

**Revisions to the  
As of March 2021, Accounting Practices and Procedures Manual**

On **May 20, 2021**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2021 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference numbers in bold text below.

Ref #	SSAP/ Appendix	Title	Summary
<a href="#">2020-37</a>	SSAP No. 56	Separate Account Product Mix <i>Nonsubstantive</i> Effective Immediately (May 20, 2021)	Adopted the agenda item recommendation which supports adoption of blanks proposal 2021-03BWG by the Blanks (E) Working Group. This agenda item does not result in statutory accounting revisions.
<a href="#">2020-38</a>	SSAP No. 56	Pension Risk Transfer Disclosure <i>Nonsubstantive</i> Effective Immediately (May 20, 2021)	Adopted the agenda item recommendation which supports adoption of blanks proposal 2021-03BWG by the Blanks (E) Working Group. This agenda item does not result in statutory accounting revisions.
<a href="#">2021-01</a>	SSAP No. 86  <a href="#">INT 20-01</a>	<i>ASU 2021-01, Reference Rate Reform</i> <i>Nonsubstantive</i> Effective Immediately (May 20, 2021)	Revisions provide temporary (optional) expedient and exception interpretative guidance, with an expiration date of Dec. 31, 2022. These optional expedients expand the current INT and clarify that derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment as a result of reference rate reform will be in scope of INT 20-01. This exception will allow for continuation of the existing hedge relationship and thus not require hedge dedesignation. This INT is all-encompassing for “any hedging relationships” and captures all hedging transaction types within the scope of the interpretation, regardless of if the transaction occurred bilaterally or through a central clearing party.
<a href="#">2021-02</a>	SSAP No. 26R	<i>ASU 2020-08, Premium Amortization on Callable Debt Securities</i> <i>Nonsubstantive</i> Effective Immediately (May 20, 2021)	Revisions reject ASU 2020-08 for statutory accounting.

Ref #	SSAP/ Appendix	Title	Summary
2021-03	SSAP No. 103R	SSAP No. 103R – Disclosures  <i>Nonsubstantive</i>  Effective Immediately (May 20, 2021)	Revisions incorporate additional disclosure elements and a data-capture template for certain disclosures in SSAP No. 103R. The disclosures and data-capture template will assist state insurance regulators in their assessment of situations where an entity has transferred assets but economic interest is retained by the reporting entity, its related parties or another member within the holding company group.
2021-05	SSAP No. 2R  INT 21-01	Accounting for Cryptocurrencies  <i>Nonsubstantive</i>  Effective Immediately (May 20, 2021)	The INT clarifies that directly held cryptocurrencies do not meet the definition of cash in <i>SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments</i> nor, when directly held, meet the definition of an admitted asset per <i>SSAP No. 4—Assets and Nonadmitted Assets</i> .
2021-06EP	SSAP No. 53  SSAP No. 97  SSAP Glossary	Editorial Updates  <i>Nonsubstantive</i>  Effective Immediately (May 20, 2021)	Adopted editorial revisions to <i>SSAP No. 53—Property Casualty Contracts—Premiums</i> , <i>SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities</i> and the SSAP Glossary.
2021-07	Appendix D	<i>ASU 2020-11, Financial Services – Insurance: Effective Date</i>  <i>Nonsubstantive</i>  Effective Immediately (May 20, 2021)	Revisions reject ASU 2020-11 as not applicable for statutory accounting.
2021-08	SSAP No. 47	<i>ASU 2021-02, Franchisors Revenue from Contracts with Customers</i>  <i>Nonsubstantive</i>  Effective Immediately (May 20, 2021)	Revisions reject ASU 2021-02 for statutory accounting.

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

**Issue: Separate Account – Product Identifiers**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

This agenda item proposes increased product identifier reporting granularity in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). At the request of regulators, primarily in response to the recent growth of pension risk transfer (PRT) transactions and registered indexed linked annuity (RILA) products that are generally held in insulated separate accounts, improved reporting was requested so regulators can more readily identify and review the products captured in the separate account. This agenda item does not anticipate modifications to *SSAP No. 56—Separate Accounts*, however if supported by the Working Group, would likely result in a proposal to the Blanks (E) Working Group for annual statement instruction modifications.

For example, upon review of the 2019 separate account annual statements filed with the NAIC, it was found that while some reporting entities included reporting details such as “XYZ Company Pension Risk Transfer” (a preferred method of disclosure), most entities grouped their separate account products in 3-4 broad categories. Common categories included variable life, variable annuity, indexed annuity and group variable annuity (the latter of which is likely where PRT’s would be captured).

SSAP No. 56 requires several disclosure elements separated by “product identifier.” These situations include:

- 1.01 – Separate account assets by SEC registration, guarantees, seed money, etc.
- 1.01A – Identification of private placement variable annuities / life insurance (PPVA or PPLI)
- 2.5 – Risk charges
- 4.2 – Investment Process and their treatment (e.g., to policyholder, to GA, or retained in SA)

As detailed in the separate account instructions, “a distinct product identifier shall be used for each product and shall be used consistently throughout the interrogatory.” Even with this direction, most reporting entities appear to be aggregating product types for reporting. This has made it difficult to assess the reserve requirements or guarantees for the specific products. Additionally, regulators have indicated that upon their examination of the product mix general interrogatory in which the assets reflect if they are supported with a guarantee from the general account, due to the broad grouping of products, some products which do not have guarantees were grouped with those that did have guarantees.

**Existing Authoritative Literature:**

**The disclosures for separate account assets are detailed in *SSAP No. 56—Separate Accounts*:**

36. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:

- a. **Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.**

b. **Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (36.b.) are effective December 31, 2018.**

c. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts. This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable), the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.

d. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.

e. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

39. **Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP.** For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

**The annual statement instructions as well as an example of note 1.01 are below.**

As the product identifier is used **throughout the interrogatory, examples of other items potentially impacted are as follows:**

1.01A For the products (and related assets) that are not registered with the SEC, identify whether the products are considered private placement variable annuity products or private placement life insurance.

1 Product Identifier	Not Registered with SEC		
	2 Private Placement Variable Annuity	3 Private Placement Life Insurance	4 Other (Not PPVA or PPLI)
	\$		
Totals	\$		

### **Allocation of Investment Proceeds of Separate Account Activity**

4.1 Does the reporting entity have separate account assets in which less than 100% of investment proceeds (net of contract fees and assessments) are attributed to a contract holder? (This should identify any situations where there is a ceiling on investment performance results.)

4.2 If yes, provide detail on the net investment proceeds that were attributed to the contract holder, transferred to the general account and reinvested within the separate account:

1 Product Identifier	2 Net Investment Proceeds	3 Attributed to Contract Holder	4 Transferred to General Account	5 Reinvested Within the Separate Account
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$

8.3 Identify all separate account products and identify whether each product was classified within a separate account for GAAP reporting purposes. (For non-GAAP filers, this disclosure should reflect whether the GAAP classification would have been the same if GAAP financials had been completed.) For products that were (or would have been) reported differently, identify which SOP 03-1 condition prevented separate account GAAP classification for that particular product.

1 Product Identifier	2 Same as GAAP / Condition that Requires GAAP General Account Reporting

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

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**  
None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

#### **Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the agenda item to solicit comments from state insurance regulators and industry regarding the degree of product identifying details needed to adequately assess the product features and reserve liabilities. Additionally, feedback is requested regarding if a threshold should be established for when aggregate reporting would be permitted.

#### **Staff Review Completed by:**

Jim Pinegar - NAIC Staff, October 2020

#### **Status:**

On November 12, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the agenda item to solicit comments from state insurance regulators and industry regarding the degree of product identifying details needed to adequately assess the product features and reserve liabilities in the separate account. Particularly, this is requesting feedback on how to obtain increased product identifier reporting granularity in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). Additionally, feedback is requested regarding if a threshold should be established for when aggregate reporting would be permitted.

On March 15, 2021, the Statutory Accounting Principles (E) Working Group exposed this agenda item with details of a proposed blanks change, which will also be concurrently exposed with the Blanks (E) Working Group. With the proposed blanks changes, there are no proposed revisions to statutory accounting principles.

Consideration of this item will occur during an interim call so that the blanks changes may be reflected in the statutory financials for year-end 2021. Pursuant to this agenda item and regulator comments received, the Working

Group is sponsoring blanks agenda item (2021-03BWG) to modify the current General Interrogatory instructions and require that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form to be separately identified. For example, if a company has 5 different separate account group annuities, each annuity shall be separately reported. Additionally, the instructions will indicate that companies may eliminate proprietary information (e.g., such as XYZ company Pension Plan), however such elimination will still require the use of a unique reporting identifiers (such as PRT #1). This disaggregation of reporting will be utilized for all applicable General Interrogatories (e.g., 1.01, 2.4, 4.1) and was at the direct request of regulators and will assist in regulator review so that each product, primarily those in which may potentially expose the general account to funding risk, may be independently examined.

NAIC staff also notes that there is inconsistency in the current reporting of the separate account general interrogatories, as some companies aggregate based on overall product type and other companies already include a disaggregation of all separate account products. With the clarification that “each product” shall be captured, the regulators will have the information necessary to complete assessments and improve consistency in reporting.

An excerpt from the blanks proposal is shown below:

A distinct disaggregated product identifier shall be used for each product and shall be used consistently throughout the interrogatory. Disaggregation of reporting shall be such that each product filing or policy form is separately identified. For example, if a company has 5 different separate group annuities, each annuity shall be separately reported. (Companies may eliminate proprietary information however such elimination will require the use of unique reporting identifiers).

1 Product Identifier	Separate Account Assets		4 Guarantees Associated with the Product Yes/No	5 Seed Money	6 Fees and Expenses Due to the General Account	7 Additional Required Surplus Amounts
	2 Registered with SEC	3 Not Registered with SEC				
1.01A Pension Risk Transfer Group Annuities						
	\$	\$		\$	\$	\$
Total Pension Risk Transfer Group Annuities	\$	\$		\$	\$	\$
1.01B All Other Group Annuities						
	\$	\$		\$	\$	\$
Total All Other Group Annuities	\$	\$		\$	\$	\$
1.01C Registered Index Linked Annuities Individual Annuities						

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted a recommendation that supports adoption of the corresponding exposure (2021-03BWG) by the Blanks (E) Working Group. This agenda item does not result in statutory accounting revisions.

The blanks agenda item modifies the current General Interrogatory instructions and requires that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form to be separately identified. Additionally, the instructions will indicate that companies may eliminate proprietary information, however, such elimination will still require the use of a unique reporting identifier. This disaggregation of reporting will be utilized for all applicable General Interrogatories (e.g., 1.01, 2.4, 4.1) and was at the direct request of regulators and will assist in regulator review so that each product, primarily those in which may potentially expose the general account to funding risk, may be independently examined.

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

**Issue: Pension Risk Transfer – Separate Account Disclosure**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

This agenda item proposes increased product identification and disclosure of pension risk transfer (PRT) transactions in the separate account financial statements. At the request of regulators, in response to the recent growth of PRT, improved reporting is sought so regulators can more readily identify and analyze such transactions. Regulators requested several enhancements, including separated PRT reporting and improved PRT disclosure regarding reserves, associated assets, and general account exposure.

As a brief background, a pension risk transfer is when a defined-benefit pension provider seeks to remove some or all of its obligation to pay guaranteed retirement income to plan participants. In these transactions, the pension providers will generally transfer assets to an insurer, for which the insurer assumes the annuity risk for plan participants. According to AM Best, there were over 500 single premium pension contract buyouts totaling \$28 billion in 2019. Due to organizations wanting to alleviate their pension liability, it is expected that PRT transactions will not subside in the near future.

Currently, the most specific details concerning PRT transactions are generally captured/disclosed in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). For reference, GI 1.01 is shown below:

1.01 Identify the product types in the separate account, quantify the assets associated with those products, indicate if there are any guarantees associated with those products, quantify seed money and quantify other fees and expenses due to the general account:

1 Product Identifier	Separate Account Assets		4 Guarantees Associated with the Product Yes/No	5 Seed Money	6 Fees and Expenses Due to the General Account	7 Additional Required Surplus Amounts
	2 Registered with SEC	3 Not Registered with SEC				
	\$	\$		\$	\$	\$
Totals	\$	\$	XXX	\$	\$	\$

Upon review of the 2019 separate account annual statements filed with the NAIC, it was found that most entities did not individually detail PRT activity, but rather broadly combine this product into other product categories (i.e. group variable annuity).

While other details of the broadly categorized products are captured in various other general interrogatories (as shown below in Existing Authoritative Literature), this agenda item, at the request of regulators, proposes enhanced detailed reporting requirements for pension risk transfer products and transactions in the scope of *SSAP No. 56—Separate Accounts*.

## Existing Authoritative Literature:

There are numerous disclosure elements in *SSAP No. 56—Separate Accounts* that would be applicable for PRT transactions (the most relevant disclosures have been bolded below). However as described above, PRTs are generally reported in an aggregated manner with other similar products, thus the disclosures below do not currently provide the level of detail sought by regulators.

### Disclosures

31. The general account financial statement shall include detailed information on the reporting entity's separate account activity. These disclosures shall include:

- a. **A narrative of the general nature of the reporting entity's separate account business.**
- b. **Identification of the separate account assets that are legally insulated from the general account claims.**
- c. **Identification of the separate account products that have guarantees backed by the general account. This shall include:**
  - i. **Amount of risk charges paid by the separate account to the general account for the past five (5) years as compensation for the risk taken by the general account; and**
  - ii. **Amount paid by the general account due to separate account guarantees during the past five (5) years.**
- d. Discussion of securities lending transactions within the separate account, separately including the amount of any loaned securities within the separate account, and if policy and procedures for the separate account differ from the general account.

32. For each grouping (as detailed in paragraph 33), the following shall be disclosed:

- a. Premiums, considerations or deposits received during the year;
- b. **Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at fair value separately from those whose assets are carried at amortized cost/book value;**
- c. **Reserves by withdrawal characteristics**, including whether or not the separate account is subject to discretionary withdrawal. For reserves subject to discretionary withdrawal, the below categories are included if applicable:
  - i. With market value adjustment;
  - ii. at book value without market value adjustment and with surrender charge of 5% or more;
  - iii. at fair value;
  - iv. at book value without market value adjustment and with surrender charge of less than 5%;
- d. Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.



33. For the disclosures required in paragraph 32, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):

- a. **Separate Accounts with Guarantees:**
  - i. Indexed separate accounts, which are invested to mirror an established index which is the basis of the guarantee;
  - ii. Nonindexed separate accounts, with reserve interest rate at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%;
  - iii. Nonindexed separate accounts, with reserve interest rate at greater than 4% and/or fund long-term interest guarantee in excess of a year that exceeds 4%.
- b. Nonguaranteed Separate Accounts—Variable separate accounts, where the benefit is determined by the performance and/or fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.

34. **Provide a reconciliation of the amount reported as transfers to and from separate accounts in the Summary of Operations of the separate accounts statement and the amount reported as net transfers to or from separate accounts in the Summary of Operations of the general accounts statement.**

35. The disclosures in *SSAP No. 51R—Life Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

36. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:

- a. **Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.**
- b. **Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (36.b.) are effective December 31, 2018.**
- c. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts. This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable), the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.
- d. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and

situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.

- e. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

37. For all separate account assets not reported at fair value, indicate the measurement basis (amortized cost or other method) for each asset (or asset class) and whether the measurement method was grandfathered in under the transition guidance in this SSAP, or whether the measurement method is allowed under a prescribed or permitted practice. This disclosure shall include a comparison of the assets' reported value to fair value with identification of the resulting unrealized gain/loss that would have been recorded if the assets had been reported at fair value.

38. For all separate accounts that include securities lending transactions, disclose the reporting entity's use and policy of securities lending within the separate account, including the amount of loaned securities from the separate account at the reporting date, the percentage of separate account assets lent as of that date, a description for which type of accounts (e.g., book value accounts, market value account accounts) are lent, if the separate account policyholder is notified or approves of such practices, the policy for requiring collateral, whether the collateral is restricted and the amount of collateral for transactions that extend beyond one year from the reporting date. This disclosure requires the entity to provide the following information as of the date of the statement of financial position: (1) the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms, (2) the aggregate fair value of all securities acquired from the sale, trade and use of the accepted collateral (reinvested collateral), and (3) information about the sources and uses of that collateral.

39. Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP. For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

As previously shown, GI 1.01 is the primary interrogatory which capture PRT transactions, however additional details are captured in the following tables.

1.01A For the products (and related assets) that are not registered with the SEC, identify whether the products are considered private placement variable annuity products or private placement life insurance.

1 Product Identifier	Not Registered with SEC		
	2 Private Placement Variable Annuity	3 Private Placement Life Insurance	4 Other (Not PPVA or PPLI)
	\$		
Totals	\$		

**Allocation of Investment Proceeds of Separate Account Activity**

4.1 Does the reporting entity have separate account assets in which less than 100% of investment proceeds (net of contract fees and assessments) are attributed to a contract holder? (This should identify any situations where there is a ceiling on investment performance results.)

4.2 If yes, provide detail on the net investment proceeds that were attributed to the contract holder, transferred to the general account and reinvested within the separate account:

1 Product Identifier	2 Net Investment Proceeds	3 Attributed to Contract Holder	4 Transferred to General Account	5 Reinvested Within the Separate Account
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$

8.3 Identify all separate account products and identify whether each product was classified within a separate account for GAAP reporting purposes. (For non-GAAP filers, this disclosure should reflect whether the GAAP classification would have been the same if GAAP financials had been completed.) For products that were (or would have been) reported differently, identify which SOP 03-1 condition prevented separate account GAAP classification for that particular product.

1 Product Identifier	2 Same as GAAP / Condition that Requires GAAP General Account Reporting

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

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**  
None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive to solicit comments from state insurance regulators and industry regarding possible modifications to *SSAP No. 56—Separate Accounts*. Depending upon the feedback received, the Working Group would have several options available including, but not limited to, requiring the separate identification of pension risk transfer products (including transactions, guarantees, reserve assumptions, etc.) within existing disclosure requirements or the addition of a new general interrogatory (and perhaps new separate accounting reporting schedules / exhibits) to separate specific product detail that was previously reported in an aggregated format. NAIC staff is open for additional commentary and suggestions, and requests to work with industry and regulators throughout this and any subsequent exposure.

**Staff Review Completed by:**

Jim Pinegar - NAIC Staff, October 2020

**Status:**

On November 12, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the agenda item to solicit comments from state insurance regulators and industry regarding possible modifications to *SSAP No. 56—Separate Accounts* specific to pension risk transfer (PRT) products. Depending upon the feedback received, the Working Group would have several options available including, but not limited to, requiring the separate identification of pension risk transfer products (including transactions, guarantees, reserve assumptions, etc.) within existing disclosure requirements or the

addition of a new general interrogatory (and perhaps new separate accounting reporting schedules / exhibits) to separate specific product detail that was previously reported in an aggregated format.

On March 15, 2021, the Statutory Accounting Principles (E) Working Group exposed this agenda item with details of a proposed blanks change, which will also be concurrently exposed with the Blanks (E) Working Group. With the proposed blanks changes, there are no proposed revisions to statutory accounting principles.

Consideration of this item will occur during an interim call so that the blanks changes may be reflected in the statutory financials for year-end 2021. Pursuant to this agenda item and regulator comments received, the Working Group is sponsoring blanks agenda item (2021-03BWG) to modify the current General Interrogatory instructions and require that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form to be separately identified. For example, if a company has 5 different separate account group annuities, each annuity shall be separately reported. Additionally, the instructions will indicate that companies may eliminate proprietary information (e.g., such as XYZ company Pension Plan), however such elimination will still require the use of a unique reporting identifiers (such as PRT #1). This disaggregation of reporting will be utilized for all applicable General Interrogatories (e.g., 1.01, 2.4, 4.1) and was at the direct request of regulators and will assist in regulator review so that each product, primarily those in which may potentially expose the general account to funding risk, may be independently examined.

NAIC staff also notes that there is inconsistency in the current reporting of the separate account general interrogatories, as some companies aggregate based on overall product type and other companies already include a disaggregation of all separate account products. With the clarification that “each product” shall be captured, the regulators will have the information necessary to complete assessments and improve consistency in reporting.

An excerpt from the blanks proposal is shown below:

A distinct disaggregated product identifier shall be used for each product and shall be used consistently throughout the interrogatory. Disaggregation of reporting shall be such that each product filing or policy form is separately identified. For example, if a company has 5 different separate group annuities, each annuity shall be separately reported. (Companies may eliminate proprietary information however such elimination will require the use of unique reporting identifiers).

1 Product Identifier	Separate Account Assets		4 Guarantees Associated with the Product Yes/No	5 Seed Money	6 Fees and Expenses Due to the General Account	7 Additional Required Surplus Amounts
	2 Registered with SEC	3 Not Registered with SEC				
1.01A Pension Risk Transfer Group Annuities						
	\$	\$		\$	\$	\$
Total Pension Risk Transfer Group Annuities	\$	\$		\$	\$	\$
1.01B All Other Group Annuities						
	\$	\$		\$	\$	\$
Total All Other Group Annuities	\$	\$		\$	\$	\$
1.01C Registered Index Linked Annuities Individual Annuities						

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted a recommendation that supports adoption of the corresponding exposure (2021-03BWG) by the Blanks (E) Working Group. This agenda item does not result in statutory accounting revisions.

The blanks agenda item modifies the current General Interrogatory instructions and requires that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form to be separately identified. Additionally, the instructions will indicate that companies may eliminate proprietary information, however, such elimination will still require the use of a unique reporting identifier. This disaggregation of reporting will be utilized for all applicable General Interrogatories (e.g., 1.01, 2.4, 4.1) and was at the direct request of regulators and will assist in regulator review so that each product, primarily those in which may potentially expose the general account to funding risk, may be independently examined.

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

**Issue:** *ASU 2021-01, Reference Rate Reform*

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

In March 2020, the Financial Accounting Standards Board (FASB) issued *ASU 2020-04, Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* to ensure the financial reporting of hedging relationships would reflect a continuation of the original contract and hedging relationship during the period of the market-wide transition to alternative reference rates – commonly referred to as “reference rate reform.” Reference rate reform typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it would no longer require banks to continue rate submissions after 2021 – thus, likely sunseting both the use and publication of LIBOR.

As is often the case with hedge accounting, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction. However, ASU 2020-04 provides temporary, optional, and expedient relief in that a qualifying modification (because of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. In essence, when a modification (because of reference rate reform) is made to a hedge’s critical terms, a reporting entity can continue hedge accounting rather than dedesignate the hedging relationship. For fair value hedges, a reporting entity may change the hedged risk to another permitted benchmark interest rate without dedesignating the relationship; that is if the hedge is expected to remain highly effective in offsetting changes in fair value attributed to the revised hedged risk. For cash flow hedges, a reporting entity may change to another permitted benchmark interest rate without dedesignating the relationship if the forecasted hedge transaction remains probable of occurring.

The derivatives market continues to undergo various other transitions due to reference rate reform initiatives, specifically changing the reference rates used for margining, discounting, or contract price alignment (this change is referred to as a “discounting transition”). While these changes are related to reference rate reform, they are not modifying an interest rate that is expected to be discontinued (e.g., LIBOR). The most prevalent example of a discounting transition occurred in October of 2020 with Central Clearing Parties (CCP). In October of 2020, the CME Group switched to using the Secured Overnight Financing Rate (SOFR) from the Effective Federal Funds Rate (EFFR) to discount, margin and price align most U.S. Dollar based derivative products. A change in the discount rate results in an immediate increase or decrease in a derivative’s fair value, which can affect required variation margin payments. In addition, using SOFR instead of EFFR impacts the amount of interest an entity will pay or receive in the related cumulative variation margin. Questions arose in that if a change in these terms would require hedge dedesignation, or if these situations should be afforded the relief offered in ASU 2020-04.

In January 2021, FASB issued *ASU 2021-01, Reference Rate Reform* to clarify that all derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment (regardless of whether they reference LIBOR or another rate that is expected to be discontinued as a result of reference rate reform) are in scope of Topic 848. In short summary, for all derivatives affected by the discounting transition, entities may apply the optional expedients and the continuation of contract exceptions allowed in ASU 2020-04.

ASU 2021-01 expands the scope of ASU 2020-04 by allowing an entity to apply the optional expedients, by stating that a change to the interest rate used for margining, discounting or contract price alignment for a derivative is not considered to be a change to the critical terms of the hedging relationship that requires dedesignation. The entity may apply the contract modification relief provided in ASU 2020-04 and continue to account for the derivative in the same manner that existed prior to the changes resulting from reference rate reform or the discounting transition.

### **Other Items:**

The discounting transition previously discussed was primarily driven by CCPs. In October of 2020, CCPs converted open derivative end-of-day valuation calculations from EFFR to SOFR. The process entailed CCPs conducting a standard end-of-day valuation cycle based on EFFR. Then, CCPs conducted a special valuation cycle on those same positions, however utilizing SOFR as the new, ongoing discounting rate. Based on the differences between EFFR and SOFR, the CCP issued variation margin adjustments to offset the value differences arising from the change in discount rates. In addition to variation margin adjustments, CCPs issued mandatory EFFR/SOFR basis swaps, thus restoring the account holder's original risk profile. ASU 2021-01 provides guidance for the final settlement of cashflows stating that fair value hedges may adjust the fair value hedge basis while cash flow hedges may adjust accumulated other comprehensive income. The accounting, reporting, and admittance of basis swaps was previously addressed by the Working Group in INT 20-09: Basis Swaps as a Result of the LIBOR Transition and is further discussed in the "Activities to Date" section of this agenda item.

Informal note, feedback received from interested parties indicates that most basis swaps were liquidated prior to year-end 2020.

Finally, the effective date of ASU 2021-01 mimics the effective date of ASU 2020-04 in that the optional, expedient guidance may be applied from the beginning of an interim period that includes or is after March 12, 2020 and terminates December 31, 2022.

### **Existing Authoritative Literature:**

ASU 2021-01 effectively increases the scope of the optional, expedient accounting guidance for derivative instruments in ASU 2020-04. Accordingly, only applicable derivative authoritative literature will be shown below. While detailed in the original agenda item (Ref #2020-12), additional SSAPS impacted by ASU 2020-04 were *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 22R—Leases*.

The modifications in ASU 2020-04 address hedge accounting and the allowance for a reporting entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the hedging relationship. While alternative benchmark interest rates were previously addressed in agenda item 2018-46 – Benchmark Interest Rate, the accounting for hedged transactions is noted below, with applicable areas bolded for emphasis.

Relevant/Applicable of Overview of existing SAP Accounting – *SSAP No. 86—Derivatives*

12. "Benchmark Interest Rate" is a widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions. In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate. In the United States, the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate, the Fed Funds Effective Rate Overnight Index Swap Rate, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate, and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate are considered to be benchmark interest rates.



## Derivatives Used in Hedging Transactions

20. Derivative instruments used in hedging transactions that meet the **criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting)**. For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. **If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost.** Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).

21. Entities shall not bifurcate the effectiveness of derivatives. A derivative instrument is either classified as an effective hedge or an ineffective hedge. Entities must account for the derivative using fair value accounting if it is deemed to be ineffective or becomes ineffective. Entities may redesignate a derivative in a hedging relationship even though the derivative was used in a previous hedging relationship that proved to be ineffective. **A change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument.** An entity shall prospectively discontinue hedge accounting for an existing hedge if any one of the following occurs:

- a. Any criterion in paragraphs 24-36 is no longer met;
- b. The derivative expires or is sold, terminated, or exercised (the effect is recorded as realized gains or losses or, for effective hedges of firm commitments or forecasted transactions, in a manner that is consistent with the hedged transaction – see paragraph 22);
- c. The entity removes the designation of the hedge; or
- d. The derivative is deemed to be impaired in accordance with paragraph 17. A permanent decline in a counterparty's credit quality/rating is one example of impairment required by paragraph 17, for derivatives used in hedging transactions.

22. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. **Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to IMR, the gain or loss on the hedging derivative may be realized and shall be subject to IMR upon termination.)** Entities who choose the alternative method shall apply it consistently thereafter.

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

The Working Group has taken several actions related to reference rate reform; each are summarized below.

1. Agenda item 2018-46 – Benchmark Interest Rate, incorporated revisions to SSAP No. 86, adding the Securities Industry and Financial Markets (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as acceptable benchmark interest rates for hedge accounting. Prior to this change, only LIBOR and the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) were considered acceptable benchmark interest rates.
2. Agenda item 2020-12 reviews ASU 2020-04, the foundation of which this agenda item and related ASU (2021-01) are based. Agenda item 2020-12 resulted in the Working Group adopting INT 20-01.

3. *INT 20-01: ASU 2020-04 - Reference Rate Reform*, adopted by the Working Group in April 2020, broadly adopted ASU 2020-04 for statutory accounting stating that for statutory accounting:
  - For all contracts within scope of ASU 2020-04, modifications due to reference rate reform are afforded an optional expedient to be accounted for as a continuation of the existing contract.
  - Debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as *SSAP No. 15—Debt and Holding Company Obligations* states such liabilities should only be derecognized if extinguished.
  - Lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under *SSAP No. 22R—Leases*.
  - For derivative transactions within scope of ASU 2020-04, a change to the critical terms of the hedging relationship (due to reference rate reform), shall be afforded similar treatment in that the hedging relationship can continue the original hedge accounting rather than dedesignate the hedging relationship.
4. *INT 20-09: Basis Swaps as a Result of the LIBOR Transition*, adopted by the Working Group in July 2020, provided statutory accounting and reporting guidance for basis swaps issued by CCPs. This INT designated that basis swaps, issued by CCPs, in response to reference rate reform (i.e., the discounting transition), shall be classified as a derivative used for hedging. This categorization allowed for the basis swap derivatives to be admitted under SSAP No. 86. Additionally, the INT directed that basis swap derivatives shall not be reported as “effective” unless the instrument qualifies, with the required documentation, as highly effective under SSAP No. 86

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

**Convergence with International Financial Reporting Standards (IFRS):** IFRS has taken a similar approach when considering Reference Rate Reform’s impact on IFRS 9 (Financial Instruments), IAS 39 (Recognition and Measurement), and IFRS 7 (Financial Instruments – Disclosures).

**NAIC Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose temporary (optional) expedient and exception interpretative guidance, with an expiration date of December 31, 2022. These optional expedients would expand the current exception guidance provided by *INT 20-01: ASU 2020-04 - Reference Rate Reform*. With this guidance, derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment (regardless of whether they reference LIBOR or another rate that is expected to be discontinued as a result of reference rate reform) would be in scope of INT 20-01. This exception would allow for continuation of the existing hedge relationship and thus not requiring hedge dedesignation.**

The proposed modifications to INT 20-01 temporarily override SSAP No. 86 guidance for affected policies, therefore the policy statement in Appendix F requires 2/3<sup>rd</sup> (two-thirds) of the Working Group members to be present and voting and a supermajority of the Working Group members present to vote in support of the interpretation before it can be finalized.

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – January 2021

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed temporary (optional) expedient and exception interpretative guidance, with an expiration date of December 31, 2022. These optional expedients would expand the current exception guidance provided by *INT 20-01: ASU 2020-04 – Reference Rate Reform*. With this guidance, derivative

instruments affected by changes to interest/reference rates because of reference rate reform (regardless of whether they reference LIBOR or another rate that is expected to be discontinued), in which are used for discounting, margining or contract price alignment would be in scope of the exception guidance afforded in INT 20-01. This exception would allow for continuation of the existing hedge relationship and thus not requiring hedge dedesignation.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, which incorporated proposed interested party edits, to *INT 20-01: ASU 2020-04, Reference Rate Reform*. The revisions expand the current exception guidance provided in the INT and provide additional temporary (optional) expedient and exception interpretative guidance, with an expiration date of December 31, 2022. With this guidance, derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment (regardless of whether they reference LIBOR or another rate that is expected to be discontinued as a result of reference rate reform) will be in scope of INT 20-01. This exception will allow for continuation of the existing hedge relationship and thus not require hedge dedesignation. This INT is all-encompassing for “any hedging relationships” within the scope of the interpretation and captures all hedging transaction types, regardless of if the transaction occurred bilaterally or through a central clearing party.

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## Interpretation of the Statutory Accounting Principles (E) Working Group

### INT 20-01: ASUs 2020-04 & 2021-01- Reference Rate Reform

#### INT 20-01 Dates Discussed

March 26, 2020; April 15, 2020; March 15, 2021, May 20, 2021

#### INT 20-01 References

##### Current:

*SSAP No. 15—Debt and Holding Company Obligations*

*SSAP No. 22R—Leases*

*SSAP No. 86—Derivatives*

*This INT applies to all SSAPs with contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.*

#### INT 20-01 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of *ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* [and ASU 2021-01, Reference Rate Reform \(Topic 848\)](#) for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued [both](#) ASU 2020-04 [and ASU 2021-01](#) ~~in March 2020 to provide as~~ optional, transitional and expedient guidance as a result of reference rate reform.
2. “Reference rate reform” typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it will no longer require banks to continue LIBOR submissions after 2021 – likely sunseting both the use and publication of LIBOR. An important note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform.
3. With a significant number of financial contracts solely referencing IBORs, their discontinuance will require organizations to reevaluate and modify any contract that does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.
4. The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing such contracts and treating the modified contract as an entirely new contract or hedging relationship would 1) not provide decision-useful information to financial statement users and 2) require a reporting entity to incur significant costs in the financial

statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

5. Guidance in ASU 2020-04 allows a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or dedesignation if certain criteria are met.

~~5.6.~~ Guidance in ASU 2021-01 expanded the scope of ASU 2020-04 by permitting the optional, transitional, expedient guidance to also include derivative contracts that undergo a similar transition but do not specifically reference a rate that is expected to be discontinued. While these contract modifications do not reference LIBOR (or another reference rate expected to be discontinued), the changes are the direct result of reference rate reform and were deemed to be eligible for similar exception treatment. ASU 2021-01 allows for modifications in interest rates indexes used for margining, discounting or contract price alignment, as a result of reference rate reform initiatives (commonly referred to as a “discounting transition”) to be accounted for as a continuation of the existing contract and hedge accounting.

~~6.7.~~ The optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04 and ASU 2021-01 are applicable for all entities. However, they are only effective as of March 12, 2020 through December 31, 2022. This is because the amendments ~~in ASU 2020-04~~ are intended to provide relief related to the accounting requirements in generally accepted accounting principles (GAAP) due to the effects of the market-wide transition away from IBORs. The relief provided by the amendments is temporary in its application in alignment with the expected market transition period. However, the FASB will monitor the market-wide IBOR transition to determine whether future developments warrant any changes, including changes to the end date of the application of the amendments in this ASU. If such an update occurs, the Working Group may also consider similar action. It is not expected that the Working Group will take action prior to or in the absence of a FASB amendment.

~~7.8.~~ The accounting issues are:

- a. Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?
- b. Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?
- c. Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?
- d. Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?
- ~~d.e.~~ Issue 5: Should the optional, expedient and exception guidance in ASU 2021-01 apply to derivative transactions addressed in SSAP No. 86?

## INT 20-01 Discussion

~~8.9.~~ For Issue 1, the Working Group came to the consensus that ASU 2020-04 shall be adopted, to include the same scope of applicable contracts or transactions for statutory accounting with the only modification related to a concept not utilized by statutory accounting, as noted below. The Working Group agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:

- a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.

- i. All contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.
- b. Allows hedging relationships to continue without dedesignation upon a change in certain critical terms.
- c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.
- e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.
- f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

~~9~~10. For Issue 2, the Working Group came to the consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

~~10~~11. For Issue 3, the Working Group came to the consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These changes are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a consensus that if an eligible lease affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

~~11~~12. For Issue 4, the Working Group came to the consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:

- a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than dedesignate the hedging relationship.
- b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.
- c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.
- d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

~~12~~13. For Issue 5, the Working Group came to a consensus on May 20, 2021, that ASU 2021-01 shall be applied to derivative transactions for statutory accounting. Accordingly, derivative instruments that are modified to change the reference rate used for margining, discounting, or contract price alignment that is a result of reference rate reform (regardless of whether the reference rate that is expected to be discontinued) are eligible for the exception

guidance afforded in ASU 2020-04 in that such a modification is not considered a change in the critical terms that would require dedesignation of the hedging relationship. In addition, for all derivatives (those qualifying for hedge accounting, those that do not qualify for hedge accounting and replication (synthetic asset) transactions (RSAT)), a reporting entity may account for and report modifications (that are within the scope of INT 20-01) as a continuation of the existing contract even when the legal form of the modification is a termination of the original contract and its replacement with a new reference rate reform contract. This includes in-scope modifications of centrally cleared swap contracts whether they are automatically transitioned at a cessation date or voluntarily executed prior to cessation.

~~13.~~14. Additionally, for GAAP purposes, if an entity has not adopted the amendments in *ASU 2017-12, Derivatives and Hedging*, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.

#### INT 20-01 Status

~~14.~~15. No further discussion is planned.

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

**Issue:** ASU 2020-08 – Premium Amortization on Callable Debt Securities

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:** In October 2020, the Financial Accounting Standards Board (FASB) issued *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* to clarify the amortization of premium associated with callable debt securities. In summary, ASU 2020-08 requires that to the extent the amortized cost basis of a callable debt security exceeds the amount repayable by the issuer, any associated premium (above the call price) is to be amortized to the next effective call price/date. For example, if a reporting entity held a bond at \$104 in which could be called at \$102 in a year, the \$2 excess premium would be amortized over that particular year. Once amortized to \$102, the reporting entity would then reassess for any excess premium to the next effective call price/date. If there is no remaining premium or further call dates, the effective yield is reset using the payment terms of the debt security.

**Existing Authoritative Literature:** The amortization of premiums related to debt securities is referenced in *SSAP No. 26R—Bonds*. While the requirements in ASU 2020-08 are very similar to statutory accounting guidance, SSAP No. 26R also requires the application of a yield-to-worst concept. With this concept, premium is amortized in a manner to produce the lowest asset value. Relevant guidance has been bolded below.

**Amortized Cost**

9. **Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion), except "make-whole" call provisions, shall be amortized to the call or maturity value/date which produces the lowest asset value (yield-to-worst).** Although the concept for yield-to-worst shall be followed for all callable bonds, make-whole call provisions, which allow the bond to be callable at any time, shall not be considered in determining the timeframe for amortizing bond premium or discount unless information is known by the reporting entity indicating that the issuer is expected to invoke the make-whole call provision.

**Application of Yield-to-Worst**

10. For callable bonds, the first call date after the lockout period (or the date of acquisition if no lockout period exists) shall be used as the "effective date of maturity" for reporting in Schedule D, Part 1. Depending on the characteristics of the callable bonds, the yield-to-worst concept in paragraph 9 shall be applied as follows:

- a. For callable bonds with a lockout period, premium in excess of the next call price (subsequent to acquisition and lockout period) shall be amortized proportionally over the length of the lockout period. **After each lockout period (if more than one), remaining premium shall be amortized to the call or maturity value/date which produces the lowest asset value.**
- b. For callable bonds without a lockout period, the book adjusted carrying value (at the time of acquisition) of the callable bonds shall equal the lesser of the next call price (subsequent to acquisition) or cost. Remaining premium shall then be amortized to the call or maturity value/date **which produces the lowest asset value.**

- c. For callable bonds that do not have a stated call price, all premiums over par shall be immediately expensed. For callable bonds with a call price at par in advance of the maturity date, all premiums shall be amortized to the call date.

### Balance Sheet Amount

11. Bonds, as defined in paragraph 3, shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the NAIC *Valuations of Securities* product prepared by the NAIC Securities Valuation Office (SVO).

- a. Bonds, except for mandatory convertible bonds: **For reporting entities that maintain an asset valuation reserve (AVR), the bonds shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, bonds that are designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; all other bonds (NAIC designations 3 to 6) shall be reported at the lower of amortized cost or fair value.**
- b. Mandatory convertible bonds: Mandatory convertible bonds are subject to special reporting instructions and are not assigned NAIC designations or unit prices by the SVO. The balance sheet amount for mandatory convertible bonds shall be reported at the lower of amortized cost or fair value during the period prior to conversion. This reporting method is not impacted by NAIC designation or information received from credit rating providers (CRPs). Upon conversion, these securities will be subject to the accounting guidance of the statement that reflects their revised characteristics. (For example, if converted to common stock, the security will be in scope of SSAP No. 30R—*Unaffiliated Common Stock*, if converted to preferred stock, the security will be in scope of SSAP No. 32R—*Preferred Stocks*.)

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

### Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as **nonsubstantive and expose revisions to SSAP No. 26R—Bonds to reject ASU 2020-08 for statutory accounting**. While ASU 2020-08 closely mimics existing guidance in SSAP No. 26R (amortizing applicable debt premium to the next effective call price), it does preclude statutory accounting's yield-to-worst concept, which requires amortizing premiums to the call or the maturity value/date in which produces the lowest asset value. There may be scenarios, for statutory accounting, in which premiums amortized to the maturity value/date will yield a lower asset value than simply amortizing applicable premium to the next effective call date (as is required in ASU 2020-08).

### Proposed Revisions to SSAP No. 26R

33. This statement rejects the GAAP guidance for debt securities, which is contained in [ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs](#), ASU 2018-03, *Recognition and Measurement of Financial Assets and Financial Liabilities*, ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*, ASU 2016-01, *Financial Instruments – Overall*, FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, FASB Emerging Issues Task Force No.

*89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA, and FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115*

**Staff Review Completed by:** Jim Pinegar, NAIC Staff – January 2021

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 26R—Bonds* to reject *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* for statutory accounting. While ASU 2020-08 closely mimics existing guidance in SSAP No. 26R (amortizing applicable debt premium to the next effective call price), it does preclude statutory accounting's yield-to-worst concept, which requires amortizing premiums to the call or the maturity value/date which produces the lowest asset value. There may be scenarios, for statutory accounting, in which premiums amortized to the maturity value/date will yield a lower asset value than simply amortizing applicable premium to the next effective call date (as is required in ASU 2020-08).

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 26R—Bonds*, as illustrated above, to reject *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* for statutory accounting. While ASU 2020-08 closely mimics existing guidance in SSAP No. 26R (amortizing applicable debt premium to the next effective call price), it does preclude statutory accounting's yield-to-worst concept, which requires amortizing premiums to the call or the maturity value/date which produces the lowest asset value. There may be scenarios, for statutory accounting, in which premiums amortized to the maturity value/date will yield a lower asset value than simply amortizing applicable premium to the next effective call date (as is required in ASU 2020-08).

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

**Issue:** SSAP No. 103R – Disclosures

**Check (applicable entity):**

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

This agenda item has been drafted to propose additional disclosures and to data-capture certain existing disclosure elements in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The additional disclosures proposed herein are in response to the Statutory Accounting Principles (E) Working Group's continued deliberation of agenda item 2019-21: SSAP No. 43R – Equity Instruments. Agenda item 2019-21 is a substantive project to consider what investments fall within scope of *SSAP No. 43R—Loan-Backed and Structured Securities* and on October 13, 2020, this project was expanded to include a review of the investments eligible for reporting on Schedule D-1: Long Term Bonds. During the continued work on this project, regulators expressed a desire to identify situations in which a reporting entity has entered into a securitization, asset-backed financing or similar transfer transaction where a significant economic interest in the transferred assets is retained by the reporting entity, its related parties or another member within the holding company group.

The existing disclosures discussed (and proposed for data-capture) are currently completed in a narrative (pdf) format. With the proposal to data-capture certain disclosures, regulators can utilize system inquiries to determine which reporting entities have a securitization, asset backed financing arrangement, or other similar transfers that have been accounted for as a sale when the transferor has continued involvement.

Note – the disclosures discussed below are only required in the event a reporting entity as entered into a securitization, asset-backed financing arrangement or other similar transfer in which it also retains a continuing involvement with the transferred financial asset. Due to the numerous circumstances that may require disclosure, data-capture of most of the applicable disclosures would not sufficiently relay the particular characteristics or circumstances of the transaction – as is required in SSAP No. 103R. However, the need for regulators to have the ability to query the global population regarding the nature of these transactions remains a primary reason for this agenda item. Nonetheless, certain consistent numerical disclosures are suitable for data-capture, which will significantly assist with regulator's ability to identify which reporting entities have such transactions, at which time further analysis of the narrative disclosures can be performed.

**Existing Authoritative Literature:**

*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

28. A reporting entity shall disclose the following:

- g. For securitizations, asset-backed financing arrangements, and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary) with the transferred financial assets:
  - i. For each income statement presented:
    - (a) The characteristics of the transfer (including a description of the transferor's continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or

loss from sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

- (1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
    - (2) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor's continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses).
  - (b) Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees, and cash flows received from a transferor's beneficial interests.
- ii. For each statement of financial position presented, regardless of when the transfer occurred:
- (a) Qualitative and quantitative information about the transferor's continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:
    - (1) The total principal amount outstanding, the amount that has been derecognized, and the amount that continues to be recognized in the statement of financial position.
    - (2) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.
    - (3) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:
      - (i.) The type and amount of support
      - (ii.) The primary reasons for providing the support
    - (4) Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor's exposure to loss or risk of the related transferor's interest.

- (b) The entity's accounting policies for subsequently measuring assets and liabilities that relate to the continuing involvement with the transferred financial assets;
- (c) The key inputs and assumptions used in measuring the fair value of assets or liabilities that relate to the transferor's continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses);
- (d) For the transferor's interests in the transferred financial assets, a sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under paragraph 28.g.ii.(c) independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test
- (e) Information about the asset quality of transferred financial assets and any other assets that it manages together with them. This information shall be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets as well as in other assets and liabilities that it manages together with transferred financial assets. For example, information for receivables shall include, but is not limited to:
  - (i.) Delinquencies at the end of the period; and
  - (ii.) Credit losses, net of recoveries, during the period.

### **Current Annual Statement Illustrations for Completing Disclosures:**

#### **Note 17: Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

- (4) For securitizations, asset-backed financing arrangements and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary of the *Accounting Practices and Procedures Manual*) with the transferred financial assets:
  - a. For each income statement presented:
    - 1. The characteristics of the transfer including a description of the transferor's continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from the sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:
      - (a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3).
      - (b) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor's continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of prepayable financial assets; and anticipated credit losses, including expected static pool losses)

- If an entity has aggregated multiple transfers during a period, it may disclose the range of assumptions.
    - The weighted-average life of prepayable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.
    - Expected static pool losses can be calculated by summing the actual and projected future credit losses and dividing the sum by the original balance of the pool of assets.
  - 2. Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees and cash flows received from a transferor's beneficial interests.
- b. For each statement of financial position presented, regardless of when the transfer occurred:
1. Qualitative and quantitative information about the transferor's continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk and other risks), including:
    - (a) The total principal amount outstanding, the amount that has been derecognized and the amount that continues to be recognized in the statement of financial position.
    - (b) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.
    - (c) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:
      - The type and amount of support.
      - The primary reasons for providing the support.
    - (d) Information is encouraged about any liquidity arrangements, guarantees and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor's exposure to loss or risk of the related transferor's interest.
  2. The entity's accounting policies for subsequently measuring assets and liabilities that relate to the continuing involvement with the transferred financial assets.



3. The key inputs and assumptions used in measuring the fair value of assets or liabilities that relate to the transferor's continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of pre-payable financial assets; and anticipated credit losses, including expected static pool losses).
4. For the transferor's interests in the transferred financial assets, a sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported per *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* independently from any change in another key assumption, and a description of the objectives, methodology and limitations of the sensitivity analysis or stress test.
5. Information about the asset quality of transferred financial assets and any other assets that it manages together with them. This information shall be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets, as well as in other assets and liabilities that it manages together with transferred financial assets. For example, information for receivables shall include, but is not limited to:
  - Delinquencies at the end of the period.
  - Credit losses, net of recoveries, during the period.

**Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** N/A

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS) and U.S. GAAP:** N/A

**Staff Recommendation:** NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive to 1) expose new disclosure elements and 2) propose data-capture templates for existing disclosures in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. A blanks proposal exposure is anticipated to occur concurrently with the Working Group's exposure. With inclusion of the data templates, narrative (pdf) reporting shall still occur to provide additional information regarding transfers accounted for as a sale when the transferor maintains continuing involvement in the transferred financial assets. The purpose of the data-capture templates is so regulators can perform system inquiries to identify which reporting entities have such transactions, at which time further analysis of the narrative disclosures can be performed.

#### **Proposed disclosures to SSAP No. 103R**

28. A reporting entity shall disclose the following:
  - g. For securitizations, asset-backed financing arrangements, and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary) with the transferred financial assets:
    - i. For each income statement presented:
      - (a) The characteristics of the transfer (including a description of the transferor's continuing involvement with the transferred financial assets, the nature and initial

fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

- (1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
  - (2) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor's continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses).
- (b) Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees, and cash flows received from a transferor's beneficial interests.
- ii. For each statement of financial position presented, regardless of when the transfer occurred:
- (a) Qualitative and quantitative information about the transferor's continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:
    - (1) The total original principal amount ~~outstanding~~, the amount that has been derecognized, and the outstanding amount that continues to be recognized in the statement of financial position. The percentage of original principal held in the company group and the percentage of derecognized principal held by related parties.
    - (2) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.
    - (3) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:
      - (iii.) The type and amount of support
      - (iv.) The primary reasons for providing the support
    - (4) Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the

transferred financial assets that may affect the transferor's exposure to loss or risk of the related transferor's interest.

### **Proposed Data Capture Template:**

This data template includes aspects from SSAP No. 103R paragraphs 28g.i.(a & b), and 28.g.ii(a) as well as the new proposed disclosure elements. (While the entire proposed data capture template was new, only the additional proposed SSAP No. 103R disclosures were shown as tracked changes in the March 15<sup>th</sup> exposure, as shown immediately below).

### **Proposed Data Capture Template:**

Each Material Transaction Listed Separately:

*(Identification of each transaction should be consistent so that the circumstances for each item are adequately associated with the applicable transaction)*

Identification of Transaction	Original Principal	% of Original Principal held within the company group	Amount Derecognized	% of derecognized held by related parties	Outstanding Amount still recognized in the statement of financial position	Net cashflows between transferor and transferee	FV of proceeds received	Gain/loss from sale of transferred assets
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### **Staff Review Completed by: Jim Pinegar – January 2021**

#### **Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to propose 1) new disclosure elements, and 2) a data-capture template for existing disclosures in SSAP No. 103R to capture disclosures for when a reporting entity has transferred (or sold) assets but still retains a material participation. A blanks proposal is anticipated to be concurrently exposed.

On April 20, 2021, the Statutory Accounting Principles (E) Working Group exposed updated revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The updated exposure was drafted after receiving preliminary comments from interested parties and proposes 1) new disclosure elements, and 2) a data-capture template for certain existing disclosures in SSAP No. 103R to detail instances where a reporting entity has transferred (or sold) assets but still retains a material participation. An updated blanks proposal is anticipated to be concurrently exposed.

### **April 20, 2021, Updated Exposure and Disclosure Template:**

**Drafting Note:** Subsequent to March exposure of this agenda item, Working Group representatives, NAIC staff and interested parties discussed regulator's desire to identify situations in which a reporting entity has entered into a securitization, asset-backed financing or similar transfer transaction where a significant economic interest in the transferred asset is retained by the reporting entity, its related parties or another member within the holding company group. Through this discussion, refinement and explanatory language which was updated and exposed by the Working Group on April 20, has been collaboratively proposed. **The updated SSAP No. 103R disclosure recommendation and the blanks proposal are shown below.**

**Updated Exposed Revisions to SSAP No. 103R – April 20, 2021:**

SSAP No. 103R, paragraph 28.g.ii.

- ii. For each statement of financial position presented, regardless of when the transfer occurred:
  - (a) Qualitative and quantitative information about the transferor's continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk, and other risks), including:
    - (1) The total principal amount outstanding (BACV), the amount that has been derecognized, and the amount that continues to be recognized in the statement of financial position. The amount recognized (allocated fair value) by the reporting entity for the acquired participation in the transferred assets. The reporting schedules of both the transferred and reacquired assets. The percentage of beneficial interests from the reporting entity's transferred assets acquired by affiliated entities.

**Updated Exposed Data Capture Template – April 20, 2021:****Instructions:**

The purpose of this table is to provide a data capture template for certain disclosures required in SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, paragraph 28.g. As detailed in paragraph 28.g.ii., disclosure is required for each statement of financial position presented, regardless of when the transfer occurred. Determination of continuing involvement shall be applied in accordance with the definition reflected in SSAP No. 103, Appendix A.

Columns requesting information that results in a null result (i.e., if column 5 results in a zero balance as 100% of the asset was transferred), shall indicate zero (0). In the event a column is not applicable, (i.e., if affiliated entities did not acquire an interest in the transferred asset), the column shall be referenced as zero (0).

In circumstances where an entity has multiple assets associated with a sale (i.e., several limited partnerships are sold as a single transaction), the assets should be aggregated and reported as a single transaction.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
<u>Identification of Transaction</u>	<u>BACV Prior to Transfer</u>	<u>Original Reporting Schedule of the Transferred Assets</u>	<u>Amount Derecognized from Sale Transaction</u>	<u>Amount that continues to be recognized in the statement of financial position</u>	<u>BACV of acquired interests in transferred assets</u>	<u>Reporting Schedule of Acquired Interests</u>	<u>Percentage of interests of a reporting entity's transferred assets acquired by affiliated entities</u>

Column 1 – Identification of each material transaction. Identification should be consistent across reporting periods so that the circumstances for each item are adequately associated with the applicable transaction.

Column 2 – The aggregate book value, at the time of transfer, of all assets associated with the transaction.

Column 3 – The investment schedule(s) in which the transferred assets were reported, immediately prior to the transfer. If the transferred assets were reported on multiple schedules, all reporting schedules shall be identified.

Column 4 – The aggregate book value derecognized from the investment schedules as a result of the transfer. If the assets were transferred in their entirety, Column 4 will equal Column 2.

Column 5 – The amount that continues to be recognized in the statement of financial position. This should equal Column 2 less Column 4.

Column 6 – The original BACV reported for acquired beneficial interests (or any other interest) in the previously transferred asset. (BACV for these transactions is often the allocated fair value associated with the transaction.)

Column 7 – The reporting schedule of the acquired beneficial interest reported in Column 6.

Column 8 – The percentage of interest of a reporting entity's transferred assets acquired by an affiliate as defined in SSAP No. 25—*Affiliates and Other Related Parties*.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as illustrated above, to incorporate additional disclosure elements and a data-capture template for certain disclosures in SSAP No. 103R. The disclosures and data-capture template will assist regulators in their assessment of situations where an entity has transferred (or sold) assets but a significant economic interest in the transferred asset is retained by the reporting entity, its related parties or another member within the holding company group.

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

**Issue: Accounting for Cryptocurrencies**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

NAIC staff have received several inquiries related to the statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority, such as the Federal Reserve System. These questions generally inquiry whether Bitcoin is permitted to be admitted, but a recent inquiry asked whether Bitcoin is captured in the cash definition within *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*.

The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009. Cryptocurrencies are currently purchased and exchanged using a limited number of unregulated digital currency exchanges. As of February 2021, there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of total outstanding cryptocurrencies nearing \$1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions. Additionally, the recently steep increase in value has attracted speculative investors.

For statutory accounting, cash is defined in *SSAP No. 2R* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” **Cryptocurrencies do not meet this definition because these assets are not able to be deposited or exchanged with most U.S. banks and financial institutions.** There have been some recent changes in the market as PayPal now allows users to buy, sell and hold some cryptocurrencies. It is important to note that PayPal is not recognized as a bank. In addition to Bitcoin, some banks have shown interest in stablecoins, which trade like cryptocurrencies but are pegged to existing government-backed currencies, such as the U.S. dollar. NAIC staff are aware that this treatment is evolving and that in the future banks may accept cryptocurrencies in the same manner as true government-backed currencies, which could then meet the statutory accounting definition of cash. However, at this time, NAIC staff note that cryptocurrencies currently do not meet the definitions of cash equivalents, drafts, or short-term investments as they are defined in *SSAP No. 2R*.

With regards to the inquiry on whether cryptocurrencies are considered admitted assets, pursuant to *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, assets are not permitted to be admitted unless specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*. As such, as cryptocurrencies are not specifically identified as admitted, these are nonadmitted assets.

At this time, no Committees or groups at the NAIC, including the Securities Valuation Office (SVO), have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.

**Existing Authoritative Literature:**

Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” *SSAP No. 4—Assets and Nonadmitted Assets* provides guidance that assets which are not

addressed in the *Accounting Practices and Procedures Manual* default to nonadmitted status. Nonadmitted assets are detailed in *SSAP No. 20—Nonadmitted Assets*.

#### SSAP No. 4

3. As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2, which is accorded limited or no value in statutory reporting, and is one which is:

- a. Specifically identified within the *Accounting Practices and Procedures Manual* as a nonadmitted asset; or
- b. Not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** IFRS has not yet taken a firm position on cryptocurrencies.

#### **Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the interpretative guidance provided by *INT 21-01T: Statutory Accounting Treatment for Cryptocurrencies*. This guidance clarifies that cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and are nonadmitted assets for statutory accounting. NAIC staff will continue to monitor the evolution of cryptocurrencies and address this topic further, including addressing any statements made by FASB or the AICPA, for any significant changes in the usage and design of cryptocurrencies.

With this exposure, the Working Group requests input from Interested Parties and the insurance company trade groups that follow the Working Group to gather information from their members on current ownership of cryptocurrencies. The Working Group requests information on:

1. Extent to which companies currently hold cryptocurrencies,
2. How the acquisition in cryptocurrency is held (held directly by the insurer or indirectly through and SCA),
3. Which cryptocurrencies they are acquiring in (Bitcoin, Ethereum, Litecoin, etc.), and
4. General level of interest for future investment by both companies that currently do and do not own cryptocurrencies.

**Staff Review Completed by: Jake Stultz, February 2021**

#### **Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the interpretative guidance in *INT 21-01T: Statutory Accounting*



*Treatment for Cryptocurrencies* to clarify that cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and are nonadmitted assets for statutory accounting. With the exposure, information from industry is requested per the above recommendation.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, *INT 21-01: Statutory Accounting Treatment for Cryptocurrencies*. The INT clarifies that directly held cryptocurrencies do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* nor, when directly held, meet definition of an admitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*. The adoption included minor edits to the exposure, which added the phrase “directly held.”

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## Interpretation of the Statutory Accounting Principles Working Group

### INT 21-01: Accounting for Cryptocurrencies

#### INT 21-01 Dates Discussed

March 15, 2021, May 20, 2021

#### INT 21-01 References

*SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*

#### INT 21-01 Issue

1. This agenda item is to address questions regarding statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority. Cryptocurrencies are purchased and exchanged using a limited number of unregulated digital currency exchanges and are not held or offered by major banks.
2. The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009, and there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of the total outstanding cryptocurrencies nearing \$1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions and insurance companies.
3. No NAIC Committees or groups have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.
4. This Interpretation intends to clarify that directly held cryptocurrencies are nonadmitted assets for statutory accounting.

#### INT 21-01 Discussion

5. Directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the *Accounting Practices and Procedures Manual* as an admitted asset.
6. Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” Cryptocurrencies are currently not accepted by major banks and do not operate like a traditional currency, and as such do not meet the definition of cash in *SSAP No. 2R*.

#### INT 21-01 Consensus

7. The Statutory Accounting Principles (E) Working Group reached a consensus that directly held cryptocurrencies do not meet the definition of an admitted asset and are therefore considered to be a nonadmitted

asset for statutory accounting. The Working Group intends to rely on this interpretation for statutory accounting and will address cryptocurrencies further once FASB has provided definitive guidance.

**INT 21-01 Status**

8. No further discussion is planned.
9. The Statutory Accounting Principles (E) Working Group will continue to monitor the evolution of cryptocurrencies and subsequently review this interpretation as appropriate as part of the normal maintenance process.

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**NAIC Accounting Practices and Procedures Manual**  
**Editorial and Maintenance Update**  
**March 15, 2021**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
SSAP No. 53	Minor modification to the SSAP title to be consistent with similar SSAP titles.
SSAP No. 97	Corrects grammatical errors in paragraph 54 of <i>SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities</i> .
SSAP Glossary	Removes the footnote reference in the <i>Glossary to the Statements of Statutory Accounting Principles</i> and replaces it as an opening paragraph with updated verbiage.

**Recommendation:**

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as nonsubstantive, and expose editorial revisions as illustrated below.

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed editorial revisions to *SSAP No. 53—Property Casualty Contracts*, *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and the SSAP Glossary as detailed below.

On May 20, 2021, the Statutory Accounting Principles adopted, as final, the exposed editorial revisions to *SSAP No. 53—Property Casualty Contracts*, *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and the SSAP Glossary, as illustrated below.

**SSAP No. 53—Property Casualty Contracts – Premiums**

Retitle to *SSAP No. 53—Property and Casualty Contracts – Premiums*. This minor modification will title SSAP No. 53 in a consistent manner with other SSAPs (i.e., *SSAP No. 62R—Property and Casualty Reinsurance*).

**SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities**

54. The purpose of a Sub 1 filing is to gather basic information about the SCA. If the NAIC determines that the reported transaction meets the tests specified, it will complete the filing in the VISION database. If the NAIC determines that the transaction does not meet the tests specified, it ~~shall~~ will not complete the filing in the VISION database and instead shall notify ~~notifies~~ the reporting insurance company and the state of domicile in writing of its determination.

**SSAP Glossary**

- 1) Remove the footnote in the SSAP Glossary title:  
GLOSSARY to the Statements of Statutory Accounting Principles ~~(FN)~~  
~~FN—Note that some SSAPs may have terminology that is specific to that topic. Refer to the SSAP for clarification. Accordingly, they are not intended to be applied to other topics.~~

2) Add an opening paragraph:

The terms in this Glossary are common in most SSAPs. Some SSAPs may have terminology that is topic-specific and not intended to be applied to other topics.

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

**Issue:** *ASU 2020-11, Financial Services—Insurance: Effective Date and Early Application*

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:** FASB issued *ASU 2020-11, Financial Services—Insurance: Effective Date and Early Application*, which updates guidance on the effective date of the amendments in *ASU 2019-09, Financial Services – Insurance* and *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts* because of COVID-19.

**Existing Authoritative Literature:** Both ASU 2019-09 and 2018-12 were rejected for statutory accounting.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff Recommendation:**

NAIC staff recommends the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-11, Financial Services—Insurance: Effective Date and Early Application* as not applicable for statutory accounting. This ASU was issued to only address the effective dates of ASU 2019-09 and ASU 2018-12, which were both previously rejected by the Working Group.

**Staff Review Completed by** Jake Stultz, January 2021

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-11, Financial Services – Insurance: Effective Date and Early Application* as not applicable for statutory accounting.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-11, Financial Services – Insurance: Effective Date and Early Application* as not applicable for statutory accounting.

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

**Issue:** *ASU 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)*

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" 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:**

In January 2021, the Financial Accounting Standards Board (FASB) issued *ASU 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)*, slightly amending the guidance which was issued in *ASU 2014-09, Revenue from Contracts with Customers*, as it relates to franchisors. As a reminder, the revenue recognition updates were the result of a joint project between FASB and the International Accounting Standards Board (IASB). This project clarified the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRS (the IASB issued *IFRS 15 – Revenue from Contracts with Customers*) and FASB created ASC Topic 606 – Revenue from Contracts with Customers.

In 2018, the Statutory Accounting Principles (E) Working Group rejected the guidance in ASU 2014-09 and several other ASUs related to Revenue Recognition in *SSAP No. 47—Uninsured Plans*. Since 2018, all additional ASUs related to revenue recognition have been reviewed by NAIC staff and have been rejected for statutory accounting. The guidance in ASU 2021-02 provides updates and clarifications to the guidance for franchisors, which include several unique accounting concepts that were not fully covered by ASU 2014-09 and ASC Topic 606.

The updates in ASU 2021-02 apply to entities that are not public business entities that are within the scope of Topic 952, which includes all entities that meet the definition of franchisor, that is, the party who grants business rights (the franchise) to the party (the franchisee) who will operate the franchised business. The amendments in this ASU were intended to reduce the cost and complexity of applying Topic 606 to pre-opening services for franchisors that are not public business entities by providing a practical expedient for applying Topic 606 to pre-opening services.

**Existing Authoritative Literature:**

Premium revenue recognition is detailed throughout the SSAPs, including the following: *SSAP No. 51—Life Contracts*; *SSAP No. 53—Property Casualty Contracts – Premiums*; *SSAP No. 54—Individual and Group Accident and Health Contracts* and *SSAP No. 57—Title Insurance*. The ASUs related to ASC Topic 606 have been rejected in SSAP No. 47.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** Agenda item 2016-19 and 2017-37 address the main ASUs related to ASC Topic 606 and there have been several other agenda items for minor updates to revenue recognition guidance.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**  
None

**Convergence with International Financial Reporting Standards (IFRS):** ASC Topic 606 and IFRS 15 are the result of the joint project between the FASB and IASB to improve financial reporting by creating common revenue recognition guidance.

**Staff Recommendation:**

NAIC staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2021-02 in *SSAP No. 47—Uninsured Plans*. This recommendation is consistent with how the prior ASUs related to Topic 606 have been treated.

**Staff Review Completed by: Jake Stultz, February 2021**

**Proposed Revisions to SSAP No. 47:**

15. This statement rejects *ASU 2014-09, Revenue from Contracts with Customers*; *ASU 2015-14, Revenue From Contracts With Customers*; *ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; *ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*; *ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*; *ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*; ~~and~~ *ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606* and ASU 2021-02, Franchisors—Revenue from Contracts with Customers.

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 47—Uninsured Plans* to reject *ASU 2021-02, Franchisors – Revenue from Contracts with Customers*.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 47—Uninsured Plans*, as illustrated above, to reject *ASU 2021-02, Franchisors—Revenue from Contracts with Customers* for statutory accounting.

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