

STAT and GAAP Accounting and Reporting Update

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STATUTORY ACCOUNTING PRINCIPLES WORKING GROUP (SAPWG)

- ▶ National Association of Insurance Commissioners (NAIC)
 - ▶ Financial Condition Committee
 - ▶ Accounting Practices and Procedures Task Force
 - ▶ Statutory Accounting Principles Working Group (SAPWG)
- ▶ SAPWG is responsible for the NAIC Accounting Practices and Procedures Manual (AP&P Manual or The Manual).
- ▶ Statements of Statutory Accounting Principles (SSAPs) are considered the highest authority (Level 1) in the statutory accounting hierarchy

BLANKS WORKING GROUP (BWG)

▲ National Association of Insurance Commissioners (NAIC)

▲ Financial Condition Committee

▲ Accounting Practices and Procedures Task Force

▲ Blanks Working Group (BWG)

▲ BWG responsibilities include:

▲ Improvements to the annual / quarterly statements

▲ Maintaining current filing requirements

▲ Monitoring and improving language for the Annual and Quarterly Statement Instructions.

▲ Ensuring proper implementation of reporting and instructions changes as proposed by other NAIC task forces.

STATUTORY ACCOUNTING AND REPORTING REVISIONS

- ▶ **Covered as Exposed last year and/or Subsequently Adopted**
- ▶ **Other Accounting Revisions Adopted by SAPWG in 2022**
- ▶ **Reporting Revisions Adopted by BWG in 2022**
- ▶ **Accounting and Reporting Revisions Currently Exposed**

STATUTORY ACCOUNTING REVISIONS

▀ Covered as Exposed last year and/or Subsequently Adopted

▀ 2021-13, Salvage – Legal Recoveries

▀ 2021-14 & 2021-26EP, Policy Statement Terminology Change - Substantive and Nonsubstantive

SALVAGE – LEGAL RECOVERIES

- ▲ SAPWG 2021-13

- ▲ Nonsubstantive

- ▲ Effective 1/1/2022

- ▲ Revisions to SSAP No. 55, *Unpaid Claims, Losses and LAE*

- ▲ Report salvage/subrogation legal recoveries as a reduction of losses and/or loss adjusting expense (LAE reserves)

POLICY STATEMENT TERMINOLOGY CHANGE - SUBSTANTIVE AND NONSUBSTANTIVE

▲ SAPWG 2021-14

- ▲ Adopted 12/11/2021

- ▲ Began 1/1/2022

▲ Modifies terminology used when discussing types of accounting revisions.

- ▲ “Substantive” → “New SAP concept”

- ▲ “Nonsubstantive” → “SAP clarification”

▲ Revisions made to:

- ▲ Preamble

- ▲ Table of Contents

- ▲ Summary of Changes

- ▲ Appendix F

STATUTORY ACCOUNTING REVISIONS

▀ Other Accounting Revisions Adopted by SAPWG in 2022

- ▀ 2021-20, Effective Derivatives – ASU 2017-12
- ▀ 2021-21, Related Party Reporting
- ▀ 2021-29 & 2022-05, Leases
- ▀ 2022-01, Conceptual Framework - Updates
- ▀ 2022-07, Business Combinations
- ▀ 2022-06, Stock Compensation

EFFECTIVE DERIVATIVES - ASU 2017-12

- ▶ SAPWG 2021-20

 - ▶ New SAP Concept

 - ▶ Effective 1/1/2023

- ▶ Adopts with modification U.S. GAAP guidance from ASU 2017-12 – *Effective Derivatives*

 - ▶ determining hedge effectiveness, and

 - ▶ measurement guidance for excluded components

- ▶ New Exhibit A, replacing both Exhibit A and Exhibit B of SSAP No. 86, *Derivatives*

RELATED PARTY REPORTING

▲ SAPWG 2021-21

- ▲ SAP Clarification

- ▲ Effective for 2022 Annual Reporting

▲ Revisions to SSAP No. 25, *Affiliates and Other Related Parties* and SSAP No. 43R, *Loan-Backed and Structured Securities*

- ▲ Clarifies related party / affiliated guidance

- ▲ Incorporates disclosure requirements to identify investments that involve related parties regardless of whether the related party meets the “affiliate” definition

▲ Supports corresponding Blanks proposal 2021-22BWG

LEASES

- ▲ SSAP No. 22R, *Leases* requires nearly all leases to be treated as operating leases
- ▲ SAPWG 2021-29, ASU 2021-05 - Variable Lease Payments
 - ▲ Rejects ASU 2021-05, *Leases, Lessors – Variable lease Payments* for statutory accounting.
- ▲ 2022-05, *Leases, Discount Rate for Lessees*
 - ▲ Revisions reject ASU 2021-09, *Leases Discount Rate for Lessees That Are Not Public Business Entities* for statutory accounting.

CONCEPTUAL FRAMEWORK - UPDATES

- ▶ SAPWG 2022-01

- ▶ SAP Clarification

- ▶ FASB issued two new chapters of its conceptual framework

- ▶ Chapter 4, Elements of Financial Statements
 - ▶ Chapter 7, Presentation

- ▶ Changed definition of an asset and a liability

- ▶ SAPWG adopted SAP clarifications to Preamble and definition of an asset in SSAP No. 4, *Assets*
 - ▶ SAPWG decided to re-expose proposed definition change of a liability in SSAP No. 5, *Liabilities Contingencies and Impairments of Assets*

CONCEPTUAL FRAMEWORK – UPDATES (CONT.)

- ▶ SAPWG 2022-01

 - ▶ SAP Clarification

- ▶ Changes regarding the definition of an Asset:

 - ▶ **Historical Definition:** a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.

 - ▶ **New Definition:** a present right of an entity to an economic benefit.

BUSINESS COMBINATIONS

- ▶ SAPWG 2022-07

 - ▶ SAP Clarification

- ▶ SSAP No. 68, *Business Combinations and Goodwill* rejects ASU 2021-08, *Business Combinations, Accounting for Contract Asset and Contract Liabilities from Contracts with Customers*

- ▶ However, the rejection does not modify the U.S. GAAP accounting standards required within this standard.

STOCK COMPENSATION

- ▶ SAPWG 2022-06
 - ▶ SAP Clarification
- ▶ Revisions to SSAP No. 104R—*Share-Based Payments* in response to ASU 2021-07, Compensation – Stock Compensation (Topic 718)
 - ▶ Easy to obtain inputs
 - ▶ Exercise price
 - ▶ Expected dividend rate
 - ▶ Risk-free interest rate
 - ▶ Costly / difficult inputs
 - ▶ Expected share price volatility
 - ▶ Expected term
 - ▶ Current share price (most costly and complex for nonpublic entities)

STOCK COMPENSATION (CONT.)

- ▶ Adopts the current price for nonpublic entities practical expedient in ASU 2021-07
- ▶ Reasonable valuation methods include:
 - ▶ consideration of the value of all tangible and intangible assets
 - ▶ the present value of future anticipated cash flows
 - ▶ The market value of similar entities,
 - ▶ recent arm's-length transactions involving the sale or transfer of stock/equity interests, and
 - ▶ other relevant factors that affect the valuation or have a material economic effect on the entity.

STATUTORY REPORTING REVISIONS

▲ Reporting Revisions Adopted by BWG in 2022

▲ 2021-22BWG, Related Party Reporting

▲ 2022-02BWG, Schedule D-6-1, Supplemental Reporting

▲ 2022-01BWG, Cryptocurrency General Interrogatory

RELATED PARTY REPORTING

▲ 2021-22BWG

- ▲ Companion to SAPWG 2021-21
- ▲ Effective for 2022 Annual Reporting

▲ New reporting requirement in the investment Schedules for investment transactions with related parties.

▲ Schedules, B, D, DB, BA, DA, E2, and DL

▲ New electronic columns will capture

- ▲ Direct loans in related parties
- ▲ Securitizations where related party is the sponsor/originator
- ▲ Whether underlying investment is in a related party

RELATED PARTY REPORTING (CONT)

Column 27 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

SCHEDULE D-6-1, SUPPLEMENTAL REPORTING

▲ 2022-02BWG

- ▲ Companion to SAPWG 2021-22

- ▲ Effective for 2022 Annual Reporting

- ▲ Adds four new electronic only columns to Schedule D, Part 6, Section 1 – *Valuation of Shares of Subsidiary, Controlled or Affiliated Companies*

- ▲ (illustration on next slide)

- ▲ To be consistent with current requirements in SSAP No. 97, *Investments in SCAs*

SCHEDULE D-6-1, SUPPLEMENTAL REPORTING (CONT.)

Column 16 – Prior Year Book/Adjusted Carrying Value

This should equal the Book/Adjusted Carrying Value (Column 7) amount reported in the prior year annual statement for each specific security.

Column 17 – Prior Year Nonadmitted Amount

This should equal the Nonadmitted Amount (Column 9) amount, if any, reported in the prior year annual statement for each specific security. Provide the amount nonadmitted, if any, included in Column 10 of the prior year Annual Statement.

Column 18 – Prior Year Sub-2 Verified Value

If per SSAP No. 97 or by direction of the domiciliary regulator, the SCA is required to be filed with the NAIC, provide the prior year's Sub-2 "Total Value Claimed."

Column 19 – Prior Year VISION Filing Number

If per SSAP No. 97 or by direction of the domiciliary regulator, the SCA is required to be filed with the NAIC, provide the prior year NAIC VISION filing number.

CRYPTOCURRENCY GENERAL INTERROGATORY

▲ 2022-01BWG

- ▲ Effective for 2022 Annual Reporting

▲ Adds new questions to General Interrogatories Part 1 (Items #38.1 – 39.2)

- ▲ Permitted for the remittance of premium?

- ▲ Held for investment or converted to dollars?

EXPOSED / PENDING ACCOUNTING REVISIONS

Accounting and Reporting Revisions Currently Exposed

▲ SAPWG 2019-21, SSAP No. 43R – Equity Instruments

SSAP NO. 43R – EQUITY INSTRUMENTS

- ▲ SAPWG 2019-21,
 - ▲ Substantive

- ▲ Proposed revisions include:

- ▲ A new principles-based bond definition in SSAP No. 26R, Bonds
 - ▲ Renaming SSAP No. 43R to Asset Backed Securities.
 - ▲ A new Schedule D-1, resulting with a
 - ▲ Schedule D-1-1 for issuer credit obligations (SSAP No. 26R)
 - ▲ Schedule D-1-2 for Asset Backed Securities (SSAP No. 43R)
- ▲ Potential for 1/1/2024 effective date, but 1/1/2025 is most likely

GAAP REVISIONS

Effective March 2020 – December 2022

- ▶ ASU No. 2020-04, Reference Rate Reform (Topic 848)

Effective 2022

- ▶ ASU No. 2021-07, Compensation – Stock Compensation (Topic 718)
- ▶ ASU No. 2016-02, Leases (Topic 842)
 - ▶ ASU No. 2021-09, Leases (Topic 842)

REFERENCE RATE REFORM (TOPIC 848)

Effective through December 31, 2022

- ▶ Election applied at any time up
- ▶ Once elected, must be applied prospectively for all eligible contract modifications

Topic 310, Receivables and 470, Debt – prospectively adjust effective interest rate

Topic 840 and 842, Leases – no reassessment of classification or discount rate

No reassessment of embedded derivatives

No reassessment or remeasurement of previous determinations

COMPENSATION – STOCK COMPENSATION (TOPIC 718)

Effective prospectively 2022

Practical expedient for determining current price input

Reasonable application of a reasonable valuation method

Affects equity-classified share-based awards

▀ Not liability-classified awards

CHARACTERISTICS

1. Measurement date = date valuation's reasonableness evaluated
2. Consider these factors
 1. Value of tangible and intangible assets
 2. Present value of expected cash flows
 3. Market value of equity interests in similar entities
 4. Recent arm's-length transactions
 5. Consistent use of valuation method
 6. Other factors
3. Scope should include material information to valuation
4. Requirements for updating previously calculated value

ADDITIONAL INFORMATION

Same characteristics as Treasury Regulations method for income tax purposes

This methodology achieves the practical expedient

A single evaluation that satisfies both can be obtained

Applied on measurement-date-by-measurement-date basis

LEASES (TOPIC 842)

EFFECTIVE IN 2022 FOR PRIVATE ENTITIES.

PREVIOUS GAAP

Capital vs. operating lease

Only capital lease recognizes lease asset and liability

NEW GAAP

Financing vs. operating lease

▶ Similar classification criteria to current GAAP

Recognize lease asset and lease liability for operating lease

FINANCING LEASES

Recognize a right-of-use asset and lease liability

- ▶ Measure at present value of lease payments

Recognize interest and amortization of right-to-use asset

Cashflow

- ▶ Principal repayment – financing activity
- ▶ Interest – operating activity

OPERATING LEASES

Recognize a right-of-use asset and lease liability

- ▶ Measure at present value of lease payments

Recognize a single lease cost

- ▶ Allocate straight-line over term of lease

Cashflow

- ▶ Operating activity

INITIAL MEASUREMENT

Include

- ▶ Payment in optional periods if *reasonably certain* to exercise option
- ▶ Optional payments to purchase the asset if *reasonably certain* to exercise

Exclude

- ▶ Variable lease payments, other than those dependent on an index (that are in substance fixed payments)

PRACTICAL EXPEDIENTS

Lease components

- ▶ Separate lease and non-lease components
- ▶ Update effects only lease components
- ▶ Election by class of underlying asset to not separate lease component

Discount rate (ASU No. 2021-09)

- ▶ ASU No. 2016-02 allows use of risk-free rate as discount rate
- ▶ ASU No. 2021-09 allows election by class of underlying asset
- ▶ Unless rate implicit in the lease is readily available

LESSEE DISCLOSURE

Significant assumptions and judgements

- ▶ The determination of whether a contract contains a lease
- ▶ The allocation between lease and non-lease components
- ▶ The determination of the discount rate

Leases that have not yet commenced, but create significant rights and obligations

TRANSITION

Methods

- ▶ Retrospectively to each prior period with cumulative effect at the beginning of the earliest comparative period presented
- ▶ Retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment

Practical expedients

- ▶ No reassess identification, classification, or initial direct costs of contract
- ▶ Use hindsight in determining lease term and assessing impairment.

QUESTIONS?



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