

# Appendix F

## Policy Statements

### Introduction

The policy statements contained within Appendix F are not included within the Statutory Hierarchy and thus should not be considered accounting guidance. As such, each policy statement is included for informational purposes only.

### Table of Contents

<b>Title</b>	<b>Page</b>
NAIC Policy Statement on Maintenance of Statutory Accounting Principles.....	F-1
NAIC Policy Statement on Comments to GAAP & IFRS Exposure Drafts.....	F-5
NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process .....	F-6
NAIC Policy Statement on the Impact of Statements of Statutory Accounting Principles on NAIC Publications .....	F-10
NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank .....	F-11
NAIC Policy Statement on Coordination with the Valuation Manual.....	F-13
NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office.....	F-14

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## **NAIC Policy Statement on Maintenance of Statutory Accounting Principles**

1. Statutory accounting principles (SAP) provide the basis for insurers to prepare financial statements to be filed with and utilized by state insurance departments for financial regulation purposes. Accuracy and completeness of such filings are critical to meaningful solvency monitoring. Accordingly, maintenance of SAP guidance for changes in the industry and changes in regulatory concerns is vital to preserving the usefulness of SAP financial statements.

2. The promulgation of new or revised SAP guidance by the NAIC ultimately requires action of the entire NAIC membership. Responsibility for proposing new or revised SAP guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Statutory Accounting Principles (E) Working Group (Working Group) with the exclusive responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to revise existing SSAPs, and to issue interpretations.

### **Composition of the Statutory Accounting Principles (E) Working Group**

3. The chair of the Task Force shall determine membership of the Working Group subject to approval by the Financial Condition (E) Committee. The Working Group shall be limited in size to no more than 15 members and will include representation from the four zones of the NAIC. Membership shall be vested in the state (until such time as the membership may be changed) but continuity of individuals, to the extent possible, is extremely desirable.

### **Development of New SSAPs or New SAP Concepts<sup>1</sup> in an Existing SSAP**

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. New SAP concepts to existing SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new SSAP or a new SAP concept in an existing SSAP will rest with the Working Group. New SSAPs or a new SAP concept in an existing SSAP will have a specified effective date.

5. Research and drafting of a new SSAP or a new SAP concept in an existing SSAP will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. The first step in developing new SSAPs and new SAP concepts in existing SSAPs will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper is converted to a SSAP. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new SSAPs or new SAP concepts in existing SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the

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<sup>1</sup> Prior to December 11, 2021, the term used to describe a new SAP concept was “substantive” and the term used to describe a SAP clarification was “nonsubstantive.” The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.

proposal. All new SSAPs and new SAP concepts in existing SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

6. The Working Group may, by a super majority vote (7 out of 10 members, 8 out of 11 or 12, 9 out of 13, 10 out of 14, and 11 out of 15) elect to: 1) combine the IP and SSAP process, resulting in concurrent exposure of the two documents; 2) expose and adopt revisions to a SSAP prior to the drafting/adoption of the related IP; and/or 3) forego completion of an IP and only proceed with a new SSAP or new SAP concept in an existing SSAP.

7. If accounting guidance, reserving standards, asset valuation standards, or any other standards or rules affecting accounting practices and procedures are first developed by other NAIC working groups, task forces, subcommittees, or committees, such proposed guidance, standards or rules shall be presented to the Working Group for consideration. In cases where such guidance has already been subjected to substantial due process (e.g., public comment periods and/or public hearings), the Working Group may elect to shorten comment periods and/or eliminate public hearings, and in such cases, will notify the Task Force of these actions.

### **Development of SAP Clarifications<sup>1</sup>**

8. SAP clarifications will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to *Appendix A—Excerpts of NAIC Model Laws* to reflect amendments to NAIC adopted model laws and regulations. Research and drafting of SAP clarification revisions will be performed by NAIC staff under the direction and supervision of the Working Group. Public comment will be solicited on these revisions, and the item will be included on the agenda for at least one public hearing before the Working Group adopts revisions. SAP clarification revisions are considered effective immediately after adoption by the Working Group, unless the Working Group incorporates a specific effective date. If comments are not received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other “non-contested” positions after opportunity is given during the hearing to separately discuss the proposal. At its discretion, the Working Group may request that an issue paper be drafted for SAP clarification revisions in order to capture historical discussion and adopted revisions. Adoption of these revisions by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

### **Development of Interpretations to SSAPs and Referencing Interpretations Within SSAPs**

#### **Interpretations Which DO NOT Amend, Supersede or Conflict with Existing SSAPs**

9. Interpretations may be developed to address issues requiring timely application or clarification of existing SAP, which shall not amend, supersede or conflict with effective SSAPs. Issues being considered as an interpretation must be discussed at no less than two open meetings. (Original introduction of the issue when the Working Group identifies the intent to address the issue as an “interpretation” during a public discussion is considered the first open meeting discussion.) The process must allow opportunity for interested parties to provide comments, but as interpretations are intended to provide timely responses to questions of application or interpretation and clarification of guidance, no minimum exposure timeframe is required.

10. As these interpretations do not amend, supersede or conflict with existing SSAP guidance, the interpretation is effective upon Working Group adoption unless specifically stated otherwise. The voting requirement to adopt an interpretation of this type is a simple majority. The Working Group shall report the adopted interpretation to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-

thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

#### Interpretations Which Amend, Supersede or Conflict with Existing SSAPs

11. In certain circumstances such as catastrophes and other time-sensitive issues requiring immediate, temporary statutory accounting guidance, the Working Group may adopt an interpretation which creates new SAP or conflicts with existing SSAPs. Historically, these interpretations temporarily modified statutory accounting principles and/or specific disclosures were developed in response to nationally significant events (e.g., Hurricane Sandy, September 11, 2001). (Examples of time-sensitive issues that have previously provided INT exceptions to SAP include the transition from LIBOR and special situations such as the federal TALF program.) Interpretations that conflict with existing SSAPs shall be temporary and restricted to circumstances arising from the need to issue guidance for circumstances requiring immediate guidance. In order to adopt an interpretation that creates new SAP or conflicts with existing SSAPs, the Working Group must have 67% of its members voting (10 out of 15 members) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14, or 11 out of 15) supporting adoption.

- a. These interpretations are effective upon Working Group adoption, unless stated otherwise, and shall be reported to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). In circumstances where the Working Group adopts an interpretation (which creates new SAP or conflicts with existing SSAPs) that is controversial in nature (i.e., due to regulator or industry feedback or could have a policy level impact), the Working Group may elect to postpone the effective date until the item has been discussed by the Task Force and the Financial Condition (E) Committee and both have had an opportunity to review the interpretation.
- b. These interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

12. As new SSAPs are developed, it is essential to review and, if necessary, update the status of interpretations related to SSAPs that are being replaced and/or new SSAPs being developed. The following options are available to the Working Group when a SSAP with existing interpretations is replaced:

- a. **Interpretation of the new SSAP** - If the Working Group would like to maintain the interpretation, the new SSAP can be added to the list of statements interpreted by the interpretation. In addition, the status section of the new SSAP will list the interpretation number next to the heading "Interpreted by."
- b. **Nullification** - When an interpretation is nullified by a subsequent SSAP or superseded by another interpretation, the interpretation is deemed no longer technically helpful, is shaded and moved to Appendix H (Superseded SSAPs and Nullified Interpretations), and the reason for the change is noted beneath the interpretation title. The status section of the SSAP describes the impact of the new guidance and the effect on the interpretation (for example, nullifies, incorporated in the new SSAP with paragraph reference, etc.).

- c. **Incorporation** - When an interpretation is incorporated into a new SSAP, the Working Group can choose from the following two options:
- i. If the interpretation only interprets one SSAP, then the interpretation is listed as being nullified under the “affects” section of the SSAP and is not referenced under the “interpreted by” section of the status page of the SSAP.
  - ii. If the interpretation references additional SSAPs, and the Working Group intends to maintain the guidance, the interpretation is unchanged (no nullification). The new SSAP (Summary of Issue section) reflects that the interpretation issue has been incorporated into the new statement.

## NAIC Policy Statement on Comments to GAAP & IFRS Exposure Drafts

1. As expressed in the Statement of Concepts, statutory accounting principles (SAP) utilize the framework established by U.S. Generally Accepted Accounting Principles (GAAP). The NAIC's guidance on SAP (defined in the *Accounting Practices and Procedures Manual*) is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting. Those GAAP pronouncements that are not applicable to insurance companies will not be adopted by the NAIC. GAAP pronouncements that do not differ from SAP may specifically be adopted by the NAIC to be included in statutory accounting. GAAP pronouncements do not become part of SAP until and unless adopted by the NAIC. Future SAP pronouncements will specifically identify any GAAP pronouncements that are to be included in SAP whether in whole, in part, or with modification as well as any GAAP pronouncements that are rejected. Future GAAP pronouncements, which SAP has not yet addressed, shall not be considered as providing authoritative statutory guidance.
2. As stated in the previous paragraph, the NAIC believes it is important to comment on GAAP exposure drafts that will affect SAP before such guidance is finalized. Exposing potentially contentious issues to the applicable GAAP bodies before completion will create a more efficient and effective maintenance process for the Statutory Accounting Principles (E) Working Group (Working Group). In addition, this allows the NAIC to be proactive to GAAP rather than reactive under the current system. The NAIC also believes that there may be instances in which it is important to comment on exposure drafts of the International Financial Reporting Standards (IFRS). This is particularly important on projects in which U.S. FASB and the International Accounting Standards Board (IASB) are attempting to converge, or to limit differences between U.S. GAAP and IFRS.
3. Comments on exposed GAAP pronouncements or IFRS exposure drafts will be developed at the discretion of the Working Group chair. After a comment letter has been agreed to by the Working Group, the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee must review and approve the comment letter before it is sent to the applicable standard board. Every reasonable attempt will be made to provide an adequate comment period to interested parties; however, FASB and IFRS deadlines may inhibit exposure in every instance. The chairs will consider factors such as comment deadline and level of controversy surrounding the issue. The chair of the parent task force or committee may override such a decision at any time.
4. Comment letters submitted to the FASB on GAAP exposure drafts may be considered when the Working Group is reviewing finalized GAAP pronouncements (as defined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*). Nevertheless, these letters will not bind the Working Group to its tentative position during its deliberation to adopt, modify or reject the final GAAP guidance.

## NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process

1. The purpose of this policy statement is to document the Statutory Accounting Principles (E) Working Group (Working Group) maintenance agenda process.
2. As acknowledged in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*, the promulgation of statutory accounting principles (SAP) guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Working Group with the responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to propose revisions to existing SSAPs, and to issue interpretations in response to questions of application and clarification on existing SSAPs.
3. Information and issues can be presented to the Working Group in a variety of ways. Issues can be recommended or forwarded from 1) other NAIC committees, task forces or working groups; 2) interested parties; 3) interested regulators; and 4) NAIC staff. Also, if any guidance within the Generally Accepted Accounting Principles (GAAP) Hierarchy (see § V of the Preamble to the *Accounting Practices and Procedures Manual* (AP&P Manual)) is added or revised, those changes must be considered by the Working Group for potential revisions to SAP. In order for an issue to be placed on the **Pending Listing**, the recommending party must complete a Statutory Accounting Principles Maintenance Agenda Submission Form (Form A) and submit it to the Working Group support staff no later than 20 business days prior to the next scheduled Working Group meeting. NAIC staff will prepare a submission form for all GAAP pronouncements that have not been previously addressed by the Working Group. NAIC staff will update the **Pending Listing** before each national meeting and will notify the recommending party of such action. If the Working Group does not wish to address the issue (e.g., issue deemed not applicable to statutory accounting) or rejects the position presented, then the Working Group may move the item to the **Rejected Listing**. Should the Working Group choose to address an issue, it is moved to the **Active Listing** where it is prioritized and categorized as a [new SAP concept, clarification of an existing SAP, Substantive, Nonsubstantive](#) or [an](#) interpretation agenda item.
4. The **Active Listing** identifies agenda items that are in the process of development and includes the following:
  - a. **[Substantive](#)[New SAP Concept](#)**: These agenda items address the development of new SSAPs and [/or the introduction of a new](#) ~~substantially revised SSAPs~~ [concept](#) as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*.
  - b. **[Nonsubstantive](#)[Clarification of an Existing SAP](#)**: These agenda items address the development of ~~nonsubstantive~~ revisions [to which clarify an existing](#) SAP as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*.
  - c. **Interpretations**: These agenda items address the development of interpretations to SAP as defined in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*. If SSAP revisions are subsequently deemed necessary, the Working Group shall re-categorize the agenda item as either ~~substantive or nonsubstantive~~ [a new SAP concept or clarification of an existing SAP](#), as applicable, and follow the appropriate process to consider and adopt revisions.
5. After review of the agenda item (including any interested party comments), at its discretion, the Working Group makes the ultimate determination of whether an agenda item is categorized (or re-categorized) as ~~substantive (either as a new SSAP or substantively revised SSAP), nonsubstantive~~ [a new SAP concept, clarification of an existing SAP](#), or an interpretation.



6. The **Rejected Listing** identifies items that were proposed to the Working Group and rejected without consideration. The **Disposition Listing** includes all agenda items considered by the Working Group and provides the conclusions and guidance given for all adopted revisions to SAP and for all agenda items disposed without modification to SAP.

7. It should be noted that this policy statement addresses the process and the flow of information. The timing is left to the discretion of the Working Group. For instance, once public discussion requirements have been met, as detailed in the NAIC *Policy Statement on Maintenance of Statutory Accounting Principles*, the Working Group can take action on an item at its discretion. In determining whether it is appropriate to take specific actions (including adoption), the Working Group must consider when the last exposure period occurred, and the extent of any prior comments received and discussions held. Additionally, there is no timeframe in which items must be addressed. Items will remain on the Active Listing until formally disposed of by the Working Group.

8. NAIC staff will maintain the following on the Working Group Web page ([https://content.naic.org/cmte\\_e\\_app\\_sapwg.htm](https://content.naic.org/cmte_e_app_sapwg.htm)): 1) A blank Form A (Attachment A to this policy statement); 2) The current Maintenance Agenda, and 3) Current ~~substantive, nonsubstantive~~ **statutory** and/or interpretation revisions exposed for public comment. Attachment B to this policy statement will be attached to all exposures with proposed ~~substantive~~ revisions **that result in a new SAP concept** and serves as the request for written comment and notice of a public hearing.

#### Correction of Editorial Errors

9. Over time, during review and publication of the AP&P Manual, NAIC staff may identify inadvertent editorial errors and necessary revisions to the content of the Manual. These are editorial in nature and include grammatical errors, reference changes (i.e., paragraphs, SSAPs, and Model Laws and Regulations) and formatting issues. To aid in correcting these items and improve the overall usefulness of the AP&P Manual, the Working Group has implemented the following process:

- a. At each meeting of the Working Group, if NAIC staff have identified (or have been informed by interested parties or regulators) any grammatical errors, reference changes and/or formatting issues, NAIC staff will present a public memorandum to the Working Group outlining the proposed amendments to the AP&P Manual. These corrections are not intended to clarify or revise existing guidance and as such, do not ordinarily warrant the use of a Form A or addition to the Maintenance Agenda.
- b. After presentation to the Working Group, the memorandum will be exposed for a public comment period. If no objections are raised by the Working Group, interested regulators or interested parties, the revisions will be considered “noncontested” and presented to the Working Group for adoption. Upon adoption, the revisions will be incorporated into the AP&P Manual, with the revisions being posted on the “Updates to the AP&P Manual” secure Web page. Under this process, these revisions will be shown as tracked changes to the Manual unless otherwise noted in the memorandum.
- c. If objections are raised by the Working Group, interested regulators or interested parties, the proposed revisions will either be rejected without further discussion or incorporated into a Form A to be presented to the Working Group and subsequently exposed for a public comment period. Under this process, the revisions will follow the Maintenance Agenda process as outlined in this policy statement.

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

Issue:

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Check (applicable entity):

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

\*Description of Issue:

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\*Existing Authoritative Literature:

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\*Activity to Date (issues previously addressed by Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

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\*Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

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Recommended Conclusion or Future Action on Issue:

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Recommending Party:

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(Organization, Person Submitting, Title)

---

(Address, City, State, ZIP)

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(Phone and Email Address)

(Date Submitted)

\* Indicates required information before NAIC staff will accept form as a final document.

## EXPOSURE DRAFT NUMBER - TITLE

### Notice of Public Hearing and Request for Written Comments

Hearing Date: \_\_\_\_\_

Location: \_\_\_\_\_

Deadline for Written Notice of Intent to speak:

Deadline for Receipt of Written Comments:

**Basis for hearings.** The Statutory Accounting Principles (E) Working Group (Working Group) will hold a public hearing to obtain information from and views of interested individuals and organizations about the standards proposed in this Exposure Draft. The Working Group will conduct the hearing in accordance with the *National Association of Insurance Commissioners (NAIC) Policy Statement on Open Meetings*. An individual or organization desiring to speak must notify the NAIC in writing by \_\_\_\_\_. Speakers will be notified as to the date, location and other details of the hearings.

**Oral presentation requirements.** The intended speaker must submit a position paper, a detailed outline of a proposed presentation or comment letter addressing the standards proposed in this Exposure Draft by \_\_\_\_\_. Individuals or organizations whose submission is not received by this date will only be granted permission to present at the discretion of the Working Group chair. All submissions should be addressed to NAIC staff at the address listed below. Comments can also be submitted by electronic mail to \_\_\_\_\_@naic.org.

**Format of hearings.** Speakers will be allotted up to 10 minutes for their presentations to be followed by a period for answering questions from the Working Group. Speakers should use their allotted time to provide information in addition to their already submitted written comments as those comments will have been read and analyzed by the Working Group. Those submissions will be included in the public record and will be available at the hearings for inspection.

**Copies.** Exposure drafts can be obtained on the Working Group's Web page at [https://content.naic.org/cmt\\_e\\_app\\_sapwg.htm](https://content.naic.org/cmt_e_app_sapwg.htm).

**Written comments.** Participation at a public hearing is not a prerequisite to submitting written comments on this Exposure Draft. Written comments are given the same consideration as public hearing testimony.

The Statutory Accounting Principles Statement of Concepts was adopted by the Accounting Practices & Procedures (EX4) Task Force on September 20, 1994, in order to provide a foundation for the evaluation of alternative accounting treatments. All issues considered by the Working Group will be evaluated in conjunction with the objectives of statutory reporting and the concepts set forth in the Statutory Accounting Principles Statement of Concepts.

The exposure period is not meant to only measure support for, or opposition to, a particular accounting treatment but rather to accumulate an analysis of the issues from other perspectives and persuasive comments supporting them. Therefore, form letters and objections without valid support for their conclusions are not helpful in the deliberations of the Working Group. Comments should register agreement or disagreement with a detailed explanation, a description of the impact of the proposed guidelines, and possible alternative recommendations for accomplishing the regulatory objective.

Any individual or organization may send written comments to \_\_\_\_\_ by electronic mail in Microsoft Word format to \_\_\_\_\_@naic.org. After written comments have been reviewed by the Working Group, the letters will be posted publicly on the NAIC website.

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## **NAIC Policy Statement on the Impact of Statements of Statutory Accounting Principles on NAIC Publications**

1. The purpose of this policy statement is to document the process and procedure for identifying the impact of statements of statutory accounting principles (SSAPs) on NAIC publications.
2. New and revised SSAPs can affect various NAIC publications in different ways. New accounting practices or procedures may result in new disclosures and reporting requirements (affecting annual statement blanks and instructions), modified analysis techniques (affecting RBC formula or IRIS ratios), or new examination procedures (affecting the *Financial Condition Examiners Handbook*).
3. The Statutory Accounting Principles (E) Working Group (Working Group) shall evaluate the impact that newly adopted SSAPs will have on other NAIC publications. To that end, the Working Group shall submit a referral to any group in response to new or revised SSAPs expected to impact other NAIC groups or publications. (Instead of a referral, a blanks proposal may be sponsored by the Working Group and submitted to the Blanks (E) Working Group). These referrals and blanks proposals are only required to be approved by the chair of the Working Group prior to submission to the other groups but may be shared with and approved by all Working Group members.

## **NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank**

1. The purpose of the codification of statutory accounting principles (SAP) project was to produce a comprehensive guide to SAP for use by insurance departments, insurers, and auditors. Statutory accounting principles, as they existed prior to codification did not always provide a consistent and comprehensive basis of accounting and reporting. Insurance companies were sometimes uncertain about what rules to follow, and regulators were sometimes unfamiliar with the accounting rules followed by insurers in other states. This was due in part to the fact that prior to codification, accounting guidance could be found in the NAIC *Accounting Practices and Procedures Manual*, annual statement instructions, the *Financial Condition Examiners Handbook*, and various states' laws and regulations. As a result, insurers' financial statements were not prepared on a comparable basis. Now that accounting requirements have been more rigidly stipulated by the NAIC, it is imperative that the accounting requirements and the reporting and disclosure requirements remain synchronized. This is an excellent opportunity to create a system of parallel requirements. This effort has already been recognized by the NAIC/AICPA (E) Working Group. In 1999, the NAIC/AICPA (E) Working Group modified the *Model Regulation Requiring Annual Audited Financial Reports* to require the following for audited financial statements:

Notes to financial statements. These notes shall be those required by the appropriate NAIC annual statement instructions and the NAIC *Accounting Practices and Procedures Manual*. The notes shall include a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to Section [insert applicable section] of the [insert state] insurance law with a written description of the nature of these differences.

2. As stated in the model regulation, the NAIC/AICPA (E) Working Group has an expectation that the requirements of the annual statement instructions and the *Accounting Practices and Procedures Manual* will be identical in all pertinent parts that are subject to audit. There is no reason to create a different set of audit requirements in the annual statement instructions when a complete and comprehensive guide to statutory accounting exists. However, it must be noted that the statements of statutory accounting principles (SSAPs) are not intended to prescribe the specific format of the detailed financial statements.

3. The scope of this policy statement is defined as follows:

Any change to the annual statement core financials (balance sheet, income statement, cash flow and notes to the financial statements) must be reviewed by the Statutory Accounting Principles (E) Working Group to determine whether it conflicts with the disclosure requirements of the SSAPs.

4. The scope is defined in broad terms because it is very difficult to specify what constitutes a conflict with the SSAPs. For example, the renumbering of the assets page does not conflict because there is not a SSAP that prescribes the order of asset presentation. Contrast this with a seemingly innocuous proposal to modify Schedule P - Part 1 that would create a disclosure conflict with the related SSAP.

5. In order to ascertain that the requirements of the annual statement instructions and blank are in harmony with the SSAPs (as they relate solely to the core financial statements), the following procedures shall be followed:

a. The Blanks Agenda Item Submission Form will include an interrogatory that will indicate to the Blanks (E) Working Group whether the proposal:

- i. Affects the core financial statements
  - ii. Conflicts with an existing SSAP
  - iii. Is not currently required by a SSAP
  - iv. Has been reviewed by the Statutory Accounting Principles (E) Working Group
- b. NAIC staff supporting the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group are charged with verifying the accuracy of the interrogatory proposed in paragraph 5.a. After NAIC staff review the proposals, they will report their findings back to the applicable groups. If NAIC staff identify issues that need further exploration or consultation, the chairs of the two working groups or certain members from each group will hold a joint meeting.
- c. The Blanks (E) Working Group will reject proposals that will delete/modify information contained within the core financial statements that are required by an existing SSAP.
- d. The Blanks (E) Working Group will either reject proposals that would require additional audited disclosure or audited information within the core financial statements if that same item is not required by an existing SSAP; or move it outside the core financial statements. The sponsoring party will still have the option of placing this information outside the core financial statements (e.g., general interrogatories or interrogatories to schedules) until the disclosure is included in a SSAP. If the disclosure were added to a SSAP in the future, it could be moved to the Notes to the Financial Statements and subject to audit at that time.
- e. The NAIC will maintain a SSAP to annual statement cross-reference. This cross-reference will contain two significant features. First, it will list all of the SSAP disclosures and reference them to where in the annual statement the disclosure requirement is met. Second, the cross-reference will identify the annual statement components that are required by a SSAP. The cross-reference can be used by the Blanks (E) Working Group and interested parties in completing the new Blanks Agenda Item Submission Form Interrogatory.

## **NAIC Policy Statement on Coordination with the Valuation Manual**

1. Proposed changes to the *Valuation Manual* must be consistent with the existing referenced model laws, including the *Standard Valuation Law* (Model #820), and, to the extent determinable, with models in development. To the extent that proposed changes to the *Valuation Manual* could have an impact on accounting and reporting guidance and other requirements as referenced by the *Accounting Practices and Procedures Manual*, proposed changes must be reviewed by the Statutory Accounting Principles (E) Working Group for consistency with the *Accounting Practices and Procedures Manual*, including consistency of implementation dates. The Life Actuarial (A) Task Force or its staff support will prepare a summary recommendation that will include as appropriate an analysis of the impact of proposed changes.
  
2. If the Statutory Accounting Principles (E) Working Group reaches the conclusion that the proposed changes to the *Valuation Manual* are inconsistent with the authoritative guidance in the *Accounting Practices and Procedures Manual*, The Life Actuarial (A) Task Force will work with the Statutory Accounting Principles (E) Working Group to resolve such inconsistencies prior to implementation.

## **NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office**

1. The purpose of this policy statement is to detail the coordination and collaboration between the Securities and Valuation Office (SVO) and the Statutory Accounting Principles (E) Working Group (Working Group) support staff, the relationship between the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and *Accounting Practices and Procedures Manual* (AP&P Manual) and the expectations of the Valuation of Securities (E) Task Force (VOSTF) and the Working Group.

### **NAIC Designations Do Not Communicate Statutory Accounting or Reporting**

2. The assessment of credit risk for an obligation or asset, as specified in the P&P Manual, is a separate and distinct process from the determination of statutory accounting or reporting under the AP&P Manual. The manner in which an NAIC designation is used within statutory accounting guidance is limited to that, if any, specified in a statement of statutory accounting principle (SSAP) and cannot be derived or implied by language in the P&P Manual. Obtaining an NAIC designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset. There are limited instances in which a SSAP specifically identifies, within its scope, the inclusion of specific SVO-identified investments. The SVO review required for an investment to be included on a SVO listing is a separate evaluation process that focuses on the structure of the investment. This process is distinct from the SVO's assessment of an investment's credit risk, which results in a NAIC designation. As stated in the Statutory Hierarchy, Section V of the Preamble, the AP&P Manual is the highest level of authoritative guidance.

### **Sources and Application of Statutory Accounting Guidance**

3. The authority to determine and interpret existing statutory accounting guidance in, or to develop new statutory accounting guidance for, the AP&P Manual, is a charge assigned by the Financial Condition (E) Committee through its Accounting Practices and Procedures (E) Task Force to the Statutory Accounting Principles (E) Working Group. The application of statutory accounting guidance to any specific obligation or asset to determine its status under the AP&P Manual is the obligation of the insurance company and its management. The state of domicile is the final authority with respect to statutory accounting and reporting guidance. Deviations from the authoritative guidance in the Statutory Accounting Hierarchy are reflected as a permitted or prescribed practice.

### **Impact on SVO Operations**

4. Because SVO analytical determinations of credit quality do not convey opinions, conclusions or informational content relative to statutory accounting status, the SVO may assign an NAIC designation to any obligation or asset that is filed by an insurer, provided that its credit quality can be assessed consistently with the policies and methodologies specified in the P&P Manual.

### **Communication and Coordination Between SVO and SAPWG Staff**

5. The following processes are intended to assist optimum communication and coordination between the SVO and SAPWG support staff functions.

- a. Maintain ongoing dialogue regarding investments, investment related SSAPs and relevant developments in the areas assigned to support staff of both groups.



- b. Maintain an ongoing dialogue relative to obligations and assets filed with the SVO, including communications about new types of obligations or assets filed with the SVO and their likely treatment under existing investment related SSAPs.
- c. Maintain an ongoing dialogue relative to new obligations or assets, in which no statutory accounting guidance exists, or uncertainty exists about how current statutory accounting guidance applies to features or characteristics of the obligation or asset.
- d. The NAIC Investment Analysis Office (IAO) and Financial Regulatory Services (FRS) staff shall provide notice to, and consult with, each other when either staff determines that existing technical guidance or procedures administered by the staff are no longer adequate to secure the original regulatory objective for which it was designed. Upon receipt of such notice, both staff will formulate a statement of the issues and, if possible, recommendations, and thereafter coordinate discussion between the SAPWG and the VOSTF consistent with the NAIC procedures and policies that apply to the situation. Such proposed recommendations shall be discussed consistent with the NAIC open meetings policy and any revisions to the authoritative guidance will be exposed for comment for a period of time commensurate with the significance of the change, to provide a formal forum for interested parties and regulators to provide input and allow for adequate due process.
- e. Situations in which NAIC staff (SVO or FRS) are contacted directly with questions on statutory accounting application, it shall be noted that opinions of NAIC staff are not authoritative and are based on the information provided and existing authoritative statutory accounting guidance. Information and issues can be submitted to the SAPWG for consideration, as detailed in the *NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process*.

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