NAIC Spring Meeting 2024, Accounting Updates (SAPWG)

HIGH PRIORITY MODERATE PRIORITY LOW PRIORITY

Topic / Issue	**What's the Rub?** JLK Rosenberger Perspective	Applicable to	Financial Statement Impact	Disclosure	Effective Date	Ref #	SSAP	Status	Discussion
ADOPTIONS									
New Market Tax Credit Project	The federal New Market Tax Credit (NMTC) programs have been around since late 2000, originally established by the U.S. Congress to provide investors with incentive federal tax credits for investing in low-income urban and rural communities. The program(s) provides substantial tax credits to investors that provide capital and maintain staying power (7 years) in the low-income community investments. The concept grew in popularity over the years and states also became involved in similar programs providing state tax credits. As tax credit programs evolved, existing accounting guidance did not provide comprehensive guidance on the nuances of these evolving programs. This SAP concept attempts to update and cover the existing universe of these low income community projects.	P&C Life Health	Y	Y	January 1, 2025	2022-14	SSAP No. 93R SSAP No. 94R SSAP No. 34 SSAP No. 48 New SAP Concept	Adopted March 16, 2024	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. Consequently, adopted revisions expand and amend guidance within SSAP No. 93 to include all tax credit investments regardless of structure and type of state or federal tax credit program. Revisions to SSAP No. 94R expand and amend guidance to include both purchased state and federal tax credits. Revisions in SSAP No. 34 and SSAP No. 48 include consistency revisions in response to the changes made to SSAP No. 93 and SSAP No. 94R. The Working Group directed NAIC staff to sponsor a blanks proposal on the annual statement reporting categories for tax credit investment risk-based capital (RBC), issue a referral to the Life Risk-Based Capital (E) Working Group to inform it of the planned reporting line changes, and draft an issue paper to document the discussions and revisions for the new market tax credit project.

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Principles-Based Bond Project (Residual Tranches)	The design of a residual interest or residual security tranche can vary; the overall concept is that the residual tranches receive the remaining cash flows after all debt holders receive contractual interest and principal payments for the security. The key here is the substance of the collateral behind the investment rather than a legal form that "sounds like" a qualifying investment. The criteria is whether the underlying collateral qualifies under the revised bond definition(s). The new SAP will address all residual tranche accounting, including those residual tranches that get caught up under Schedule BA treatment. A practical expedient is provided for residual receipts, which is a welcome offer considering the alternative effective yield methodology that can involve more complex calculation and assessment.	P&C Life Health	Y	Y	January 1, 2025	2019-21	SSAP No. 21R New SAP Concept	Adopted March 16, 2024	Adopted revisions provide guidance for debt securities that do not qualify as bonds under the principles-based bond definition. Revisions also prescribe accounting guidance (measurement method) for all residual interests regardless of legal form (this specific guidance can be adopted early, for 2024). Industry initially recommended the effective yield method, however, pursuant to the subsequent discussions with industry, it was identified that some companies would prefer the “cost recovery method” (where are distributions received reduce the BACV prior to the recognition of interest income) due to the extensive work and non-automation that would be required for the “Effective Yield with a Cap” method. As the cost recovery method is a more conservative method, NAIC staff has proposed revisions to SSAP No. 21R to incorporate the “Effective Yield with a Cap Method” but to also provide a practical expedient that companies can elect to use the “Cost Recovery Method.” The revisions detail limitations if electing the practical expedient, which require its use for all residual holdings and a prospective approach for new acquisitions only, if a company wanted to move away from the cost recovery method once its elected. With this revision, other aspects of the residual guidance, including the other-than-temporary impairment guidance, (which was also noted by interested parties’) has been revised.
Annual Statement Instructions IMR / AVR Preferred Stock	This item emanated from recent changes (2021) made within the Annual Statement instructions pertaining to perpetual preferred stock (PPS). PPS is for all intents and purposes more of an equity instrument. Difference within the IMR/AVR guidance versus the annual statement instructions created some confusion on the perpetual side as to its inclusion in the IMR category. This adoption clarifies perpetual preferred stock handling now that separate distinctions are being incorporated within the Annual Statement exhibits.	Life	N/A	N/A	Revisions will be considered by the Blanks (E) Working Group for year-end 2024.	2023-29	N/A	Adopted March 16, 2024	This agenda item proposed guidance that corresponds to the accounting and reporting differences for redeemable and perpetual preferred stock, with all perpetual preferred stock being treated as an equity instrument similar to common stock. With this approach, all unrealized gains or losses on perpetual preferred stock will reverse to realized gains or losses in the AVR formula. The revisions also clarify that SVO-Identified Preferred Stock ETFs shall be treated as perpetual preferred stock (equities) as that is consistent with the guidance in SSAP No. 32R—*Preferred Stock*. Adopted revisions clarify that realized gains and losses on perpetual preferred stock and mandatory convertible preferred stock shall not be added to the IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to the asset valuation reserve (AVR).

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Admissibility Requirements of Investments in Downstream Holding Companies	This is a clarification issue - the Discussion section clearly defines the parameters	P&C Life Health	N	N	Effective Immediately March 16, 2024	2023-30	SSAP No. 97 SAP Clarification	Adopted March 16, 2024	Adopted revisions update the language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. The current SSAP No. 97, paragraph 24 guidance states "if the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset." The issue with the existing paragraph 24 guidance is that as it summarizes other guidance it could be perceived as contradicting guidance provided in paragraph 27 related to the "look through" process. This process allows admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity.
GAAP ASUs REJECTED FOR STATUTORY ACCOUNTING									
ASU 2023-03 SEC Updates	Deals with the SEC handling of stock comp and equity-based payments - NOT APPLICABLE TO SAP ACCOUNTING	P&C Life Health	N/A	N/A	Effective Immediately March 16, 2024	2023-25	SAP Clarification	Adopted March 16, 2024	Adopted revisions reject ASU 2023-03 as not applicable for statutory accounting.

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ASU 2023-04 SEC Updates	Deals with the SEC direction for accounting for Crypto-Asset obligations - NOT APPLICABLE TO SAP ACCOUNTING	P&C Life Health	N/A	N/A	Effective Immediately March 16, 2024	2023-27	SAP Clarification	Adopted March 16, 2024	Adopted revisions reject ASU 2023-04 as not applicable for statutory accounting.
EXPOSURES									
Risk Transfer Analysis on Combination Reinsurance Contracts	This exposure request has its roots in a December 2023 issue exposed by the Valuation Analysis Working Group (VAWG) with respect to the life insurance industry and some unique reinsurance arrangements that contain multiple types of reinsurance that rely upon each other. Each reinsurance agreement must be viewed in its substance to determine the contract boundaries. SSAP 61R - *Life, Deposit-type and Accident and Health Reinsurance* risk transfer analysis becomes somewhat murky unless mutually dependent contracts are assessed symbiotically rather than separately in order to avoid the potential of taking credit for more actuarial risks than what are truly being transferred. SSAP 62R - *Property and Casualty Reinsurance*, Implementation question #10 treatment already incorporates a very similar scenario, which was based upon FASB 113; accordingly, SAPWG has referred to its content for this proposal.	Life Health	N	N	TBD	2024-06	SSAP No. 61R SAP Clarification	Exposed March 16, 2024	Exposed revisions to incorporate guidance to SSAP No. 61R that is consistent with the guidance currently in SSAP No. 62R—*Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The Working Group also added reference to A-791, paragraph 6 guidance in the yearly renewable term guidance paragraph regarding the entirety of the contract. Regulators observed that some companies were reporting an overstated reserve credit due to a bifurcated risk transfer analysis. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. The issue arises when evaluating reinsurance for risk transfer in situation when treaties involve more than one type of reinsurance, and there is interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience. In such cases, regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. The treaty as a whole is non-proportional. This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware.

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SSAP No. 56 – Book Value Separate Accounts	This is a relatively narrow situation as not many companies deal with Separate Account management. SSAP 56 - *Separate Accounts* deals with accounting and reporting for the relationship between the General and Separate accounts of an insurance entity, and transfers therein. Separate Account reporting typically calls for fair value reporting on Separate Account assets since their general premise is to have the policyholder bear the risk of the underlying portfolio results. The question in this exposure 2024-10 rests with certain assets that are held in the separate account at book value with no fair value reporting. Industry is seeing more of these "book value" instruments showing up in separate accounts. They are not dependent upon an underlying portfolio and basically are fixed interest rate guarantee type instruments. The question becomes how are transfers between the General and Separate Account measured. Fair value or at book value? We will await the final verdict.	P&C Life Health	N/A	N/A	TBD	2024-10	SSAP No. 56	Exposed March 16, 2024	The exposed revisions aimed at working with industry in determining current applications/differences in interpretations for the reporting of book value assets and to propose revisions to incorporate a consistent statutory accounting approach. This exposure 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.” 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.

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ASU 2023-09, Improvements to Income Tax Disclosures	Though likely a bigger project for public companies reporting under GAAP, this one applies some modification from the ASU 2023-09 disclosure reporting for SAP. No substantial changes for SAP reporting.	P&C Life Health	N	Y	TBD	2024-11	SSAP No. 101	Exposed March 16, 2024	Proposed revisions are to adopt, with modification, certain disclosures from ASU 2023-09 and removes SSAP No. 101 disclosure, paragraph 23.b. The exposed disclosure revisions 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. • Disclosure of income/loss before income tax expense/benefit, disaggregated by domestic and foreign. • Disclosures of income tax expense/benefit and income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign. • 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). • Qualitative disclosures on tax rate reconciling items.
ASU 2023-08, Accounting for and Disclosure of Crypto Assets	SAPWG initially addressed statutory accounting for crypto currency in May 2021 with the issuance of INT 21-01. This exposure formally codifies the crypto accounting stance taken by SAPWG, and the GAAP definition. Disclosure of crypto currency activity has been added to the General Interrogatories of the Annual Statement blanks. Stay tuned for a future JLKR article on the crypto currency status.	P&C Life Health	Y	Y	TBD	2024-03	SSAP No. 20 INT 21-01 SAP Clarification	Exposed March 16, 2024	Proposed revisions adopt with modification the definition of crypto assets from ASU 2023-08 into SSAP No. 20 and clarify that directly held crypto assets are nonadmitted assets for statutory accounting. INT 21-01, *Accounting for Cryptocurrencies* would be nullified upon the adoption of this agenda item.
Annual Statement Reporting of Funds Withheld and Modco Assets	This exposure promises to be interesting. It evolved from a fallout of the 2023 spike in interest rates that further created the concerns brought up by the American Council of Life Insurers (ACLI) with respect to the net negative disallowed IMR for statutory accounting. When it came to identifying potential assets that may be subject to the IMR anomaly, it was noted that it was difficult locating specific assets associated with Funds Withheld and/or Modco agreements. That is likely because most entities do not specifically allocate assets to these type agreements, opting to assume they are covered by overall general account assets. The exposed modification does not change statutory accounting but would add a layer of Schedule S (Life) and Schedule F (P&C) disclosure reporting that would require entities to actually identify specific assets associated with these type arrangements.	P&C Life Health	N/A	Y	TBD	2024-07	N/A	Exposed March 16, 2024	Exposed a project that proposed 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, which 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 modified coinsurance assets.

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Update to SSAP 107 Disclosures	This item dates to 2014 when the ACA was in full swing. A number of the ACA programs associated with SSAP 107 have ended, yet remain in the blanks and are generally reported as zero for the most part. This exposure removes the redundancy. It is most likely associated with the larger health entities that became involved with ACA.	Life	N	Y	TBD	2024-13	SSAP no. 107 SAP Clarification	Exposed March 16, 2024	SSAP No. 107 introduced significant financial statement disclosure requirements for the three risk-sharing provision programs of the Affordable Care Act ("3Rs programs"). Two of these programs terminated at the end of 2016. The disclosures are required by SSAP No. 107, paragraphs 60-62 and Exhibit B of SSAP No. 107 illustrates the rollforward 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.
Modification to an Existing Intercompany Pooling Arrangement	The primary issue appears to stem from situations when assets other than cash (in most instances, bonds) are transferred as a component of consideration when a new reinsurance agreement is executed that modifies the existing intercompany pooling agreement. Current INT 03-02 allowances, originally adopted in 2003, create a disconnect with the overall SSAP 25 - *Affiliates and Other Related Parties*. The exposure suggests removing the INT 03-02 differences.		Y	Y	TBD	2022-12	SSAP No. 63 SSAP No. 25 INT 03-02 SAP Clarification	Exposed March 16, 2024	Proposed revisions nullify INT 03-02 and update SSAP No. 63 and SSAP No. 25 to address transfers of assets when modifying intercompany pooling agreements. NAIC staff continues to recommend against maintaining an exception to allow the transfer of assets at book value for amendments to intercompany pooling agreements. This is an exception to the broad intercompany asset transfer guidance in SSAP No. 25 which has been under greater scrutiny in recent years. However, if the Working Group wants to maintain an exception for use of book value for the transfer of assets for intercompany pooling, NAIC staff recommends that the exception be narrow and specific.
Bond Definition – Debt Securities Issued by Funds	Key issues here are tweaking the bond definition for the many nuances that crop up due to the variety of instruments and those instruments meeting the refined definitions. In this case there is inconsistent application of accounting between similar funds where using SEC-registration currently in use creates potential conflict with the SAP principles-based bond definition. This proposal would allow debt securities issued by funds to be considered issuer obligations if the fund represents an operating entity notwithstanding its SEC registration status.	P&C Life Health	Y	Y	TBD	2024-01	SSAP No. 26R SAP Clarification	Exposed March 16, 2024	Re-exposed revisions to expand the transparency of reporting for collateral loans on Schedule BA to allow for quick identification of the type of collateral that supports admittance of collateral loans and define debt issued by funds operations. It was noted during discussion that no collateral loans should be included in the private equity line because there is already a separate collateral loan reporting line.
Conforming Repurchase Agreements	The exposure emanates from the Life RBC Working Group following suggestions from the influential American Council of Life Insurers (ACLI) to modify how repurchase agreements are treated in the life RBC formula, thereby reducing the current RBC charge assigned to these instruments. SAPWG via this exposure is assessing the differences between repurchase agreements and security lending programs before suggesting change in the RBC capital charge.	P&C Life Health	N	Y	TBD	2024-04	SSAP No. 103R SAP Clarification	Exposed March 16, 2024	Proposed revisions detail 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.

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Consistency Revisions for Residuals	The point of this exposure is to ensure all applicable SSAPs referencing residual security interests centralize and refer all residual security guidance to SSAP No. 21R - *Other Admitted Assets.*	P&C Life Health	N/A	N/A	TBD	2024-08	SSAP No. 21R SSAP No. 26R SSAP No. 30R SSAP No. 32R SSAP No. 43R SSAP No. 48 SAP Clarification	Exposed March 16, 2024	Exposed changes have 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*, 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, exposed revisions propose 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.
SSAP No. 2R – Clarification	This is merely a clean-up of outdated language in updated SSAPs.	P&C Life Health	N	N	TBD	2024-09	SSAP No. 2R SAP Clarification	Exposed March 16, 2024	Exposed revisions to eliminate lingering references that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported in the scope of SSAP No. 2R.
Updates to SSAP No. 27 Annual Statement	This exposure goes back to the NAIC program to better align instructions per the actual SSAPs with the instructions that have evolved in the annual statement instructions to resolve potential disconnects between the two.	P&C Life Health	N	Y	TBD	2024-12	SSAP No. 27 SAP Clarification	Exposed	It came to regulators attention 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. Exposed revisions are designed to incorporate FAS 105 guidance directly into SSAP No. 27 and update the related annual statement instructions to more accurately reflect the existing required disclosures in Note 16 to provide additional disclosures and instructions for derivatives and non-derivative financial instruments.

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ASU 2023-06, Disclosure Improvements	A very narrowly focused statutory change (meaning it impacts very few entities) to line up recent SEC disclosure requirements with statutory disclosures as referenced in the Discussion section.	P&C Life Health	N	Y	TBD	2023-26	SSAP No. 15 SSAP No. 103R SAP Clarification	Exposed	Exposed revisions to adopt, with modification, disclosures from ASU 2023-06, *Disclosure Improvements.* The additional disclosures are for unused commitments and lines of credit, disaggregated by short-term and long-term, and 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 that are significant (10% of adjusted capital and surplus).
ASU 2023-01, Leases (Topic 842), Common Control Arrangements	Rejects the GAAP guidance and modifies to accept the amortization of leasehold improvements pertaining to leases between entities under common control, calling for amortization over the useful life of those improvements to the holding company group.	P&C Life Health	Y	Y	TBD	2024-02	SSAP No. 19 SSAP No. 73 SAP Clarification	Exposed	Exposed 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 Heath 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.
Appendix A-791	Removes a misinterpretation that the Commissioner's Standard Ordinary (CSO) reserving methodology could be considered a safe harbor under A-791 - *Life and Health Reinsurance Agreements*, as it pertains to Group Term life business reinsured under a YRT reinsurance agreement. Recommended to SAPWG by the Valuation Analysis (E) Working Group.	Life Health	N/A	N/A	TBD	2024-05	N/A	Exposed	Revisions remove the first sentence of the Appendix A-791 *Life and Health Reinsurance Agreements* (A-791), paragraph 2.c. Question and Answer. 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.
Accounting Practices and Procedures Manual Editorial	Though not a quantitative impact, we have become so ingrained with seeing the "R" identifier behind a number of SSAPs that one may have to "look twice" to make sure they are referencing the appropriate promulgation(s). NAIC staff believe sufficient time has passed that make the "R" identifier obsolete. There are 21 existing SSAPs that will have the "R" removed.	P&C Life Health	N/A	N/A	TBD	2024-14EP	Various SSAPs	Exposed	Editorial revisions remove the "Revised" and "R," previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the Manual.