


# STAT & 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

The logo for the National Association of Insurance Commissioners (NAIC). It features the letters "NAIC" in a bold, blue, sans-serif font. The letter "C" is stylized with a white swoosh that curves around its right side.

NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

## 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
- Implementing reporting and instructions changes proposed by other NAIC task forces.

The NAIC logo is displayed in a large, blue, sans-serif font. The letters 'N', 'A', and 'I' are solid, while the 'C' is stylized with a circular cutout on its right side. The logo is centered within a light blue rounded rectangular frame.

# STATUTORY ACCOUNTING AND REPORTING REVISIONS

Accounting Revisions Adopted by SAPWG

- Effective for 2023 annual reporting

Reporting Revisions Adopted by BWG

- Effective for 2023 annual reporting

Accounting Revisions Adopted by SAPWG

- Effective after 2023



# TERMINOLOGY

Two types of accounting revisions

- “Substantive → “New SAP concept”
- “Nonsubstantive” → “SAP clarification”



# STATUTORY ACCOUNTING REVISIONS – EFFECTIVE 2023

- 2022-09, Fair Value Hedging
- 2022-13, Related Parties – Footnote Updates
- 2022-15, Affiliate Reporting Clarification
- 2022-17, Interest Income Disclosure Update
- 2023-13, PIK Interest Disclosure
- 2022-01, Conceptual Framework
- 2022-19, Negative IMR
- 2023-05, Reference Rate Reform



# FAIR VALUE HEDGING – PORTFOLIO LAYER METHOD

SAPWG 2022-09

- New SAP Concept
- Effective January 1, 2023

Revises SSAP No. 86 – *Derivatives* to incorporate the following (with modification):

- ASU 2017-12, *Derivatives and Hedging*
- ASU 2022-01, *Fair Value Hedging – Portfolio Layer*



## RELATED PARTIES – FOOTNOTE UPDATES

### SAPWG 2022-13

- SAP Clarification
- Effective Immediately (December 13, 2022)

### Revises:

- SSAP No. 25, *Affiliates and Other Related Parties*, paragraph 9 footnote
- SSAP No. 97, *Investment in Subsidiary, Controlled, and Affiliated Entities*, paragraph 5 footnote

Adds foreign open-ended investment funds to existing guidance for ETFs and mutual funds.

These investments do not reflect ownership unless resulting in “control.”



## RELATED PARTIES – FOOTNOTE UPDATES (CONT.)

9. For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company<sup>FN</sup>, indirect control shall be presumed to exist unless the presumption of control can be overcome as detailed in paragraph 7. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a “related party” distinction or disclosure requirements for material transactions pursuant to SSAP No. 25.

FN—Consistent with SSAP No. 97, footnote 1, investments in an exchange traded fund (ETF), ~~or~~ a mutual fund (as defined by the SEC) or a foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF, ~~or~~ mutual fund or foreign open-end investment fund unless ownership of the ~~ETF~~ fund actually results in “control” with the power to direct or cause the direction of management of an underlying company. ETFs, ~~and~~ mutual funds and foreign open-end investment funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws or the applicable foreign jurisdictions laws.

# AFFILIATE REPORTING

## SAPWG 2022-15

- SAP Clarification
- Effective Immediately (March 22, 2023)

### Adopted the following clarifying revision to SSAP No. 25, *Affiliates and Other Related Parties*

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity. Any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

# INTEREST INCOME DISCLOSURE UPDATE

## SAPWG 2022-17

- SAP Clarification
- Effective for 2023 annual reporting

## Revisions adopt additional disclosures in SSAP No. 34, *Investment Due and Accrued*:

- Data capture the gross nonadmitted and admitted amounts of interest income due and accrued
- Reflect the cumulative amount of paid-in-kind (PIK) interest income included in the current principal balance



# INTEREST INCOME DISCLOSURE UPDATE (CONT.)

Updates to paragraph 7 of SSAP No. 34:

## Disclosures

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

- a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
- b. Disclose total amount excluded;
- c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued;
- d. Disclose aggregate deferred interest;
- e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.



# PIK INTEREST DISCLOSURE

## SAPWG 2023-13

- SAP Clarification
- Effective for 2023 annual reporting

## Clarifying revisions to SSAP No. 34, paragraph 7:

- Decreases to principal balances (paydowns / disposals / sales, etc.) are first applied to any paid-in-kind (PIK) interest included in the principal balance
- Practical expedient to determine PIK interest in cumulative balance
  - Original par / principal value to current par / principal value (not to go negative)



## PIK INTEREST DISCLOSURE (CONT.)

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

- a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
- b. Disclose total amount excluded;
- c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued;
- d. Disclose aggregate deferred interest;
- e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance: / par value<sup>FN</sup>.

*New Footnote: In disclosing the cumulative amount of PIK interest, identify the specific amounts of PIK interest by lot and aggregate the amounts by CUSIP/PPN that have a net increase to the original par value. The net increase includes PIK interest added to the par value less disposals (i.e., repayments; sales) that are first applied to any PIK interest outstanding. As a practical expedient, an insurer may calculate the cumulative amount of PIK interest on a bond by subtracting the original principal / par value from the current principal / par value, but not less than \$0.*

# CONCEPTUAL FRAMEWORK - UPDATES

## SAPWG 2022-01

- SAP Clarification
- Effective immediately (August 13, 2023)

## 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 previously adopted SAP clarifications to Preamble and definition of an asset in SSAP No. 4, *Assets*
- SAPWG has now adopted SAP clarifications to Preamble and SSAP No. 5, *Liabilities Contingencies and Impairments of Assets*



## CONCEPTUAL FRAMEWORK – UPDATES (CONT.)

### Definition of an Asset:

- **New Definition:** a present right of an entity to an economic benefit.
- **Historical Definition:** a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.

### Definition of a Liability:

- **New Definition:** a present obligation of an entity to transfer an economic benefit.
- **Historical Definition:** certain or probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.





# NEGATIVE IMR

## SAPWG 2022-19

- New SAP Concept
- Effective immediately (August 13, 2023)

INT 23-01 allows the admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus.

INT 23-01 is effective through December 31, 2025.



# REFERENCE RATE REFORM

SAPWG 2023-05

- SAP Clarification
- Effective immediately (August 13, 2023)

Once again revises INT 20-01

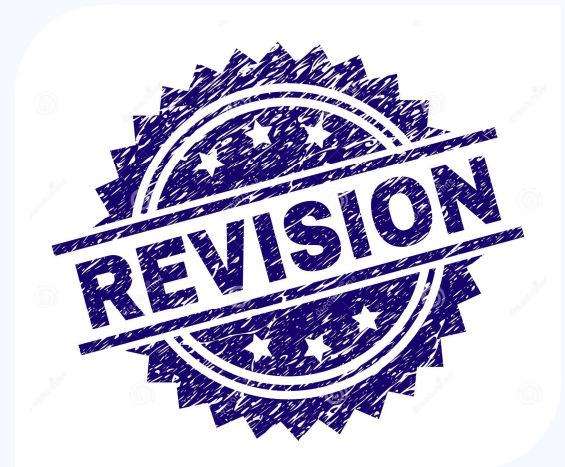
Sunset date deferred to December 31, 2024.



**EXTENDED**

# STATUTORY REPORTING REVISIONS – EFFECTIVE 2023

- 2022-17BWG Modified, Note 8 – Derivative Instruments
- 2023-04BWG Modified, Appointed Actuary
- 2023-08BWG, Schedule Y, Part 3
- 2023-11BWG Modified, Note 7 – Investment Income



# DERIVATIVE INSTRUMENTS

## 2022-17BWG MOD

- Effective for 2023 Annual Reporting

## In response to SAPWG 2021-20, *Effective Derivatives*

- New SAP Concept adopted in 2022
- Effective January 1, 2023

## Items added:

- New disclosure paragraph for Note 8.A.(9) – Derivative Instruments
- Illustration to be data captured for the new disclosure
- Electronic only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2
- New code column instructions for Schedule DB, Part A and Part B



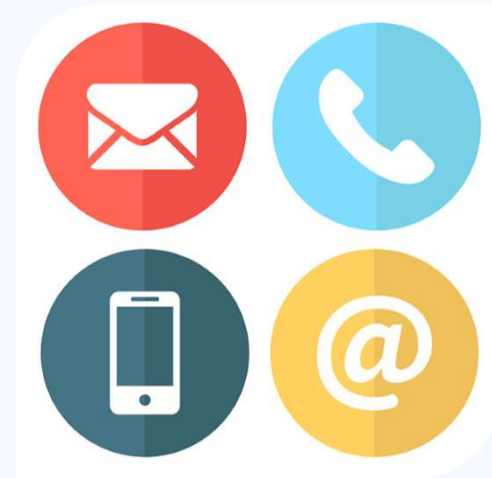
# ACTUARY CONTACT INFO - JURAT PAGE

2023-04BWG MOD

- Effective for 2023 Annual Reporting

Item adds instructions for the appointed actuary and qualified actuary contacts to the Jurat electronic only section:

- Name
- Address
- Telephone Number
- Email Address



# SCHEDULE Y, PART 3

2023-08BWG

- Effective for 2023 Annual Reporting

## SCHEDULE Y

### PART 3 – ULTIMATE CONTROLLING PARTY AND LISTING OF OTHER U.S. INSURANCE GROUPS OR ENTITIES UNDER THAT ULTIMATE CONTROLLING PARTY'S CONTROL

All insurer and reporting entity members of the holding company system (including mutual insurance companies) shall prepare a common schedule for inclusion in each of the individual annual statements. Mutual insurance companies that are part of the holding company system should be included in the common schedule.

# NOTE 7 – INVESTMENT INCOME

## 2023-11BWG MOD

- Effective for 2023 Annual Reporting
- Companion to SAPWG 2022-17, Interest Income Disclosure Update in SSAP No. 34

### 7. Investment Income

#### Instruction:

Disclose the following for investment income due and accrued in the financial statements:

C. The gross, nonadmitted and admitted amounts for interest income due and accrued.

(1) Gross amount for interest income due and accrued. (Should equal Assets Page, Line 14, Column 1)

(2) Nonadmitted amount for interest income due and accrued. (Should equal Assets Page, Line 14, Column 2)

(3) Admitted amount for interest income due and accrued. (Should equal Assets Page, Line 14, Column 3)

D. The aggregate deferred interest.

Some investments allow for interest payments to be deferred past the originally scheduled payment date without being considered past due under the agreement terms. Include the amount of interest reported as due and accrued for which the reporting entity has not received within 90 days of the originally scheduled payment date, that has not been nonadmitted under SSAP No. 34 – Investment Income Due and Accrued. For the avoidance of doubt, this should also include all accrued interest for investments that pay interest in full less frequently than annually per the agreement terms.

E. The cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

Include the amount of reported interest in which the terms of the investment permit paid-in-kind (PIK) instead of cash. The amount captured shall reflect the cumulative amount of PIK interest included in the current principal balance.

# NOTE 7 – INVESTMENT INCOME (CONT.)

Illustration:

A. Due and accrued income was excluded from surplus on the following bases:

All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loans in default.

B. The total amount excluded was \$\_\_\_\_\_.

**THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLES (7C, 7D, AND 7E) BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THESE ILLUSTRATIONS.**

C. The gross, nonadmitted and admitted amounts for interest income due and accrued.

<u>Interest Income Due and Accrued</u>	<u>Amount</u>
<u>1. Gross</u>	\$ _____
<u>2. Nonadmitted</u>	\$ _____
<u>3. Admitted</u>	\$ _____

D. The aggregate deferred interest.

<u>Aggregate Deferred Interest</u>	<u>Amount</u>
	\$ _____

E. The cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

<u>Cumulative amounts of PIK interest included in the current principal balance</u>	<u>Amount</u>
	\$ _____



# STATUTORY ACCOUNTING REVISIONS – EFFECTIVE AFTER 2023

2019-21, Bond Definition

# PRINCIPLES-BASED BOND DEFINITION

## SAPWG 2019-21

- New SAP Concept
- Effective January 1, 2025

## SAPWG began the “Investment Classification Project” in 2013

- Comprehensive project to review the investment SSAPs

Adopted clarifications to the following effective January 1, 2025, to incorporate the principle-based bond concepts:

- SSAP No. 26, *Bonds*
- SSAP No. 43, *Asset-Backed Securities*



## PRINCIPLES-BASED BOND DEFINITION (CONT.)

Principal-Based Bond Definition [included in SSAP No. 26, *Bonds*, paragraph 5]

- A bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security as described in this statement.

SSAP No. 26, *Bonds*

- Issuer credit obligations – securities backed by the full faith and credit of the issuer

SSAP No. 43, *Asset-Backed Securities*

- Asset-backed securities – backed by a pool of underlying assets

Securities not qualified as issuer credit obligations or ABS are not reported as bonds

## PRINCIPLES-BASED BOND DEFINITION (CONT.)

SAPGW re-exposed for comments:

- SSAP No. 21R, *Other Admitted Assets*
- SSAP No. 86, *Derivatives*

BWG exposure drafts (comments due 10/12/23):

- 2023-06BWG
  - Split the Schedule D, Part 1, into two sections:
    - Schedule D-1-1 Issuer Credit Obligations
    - Schedule D-1-2 Asset Backed Securities
  - Update the other parts of the Annual Statement that reference the bond lines of business.
- 2023-12BWG
  - Schedule BA for debt securities that do not qualify as bonds and are captured in scope of SSAP No. 21R—Other Invested Assets.



## BOND DEFINITION – TRANSITION GUIDANCE

### Transition guidance:

- Prospective beginning January 1, 2025. Do not restate the prior year's information in the 2025 disclosure
- Schedule D-1: Long-Term Bonds as of December 31, 2024, that no longer qualify:
  - Reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025.
- Changes in measurement for securities reclassified:
  - Report as change in unrealized capital gains (losses) in the first quarter 2025
  - Not as a change in accounting principle

## BOND DEFINITION – TRANSITION GUIDANCE (CONT.)

Transition guidance:

Additional disclosures during first quarter 2025

- ABCV for all securities reclassified off Schedule D-1
- ABCV for all securities reclassified off Schedule D-1 with change in measurement basis (from amortized cost to a fair value)
- Aggregate surplus impact for securities reclassified off Schedule D-1

# QUESTIONS

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