock, SSAP No. 43R—Asset-Backed Securities (Effective 2025), and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.

Ref #	Title	Attachment #
2024-09 (Julie)	SSAP No. 2R – Clarification	G – Form A

Summary:

This agenda item has been developed to update the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to remove a lingering reference to items that have been removed from scope pursuant to the bond project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses ‘rolling’ cash equivalents and short-term investments in which there is a continued reference to *SSAP No. 43R—Asset-Backed Securities* investments and ‘other Invested assets.’ This guidance has been revised to only reflect items in scope of SSAP No. 2R.

Recommendation:

NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda as a SAP clarification and expose revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments to eliminate lingering references that imply that asset-backed securities,

mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Ref #	Title	Attachment #
2024-10 (Julie)	SSAP No. 56 – Book Value Separate Accounts	H – Form A

Summary:

This agenda item has been developed to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56 provides limited guidance for assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, with direction that these assets shall be recorded as if they were held in the general account. This measurement method is generally referred to as “book value.”

NAIC staff are aware that there has been an increase in assets reported at “book value” within the separate account. These have been approved under state prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other similar general-account type products that have been approved by the state of domicile for reporting in the separate account.

The guidance in SSAP No. 56 focuses on the accounting and reporting for both the separate account and general account, with specific focus on what is captured within each account as well as transfers between the two accounts. As the focus is on fair value separate account assets, there is not guidance that details how transfers should occur between the general and separate accounts when the assets will be retained and reported at “book value.” Particularly, the guidance does not address whether assets should be disposed / recognized at fair value when transferring between accounts, with subsequent reporting at the general account measurement guidance or whether the assets should be transferred at the “book value” that is reported in the existing account. The process has the potential to impact recognition of gains / losses and IMR, so it should be clearly detailed to ensure consistent reporting.

Recommendation:

NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda with direction to work with industry in determining current application / differences in interpretations to present to the Working Group along with suggested revisions to codify the approach within SSAP No. 56.

Ref #	Title	Attachment #
2024-11 (Wil)	ASU 2023-09, Improvements to Income Tax Disclosures	I – Form A

Summary:

During December 2023, the FASB issued *ASU 2023-09, Improvements to Income Tax Disclosures* (the ASU) to enhance the transparency and decision usefulness of income tax disclosures. The ASU amends and expands the disclosures for rate reconciliation between income tax expense and tax rate expectations for both public and private entities. Per the ASU, “The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to

understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.” Public entities are required to provide detailed quantitative and qualitative disclosures, while private are only required to provide qualitative rate reconciliation disclosures on certain specified categories. Additionally, the ASU also requires all entities to provide additional disclosures on income tax expense and income taxes paid, and removes the disclosure requirement for positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date (ASC 740-10-50-15d), and the cumulative amount of each type of temporary difference related to unrecognized deferred tax liabilities (ASC 740-30-50-2b).

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed within the Form A, to adopt ASU 2023-09, *Improvements to Income Tax Disclosures* with modification in SSAP No. 101—*Income Taxes*. The disclosures revisions we have recommended are:

- Removal of SSAP No. 101, paragraph 23b disclosure of the cumulative amount of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings. (ASC 740-30-50-2(b))
- Disclosure of income/loss before income tax expense/benefit, disaggregated by domestic and foreign. (ASC 740-10-50-10A)
- Disclosures of income tax expense/benefit and income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign. (ASC 740-10-50-10B & 740-10-50-22, respectively)
- Disclosures of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received). (ASC 740-10-50-23)
- Qualitative disclosures on tax rate reconciling items. (ASC 740-10-50-1A, 740-10-50-11A, 740-10-50-12A(a), & 740-10-50-13)

Ref #	Title	Attachment #
2024-12 (Wil)	Updates to SSAP No. 27	J – Form A

Summary:

During February 2024, it came to NAIC staffs’ attention that SSAP No. 27—*Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk* references FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet* (FAS 105) which was superseded by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Additionally, NAIC staff noted that the annual statement instructions only provide disclosures for derivative Swaps, Futures, and Options, however the guidance in SSAP No. 27 is intended to be applicable to all derivative instruments and financial instruments, except those specifically carved out in FAS 105 paragraphs 14 and 15.

NAIC staff suggest amending SSAP No. 27 to specifically list the financial instruments excluded from the SSAP rather than referencing FAS 105, which is significantly out of date as it was superseded by FAS 133 prior to the creation of the Accounting Standards Codification which in turn superseded FAS 133. Staff also suggests updating the annual statement instructions to add an “Other” derivatives category and disclosure examples and instructions for non-derivative financial instruments with off-balance sheet credit risks.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed within the Form A, to SSAP No. 27 and the Annual Statement Instructions.

Ref #	Title	Attachment #
2024-13 (Robin)	Update SSAP No. 107 Disclosures	K – Form A

Summary:

This agenda item is sponsored by United Health Group and recommends updates to disclosure requirements in *SSAP 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 Statutory Accounting Principles (E) Working Group 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 and 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.

This agenda item proposes removal of the disclosures for the expired programs and removal of the related parts of the roll forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*. 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 transitional reinsurance 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.

Ref #	Title	Attachment #
2024-14EP (Jason/Jake)	Accounting Practices and Procedures Manual Editorial	L – Form A

The editorial revisions remove the “Revised” and “R” previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the Manual. NAIC staff consider the “Revised” and “R” identifiers to no longer be useful.

Recommendation:

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose editorial revisions as illustrated within the agenda item.

B. Consideration of Items on the Active Maintenance Agenda

1. Ref #2023-26: ASU 2023-06 – Disclosure Improvements

Ref #	Title	Attachment #
2023-26 (Wil)	ASU 2023-06 – Disclosure Improvements	M – Form A

Summary:

On Dec. 1, 2023, the Working Group deferred action on *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, to allow staff further time to consider whether certain aspects of ASU 2023-06 were applicable to statutory accounting. In October 2023, FASB issued ASU 2023-06 in response to a referral from SEC Release No. 33-10532, *Disclosure Update and Simplification*, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies.

The ASU requires repo counterparty risk disclosures on the accrued interest incurred in securities borrowing or repurchase or resale transactions, separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10% of total assets, disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10% of stockholder's equity, and disclosure for reverse repurchase agreements that exceed 10% of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.

Recommendation:

NAIC staff recommends that the Working Group expose revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements* for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The disclosures revisions we have recommended are:

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

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

C. Any Other Matters

a. Review of U.S. GAAP Exposures (Jason - Attachment N)

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

b. Update on the IMR Ad Hoc Subgroup – Julie (Attachment O)

The IMR Ad Hoc group has met regularly since their first meeting in Oct. 2023. The discussions have focused on 1) information of how IMR impacts actuarial calculations, 2) the definition and purpose of IMR, 3) the impact of derivatives on IMR, and 4) how reinsurance impacts IMR. The IMR Ad Hoc group has meetings scheduled until the 2024 Summer National Meeting. A key element expected as part of the future discussions will be more detail on the derivatives impacting IMR. These discussions are expected to include concepts for how companies determine effectiveness for these “economically effective” derivatives that do not qualify as “accounting effective” under SSAP No. 86—Derivatives as well as the concepts reporting entities have used in determining the amortization timeframe for IMR generated from derivative gains/losses.

NAIC staff will be compiling information on the reported 2023 year-end IMR in the statutory financial statements, including the extent that insurance reporting entities have moved to a net negative (disallowed) IMR position, and the extent (if any) companies have exceeded the 10% admittance threshold. NAIC staff will share information on the reported financial statement info with regulators as soon as possible.

c. IAIS Audit and Accounting Working Group (AAWG Update) – (Julie)

Julie Gann and Maggie Chang (NAIC) have been recently involved in monitoring IAIS discussions, including the following:

- Climate Risk Disclosure Subgroup – Since the 2023 Fall National Meeting, there have been many meetings and discussions towards the development of an IAIS paper to provide guidance for supervision of climate-related risks and disclosure. Recent discussions have focused on linking the paper to disclosure requirements in *Insurance Core Principle (ICP) 9: Supervisory Review and Reporting* and *ICP 20: Public Disclosure*. Various elements noting issues with data quality, data validation, metrics and U.S. stakeholder concerns in public reporting have been highlighted as part of the discussions.
- Accounting and Auditing Working Group - The AAWG met virtually Feb. 28-29. Items discussed include the International Accounting Standards Board (IASB) exposure on proposed amendments to *Financial Instruments with Characteristics of Equity*, information on the Climate Risk Disclosure Subgroup, and discussion on the International Auditing and Assurance Standards Board (IAASB) exposure draft *ISA 240, The Auditor’s Responsibilities Related to Fraud in an Audit of Financial Statements*.

This update simply intends to inform the SAPWG regulators and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS AAWG. Any questions on discussions or if additional information is requested, please contact NAIC staff.

Comment Deadline for exposures with blanks impact is **April 19** (and listed below), and for all other items the deadline will be **May 31**.

- Ref #2022-14: New Market Tax Credits
- Ref #2024-13: Update SSAP No. 107 Disclosures

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Meeting/0 - 03-2024 SAPWG Meeting Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2024/03-16-24%20Spring%20National%20Meeting/Meeting/0%20-03-2024%20SAPWG%20Meeting%20Agenda.docx)