1. Consideration of Maintenance Agenda – PENDING LIST
   (Page 1 of Attachment A)

Tab - Attachments B-D

- **2015-01: ASU 2010-23 – Health Care Entities, Measuring Charity Care** (Attachment B – Linda/Julie)

  Summary:
  ASU 2010-23, Health Care Entities, Measuring Charity Care (ASU 2010-23), effective under GAAP on a retrospective basis for fiscal years beginning after December 15, 2010, requires that “cost” be used as the measurement basis for charity care disclosure purposes and that “cost” be identified as the direct and indirect costs of providing the charity care. ASU 2010-23 also requires disclosure of the method used to determine the costs. This GAAP update was issued to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care as some entities have determined charity cost disclosures on a cost measurement, whereas others have used a revenue measurement.

  Charity Care as defined in the FASB’s Accounting Standards Codification:
  Charity care represents health care services that are provided but are never expected to result in cash flows. Charity care is provided to a patient with demonstrated inability to pay. Each entity establishes its own criteria for charity care consistent with its mission statement and financial ability.

  Recommendation:
  Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 54—Individual and Group Accident and Health Contracts to adopt the definition of charity care from ASU 2010-23, and adopt with modification the ASU 2010-23 charity care disclosure.

- **2015-02: Short Sales** (Attachment C – Julie)

  Summary:
  Historically, questions have been received regarding the statutory accounting treatment for “short sales.” Previously the staff response to these questions have directed the caller to inquire with their state of domicile, as it was believed that several states prohibit short sales in their state laws. Recently, the amount of questions have increased, with inquiries on whether statutory accounting guidance addresses these transactions, and if these actions should fall within the scope of SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 103) and/or SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions (SSAP No. 86). This agenda item provides information regarding short sales and requests consideration by the Working Group on statutory accounting guidance. There is a significant amount of information in the agenda item, key excerpts below:

  o A short sale is the sale of a stock that an investor does not own or a sale which is consummated by the delivery of a stock borrowed by, or for the account of, the investor. Short sales are normally settled by the delivery of a security borrowed by or on behalf of the investor. The investor later closes out the position by returning the borrowed security to the stock lender, typically by purchasing securities on the open market. (Source - SEC)

  o With a short sale, an investor is open to the possibility of unlimited losses since a stock can theoretically keep rising indefinitely.
In a "naked" short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period. As a result, the seller fails to deliver securities to the buyer when delivery is due (known as a "failure to deliver" or "fail").

Pursuant to GAAP guidance, short-sales are not included within the derivative guidance unless a forward purchase or forward sale is involved. Even if a forward purchase or forward sale was involved, if the contract included a regular-way security trade exception, it would not be subject to the derivative guidance. Regular-way security trades are defined as contracts that provide for delivery of a security within a period of time after the trade date generally established by regulations or conventions in the marketplace or exchange in which it is being executed. (Pursuant to the SEC guidance, as short sale sellers need to borrow or arrange to borrow the securities to deliver within T+3 to avoid them from being considered “naked”, even if a forward contract is involved, it is anticipated that these would be captured within the regular-way security trade exception and not reported as derivatives.)

There is no explicit guidance regarding short sales in statutory accounting guidance. With the SAP definition of a derivative (which is different from U.S. GAAP), a position could be taken that short sales would be within the confines of SSAP No. 86. In reviewing the history of the SSAP No. 86 derivative definition and the variation of the definition from GAAP detailed in Issue Paper No. 114—Accounting for Derivative Instruments and Hedging Activities, there is no reference that the SAP derivative definition was intended to capture short sales. Instead, the rationale for the definition difference indicates that the SAP definition results in contracts not being captured as derivatives, whereas other contracts may be considered derivatives under U.S. GAAP.

Guidance in the income generation section of SSAP No. 86 requires income generation transactions to be “covered.” Per that guidance, in order to be “covered” “offsetting assets can be used to fulfill potential obligations.” This guidance highlights that “the combination of the derivative and the covering asset work as a reverse hedge, where the asset owned by the reporting entity in essence hedges the derivative risk.” (The definition of a short sale is a sale of stock that the investor does not own, or which is consummated by stock that is borrowed. As such, if the sale is “covered” per the guidance in SSAP No. 86, the transaction does not meet the short sale definition. As such, the SSAP No. 86 guidance seemingly prohibits the concept of a “true” short sale within statutory accounting if the transaction was classified as income generation.) The SSAP No. 86 “covered” concept is not the same as the SEC guidance regarding “naked” short sales. Under the SEC guidelines, a “naked” short sale is one in which the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period (T+3). Under the SEC guidelines (and the definition of a short sale), offsetting assets are not required at the time of the transaction.

Short sales are often supported by a securities borrowing transaction. (The insurer borrows the securities, sells them to a third party, and then purchases securities on the open market to return to the lender in the security borrowing transaction.) Although there is guidance in SSAP No. 103 for securities lending transactions (insurer lends securities), the only guidance for the “borrowing” side (unless the transaction was accounted for as a sale) is an illustration that mirrors the GAAP guidance related to cash collateral. This illustration does not reflect the SAP securities lending guidance or concepts for non-cash collateral.

Per SEC requirements to avoid a “naked” short sale, sellers must borrow, or make arrangements to borrow securities for delivery under a short sale within a three-day settlement period (T+3). This three-day settlement period is a significantly shorter timeframe than the 15 days allowed for pending receivables for securities to be admitted under SSAP No. 21—Other Admitted Securities.


**Assets.** Pursuant to SSAP No. 21, receivables for securities not received within 15 days from the settlement date shall be nonadmitted and classified as other-than-invested assets.

- Per a search of state laws, 17 jurisdictions (16 states and Puerto Rico) have statute restrictions on short sales. (This is limited to those states with specific statutes.)

**Recommendation:**

Staff recommends that the Working Group move this to the substantive active listing and expose this agenda item to get initial feedback before providing staff direction. After obtaining initial information, it is recommended that the Working Group direct staff to prepare explicit guidance regarding short sales. Depending on the preference of the Working Group, guidance could expressly prohibit short-sale transactions for statutory accounting purposes, or, if these transactions should be considered, incorporate specific accounting provisions.

If the Working Group would like to consider allowing these transactions, staff is anticipating discussions on the extent SAP guidance should follow market terms, or if specific statutory terms and restrictions should be implemented. Direction is requested on what guidance should govern these transactions. As part of the discussion of this topic, staff would suggest consideration of securities lending “borrowing” guidance (when the insurer is borrowing securities under a securities lending transaction). Additionally, staff would suggest reconsideration of the 15-day settlement period in SSAP No. 21, to mirror the SEC timeframe of T+3.

- **2015-03: Sale-Leasebacks with Nonadmitted Assets** (Attachment D – Julie)

  **Summary:**
  
  Several questions have recently been presented to NAIC staff regarding sale-leaseback transactions involving nonadmitted assets with unrelated parties. Although these transactions may include real estate, the questions received have specifically identified non-real estate depreciating assets (e.g., software) as the nonadmitted assets being sold and leased-back. With the existing guidance in SSAP No. 22—Leases, and references to “property” in the sale-leaseback section, questions have been received on whether these assets were intended to be excluded from the sale-leaseback guidance. In addition to the types of assets captured within the guidance, clarification is requested on the statutory accounting guidance for sale-leaseback transactions involving nonadmitted assets.

  Based on the feedback from inquiring states, it appears that explicit guidance disallowing all sale-leaseback transactions with nonadmitted assets may be supported. This agenda item has been developed to clarify the history and scope intent of the existing guidance, and to request Working Group consideration on whether nonadmitted, non-real estate assets should be permitted for sale-leaseback accounting. In researching this item, staff has identified that there are some inconsistencies with the scope of adopted GAAP guidance (e.g., real estate), so this agenda item also requests consideration to review and update SSAP No. 22 accordingly.

  **Recommendation:**

  This agenda item requests guidance from the Working Group members on how to proceed with revisions. Whichever direction the Working Group prefers for sale-leasebacks, staff recommends that revisions be made in SSAP No. 22 to eliminate future questions. Staff recommends that the Working Group expose the agenda item to get initial feedback before providing direction on the following items and before classifying this agenda item as substantive or nonsubstantive:

  1. Incorporate guidance to clarify that the reference to “property” in the sale-leaseback section has the same scope as the full SSAP - property, plant or equipment (land or depreciable assets). This item also suggests clarifying the guidance specific to “real estate” versus “non-real estate.”
2. Incorporate guidance to clarify when sale-leaseback transactions involving nonadmitted assets shall follow the deposit method of accounting. (Revisions under this item would be proposed to either require all such transactions to follow the deposit method of accounting, or, if the Working Group wants to allow these items, clarify that they are permitted in SSAP No. 22.)

3. Incorporate guidance and/or revisions to clearly identify and reflect the guidance adopted under GAAP. This item proposes to incorporate the current GAAP guidance in ASC 840-40 to the extent that the pre-codification GAAP standards were adopted by the Working Group, with the modifications previously adopted unless items are specifically noted for reconsideration.

Staff Note: The FASB and IASB have a joint project to reconsider the accounting for leases. Currently the FASB is redeliberating decisions based on comments from their exposure draft. Although staff suggests that the elements of the exposure draft move forward, a comprehensive project to review the GAAP guidance (including possible re-consideration of capital leases) is expected once the FASB issues their revised standard. (There is no expected release date on the FASB website.)

Tab - Attachments E-F


Summary:

SSAP No. 26—Bonds, Excluding Loan-backed and Structured Securities currently has guidance requiring 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, to amortize the premium or discount to the call or maturity value/date which produces the lowest asset value (yield to worst). Questions have been received on this accounting guidance and this agenda item proposes revisions to SSAP No. 26 to address the following three items:

  o **Item 1: Prepayment Penalties and Acceleration Fees:** Often, callable bonds provide a prepayment penalty (or acceleration fee) in the event the bond is liquidated prior to its scheduled termination date. Questions have been received on the accounting treatment of these penalties and whether they should be recorded as investment income or as a capital gain and how they should be reported within the financial statements and supporting schedules. **Current guidance in SSAP No. 26, paragraph 14 indicates these penalties and fees should be classified as investment income.** However, this guidance is conflicting with existing annual statement instructions, as well as how information currently flows on Schedule D-Part 4 (Sold, Redeemed or Disposed). Furthermore, with the differences in types of calls (e.g., make-whole call provisions), the “penalty” may not be as easily identifiable (e.g., a standard call price of 105 indicates a penalty of 5). **This agenda item proposes that the Working Group consider reporting all prepayment penalties and acceleration fees as realized gains, which would result with the total difference between the consideration (amount received – including penalties and fees) and BACV being subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.**

  o **Item 2: Continuously Callable Bonds:** Bonds that are considered “continuously callable” without specific “make whole” call provisions are intended to capture bonds that have a lock-out period before the first call date, and bonds (if any) that are callable immediately after acquisition. These bonds are proposed to be captured within the existing guidance of SSAP No. 26 (yield to worst – amortized to the lowest asset value). Questions have been received regarding the amortization on continuously callable bonds and the concept of “Yield to Worst” – more specifically, the instances in which the premium needs to be immediately expensed. **This agenda item provides illustrations and proposes revisions to clarify the existing accounting guidance.**

  o **Item 3: Make Whole Call Provisions:** Make whole call provisions allow the borrower to pay off the remaining debt at any time by making a lump-sum payment to the holder derived from a
contractual agreement, usually based on the net present value of future cash flows not paid because of the call. This agenda item provides illustrations and proposes revisions to clarify the accounting for make whole call provisions. As noted in the agenda item, make whole call provisions are intended to be infrequently exercised. However, in 2014 there were numerous bonds with these provisions that were called, resulting in proposed revisions to the guidance.

Recommendation:
It is recommended that the Working Group move this agenda item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 26:

1) Require prepayment penalties and acceleration fees to be reported as realized capital gains instead of investment income. (A similar revision is also suggested for SSAP No. 37.) As noted, this would result with the total difference between the consideration (amount received – including penalties and fees) and BACV being subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

2) Incorporate guidance to clarify the “yield to worst” concept (including when to expense premium) for continuously callable bonds.

3) Revise the measurement method for bonds with make whole call provisions to follow the yield-to-worst concept without exception.

The agenda item provides further discussion, as well as proposed revisions and supporting illustrations.

- **2015-05: SSAP Title Revisions** (Attachment F – Josh & Julie)

Summary:
As part of the efforts to continuously make modifications to the Accounting Practices & Procedures Manual to make the publication more user-friendly for regulators, companies and other users of the manual; this agenda item proposes revisions to the titles of various SSAP’s. In most of the noted instances, the titles are long, and often contain duplicative information that is also outlined within the Scope of Statement section of the SSAP. These revisions are not expected to result in any accounting changes, but rather improve the ability to quickly identify and reference all SSAPs.

Recommendation:
It is recommended that the Working Group move this agenda item to the nonsubstantive active listing and expose proposed nonsubstantive revisions to the SSAP titles as detailed in Appendix A. Upon adoption of a new SSAP title, all references to the title will be updated in the AP&P Manual. Although nonsubstantive revisions are generally shown as tracked changes, it is proposed that these revisions not be shown as marked. Comments are requested on any concerns with this approach.

Tab - Attachments G-I


Summary:
ASU 2015-01: Income Statement—Extraordinary and Unusual Items (ASU 2014-15) was issued in January 2015 to eliminate the concept of extraordinary items from U.S. GAAP. In issuing this standard, the FASB noted that it is extremely rare for an event or transaction to be presented as an extraordinary item. Additionally, the ASU identifies that the term “extraordinary” causes uncertainty because it is often unclear when an item should be considered both unusual and infrequent and what might be
considered extraordinary in one industry may not be considered extraordinary in another. Additionally, the concept of extraordinary items has been interpreted narrowly in practice so entities, rarely, if ever, reach a conclusion that the conditions for presentation have been met.

In electing to remove the concept for extraordinary items, the FASB concluded that the amendments will not result with a loss of information as presentation and/or disclosure will now occur for items that are unusual in nature or infrequently occurring, or both. The amendments in ASU 2015-01 are effective for fiscal periods and interim periods within those fiscal years beginning after December 15, 2015. The GAAP guidance allows for either a prospective or retrospective application. Early adoption is permitted under GAAP provided that the guidance is applied from the beginning of the fiscal year of adoption. For entities that are applying prospectively, the only required transaction is to disclose, if applicable, both the nature and amount of an item included in income from continuing operations after adoption that adjusts an extraordinary item previously classified and presented before the date of adoption. An entity applying retrospectively should provide disclosures for a change in accounting principle.

Recommendation:

Staff recommends that the Working Group move this to the nonsubstantive active listing and expose nonsubstantive revisions to adopt with modification ASU 2015-01. The modifications would prevent reporting entities from recognizing events or transactions that are unusual nature or infrequent in occurrence as a separate component of operations, but would require disclosure for these transactions. For statutory accounting purposes, these events shall be reported consistently with the reporting of continuing operations. (This is consistent with existing SSAP No. 24 guidance.) Disclosure of events that are unusual, or infrequent, or both shall be provided in the financial statements.

Although revisions are proposed to SSAP No. 24 to reflect the GAAP terms and consideration of ASU 2015-01, the actual accounting guidance is essentially unchanged. (Under SSAP No. 24, entities report extraordinary items consistently with continuing operations. This approach is suggested to be continued for events and transactions considered to be unusual and/or infrequent.) As such, staff does not believe an explicit effective date is required. These nonsubstantive revisions would be effective upon adoption. In addition to proposing revisions to reflect the adoption with modification of ASU 2015-01, the revisions to SSAP No. 24 move all disclosures into the “disclosure” section.

NOTE – The proposed revisions tracked in agenda item 2015-06 are specific to the consideration of ASU 2015-01. However, agenda item 2015-07 (which considers ASU 2014-08) also proposes revisions to SSAP No. 24. The two agenda items address completely different guidance, so they have been evaluated separately, but as they both impact SSAP No. 24, the proposed revisions are somewhat overlapping. Attachment I includes the proposed revisions to SSAP No. 24 for both agenda item 2015-06 and 2015-07 to reflect how they will appear if the proposed revisions for both ASUs are adopted. (By including the revisions separately in each agenda item, the Working Group could elect to move forward with one agenda item, if more time is needed for the other.)


Summary:

ASU 2014-08: Presentation of Financial Statements and Property, Plant and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) was issued in April 2014 to develop an improved definition of discontinued operations that also enhances convergence of U.S. GAAP and IFRS, with improved clarity on disposals through disclosures. In making these changes, it was noted that the revisions are intended to improve existing presentation as the amendments limit discontinued operations to components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. Prior to these
amendments, it was noted that under U.S. GAAP many disposals, some of which may be routine in nature and not a change in strategy, were reported in discontinued operations. The amendments in ASU 2014-08 require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position.

The effective date of the ASU 2014-08 amendments varies by the type of entity:

1. Public entities and not for profit entities that have issued, or are a conduit bond obligor, for securities that are traded, listed, or quoted on an exchange or an over-the-counter market apply amendments prospectively for noted situations (disposals or classifications as held for sale) within annual periods beginning on or after December 15, 2014 and interim periods within those years.

2. All other entities apply the amendments prospectively for noted situations (disposals or classifications as held for sale) within annual periods beginning on or after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015.

Recommendation:

Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to adopt with modification ASU 2014-08. The proposed modifications would:

a. Reject guidance in ASU 2014-08 for separate reporting of discontinued operations. An entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations. *(This is consistent with existing guidance in SSAP No. 24.)*

b. Not allow for a gain from discontinued operations to be recognized until the disposal transaction is complete. The guidance would require losses to be recognized when discontinued operations are classified as held for sale, and would be required in subsequent periods when the fair value less costs to sell is below the carrying value. Additionally, the guidance would not allow losses to be adjusted for subsequent recoveries in fair value changes, or improvements in the expected costs to sell until disposal is complete. *(This is consistent with existing guidance in SSAP No. 24.)*

c. Only adopt the ASU 2014-08 disclosures applicable for all types of discontinued operations, and only to the extent reflected in this Statement. The separate disclosures for discontinued operations for components or group of components and discontinued operations comprising an equity method investment would be rejected and not required.

With this proposal, the overall SAP reporting method is not expected to change (report discontinued operations with other operations), however, several revisions are recommended to reflect the current GAAP guidance and terminology. In addition to proposing revisions to reflect the adoption with modification of ASU 2014-08, the proposed revisions to SSAP No. 24 move all disclosures into the “disclosure” section at the end. The agenda item also includes the proposed changes to Appendix D to reflect the changes in the adoption of prior GAAP guidance.

In addition to the proposed revisions to SSAP No. 24, limited revisions have been proposed to SSAP No. 90, paragraphs 31 and 41 as those paragraphs currently refer to SSAP No. 24. However, staff is recommending a separate project for a comprehensive review of SSAP No. 90. It appears that the guidance in SSAP No. 90 has commingled “long lived asset” and “real estate investment” guidance – particularly with regards to separate reporting. Under statutory accounting, only real estate investments held for sale are separately classified on the balance sheet. Subsequent revisions
to SSAP No. 90 under a separate project should not impact the discontinued operation proposed revisions detailed in this agenda item.

NOTE – The proposed revisions tracked in agenda item 2015-07 are specific to the consideration of ASU 2014-08. However, agenda item 2015-06 (which considers ASU 2015-01) also proposes revisions to SSAP No. 24. The two agenda items address completely different guidance, so they have been evaluated separately, but as they both impact SSAP No. 24, the proposed revisions are somewhat overlapping. Attachment I includes the proposed revisions to SSAP No. 24 for both agenda item 2015-06 and 2015-07 to reflect how they will appear if both the proposed action for both ASUs are adopted. (By including the revisions separately in each agenda item, the Working Group could elect to move forward with one agenda item, if more time is needed for the other.)

Tab - Attachments J-L

- 2015-08: SSAP No. 97 – Nonadmitted Assets and Application of the SAP Guidance
  (Attachment J – Julie)

Summary:
SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88 provides the statutory accounting guidance for determining the measurement method and value for an investment in an SCA. Questions have been received regarding the application of guidance, and the intent of this agenda item is to consider those issues to improve consistency in statutory accounting.

The following items have been identified in the agenda item for discussion. Only a summary of the issue is included below. Please see agenda item 2015-08 for further information and proposed discussion elements / options:

**Item 1: Nonadmitted Assets in Non-Insurance SCAs** – Non-insurance SCAs can either be measured under the “market valuation approach” (paragraph 8a) or under the equity methods described in paragraphs 8bii (GAAP equity with limited adjustments for SAP) or 8biii (GAAP equity). With the current guidance in SSAP No. 97, assets that would not qualify as admitted assets under statutory accounting principles, which are owned by a non-insurance entity valued under paragraphs 8a or 8biii are effectively included as admitted assets when included in the reported investment of the SCA. If the SCA was captured under 8bii, some assets would be nonadmitted with the limited statutory adjustments, but the adjustments required under paragraph 9 would not eliminate all nonadmitted assets. **Issue** – Reporting entities can transfer nonadmitted assets into a non-insurance SCA, thereby improving the surplus position of a reporting entity as follows:

A. By removing the nonadmitted asset, the reporting entity experiences a change (decrease) in nonadmitted assets, and this change results with an increase in the reporting entity’s surplus.

B. By transferring the nonadmitted asset to an audited SCA, the reporting entity recognizes an admitted asset from the investment in the SCA, resulting in a higher asset value for the investment in SCA, which also increases the reporting entity’s surplus.

**Item 2: Valuation of U.S. Insurance SCAs (8bii)** – The guidance in paragraph 8bii of SSAP No. 97 requires that U.S. Insurance SCAs be recorded based on the underlying audited statutory equity of the respective entity’s financial statements, adjusted for any amortized goodwill. Reporting entities are to record their investment in the U.S. Insurance SCA on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. **Issue** – The statutory equity reported by the SCA may be impacted by permitted or prescribed practices, and this impact is not detailed in the reporting entity financial statements as they only report their investment in the SCA.
Item 3: Valuation of Non-Insurance SCAs Engaging in Insurance Activities (8bii) and Foreign Insurance Entities (8biv) – Non-insurance SCAs that meet the activity and revenue test of paragraph 8bii and foreign insurance SCAs captured within 8biv are to be reported based on the underlying U.S. GAAP equity (or foreign statutory basis) adjusted to a “statutory basis of accounting” in accordance with the adjustments specifically included in paragraph 9. Issue – The adjustments required in paragraph 9 detail specific changes required to determine the value of the SCAs captured under paragraphs 8bii and 8biv. However, as these are only adjustments for specific items within certain SSAPs, the adjustments do not result in a value that reflects a full “statutory basis of accounting” for the SCA. Furthermore, some of the adjustments do not appear consistent with current statutory accounting guidance (e.g., adjustment for DTAs).

Recommendation:
It is staff’s recommendation that the Working Group initially move this to the substantive active listing, with a request for comments from regulators and industry on the specific issues and discussion elements noted in the agenda item. Depending on the responses received, the Working Group will assess the extent of revisions necessary and may reconsider whether this is a substantive or nonsubstantive issue.

• 2015-09: Technical Edits to APP Manual (Attachment K – Linda/ Robin)

Summary:
During a review of the Accounting Practices and Procedures Manual, staff noted areas where technical edits would be beneficial to the guidance. However, these revisions were deemed too extensive to incorporate without review and approval by the Working Group. Appendix A of the agenda item includes the proposed revisions to various SSAPs. There are three types of revisions proposed: language updates, references to INTs and their effective dates that were not included in the SSAPs’ Effective Date and Transition sections when the INTs were incorporated into the SSAPs, and moving paragraphs to keep the overall format of the SSAPs in line with other SSAPs.

The proposed edit to SSAP No. 106 for the ACA section 9010 disclosure is to address consistency issues noted within the 2014 annual filings. Some reporting entities incorrectly reported an impact on Authorized Control Level (ACL). The impact of the risk-based capital sensitivity test in the risk based capital formula determines the effect on Total Adjusted Capital only. Staff has also prepared a related annual statement blanks proposal to clarify this in the annual statement note.

Recommendation:
It is staff’s recommendation that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to various SSAPs as detailed in the agenda item.

• Referral To Capital Adequacy (E) Task Force – Assets on Deposit for Benefit of All Policyholders (Attachment L – Julie)

Summary:
With the clarity adopted for identifying restricted assets, NAIC staff has received several questions regarding the classification of “assets on deposit with states for benefit of all policyholders” as a restricted asset. Although there is generally agreement that these assets meet the definition of a restricted asset, and should be classified as such, by classifying these assets as restricted, the reporting entity incurs an additional RBC charge. As the purpose of states’ requiring assets on deposit is to provide protection to policyholders, questions have been received whether these assets should be classified as restricted, with a corresponding RBC charge. In reviewing this issue, and preliminary information from regulators, SAPWG staff believes that these assets on deposit meet the definition of restricted assets, and obtaining information about the full nature of restricted assets provides beneficial
information. Rather than removing these assets from the restricted asset classifications and disclosures, it has been suggested that a referral be provided to the Capital Adequacy (E) Task Force with a request that they re-evaluate whether a separate “restricted asset” RBC charge is needed for assets held on deposit for benefit for all policyholders. As these assets are included in the reporting entity’s investment schedules, these assets already receive RBC assessments based on the nature of the asset.

**Recommendation:**

It is recommended that the Working Group agree to send a referral to the Capital Adequacy (E) Task Force to consider the need for a separate RBC charge for assets on deposit with the state held for the benefit of all policyholders.

2. Consideration of Maintenance Agenda – SUBSTANTIVE ACTIVE LIST
   (Page 2 of Attachment A)

- **2013-36 – Investment Classification Project** (Attachments M, N, O, P – Julie)

  **Summary:**
  
  This agenda item represents a comprehensive project to review the “investment SSAPs” with suggestions to clarify definitions, scope, and the accounting method / related reporting. This project suggests the development of new SSAPs to capture investments that are outside of specific “investment-type” definitions and consider the elimination of “exceptions” within specific SSAPs and address specific characteristics of those investments to ensure consistent and appropriate valuation and reporting. During the 2014 Fall National Meeting, the Working Group discussed comments received on the exposed discussion topics and directed staff to proceed with the first two issues in the prioritization list, which include developing a security definition and working on a fund SSAP/schedule.

  Staff has prepared a series of discussion documents for Working Group consideration and/or exposure:

  - **Security Definition** (Attachment M) - This memorandum proposes revisions to include a definition to the term “security” within the definition of a bond in SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities. As noted in the memo, it is proposed to incorporate the GAAP definition of a security as it is used in FASB Codification Topic 320: Investments – Debt and Equity Securities, and Topic 860: Transfers and Servicing. By incorporating the definition of a security in SSAP No. 26, it will be clear that some investments within scope of SSAP No. 26 do not meet the definition of a bond. Although the inclusion of these investments will be subsequently considered under the investment project, for this discussion topic, it is proposed that the guidance in SSAP No. 26 be divided between those items that meet the explicit definition of a bond, and investments that have been previously decided to be reported as bonds.

  - **Contractual Amount of Principle Due** (Attachment N) - This memorandum discusses the proposal for a “contractual amount of principle due” for SSAP No. 26 investments. As noted in the memo, this item proposes to incorporate guidance to require all SSAP No. 26 investments to have a “contractual amount of principal due,” with concurrent consideration of new guidance for “funds.” Although a preliminary draft SSAP for “funds” has been proposed based on existing guidance, it is recommended that the Working Group complete a full assessment of “funds” to review the variety of items that can be captured within this definition and consider guidance for all types. With the exposure of this item, comments are requested on other investments that would be removed from SSAP No. 26 as a result of the condition for a contractual amount of principle due. *(This document does not include the valuation method if ETFs are pulled into a separate SSAP. That aspect is pending subsequent Working Group discussion.)*

  - **ETF Analysis** (Attachment O) - This memorandum details the accounting for ETFs approved for “bond” or “preferred stock” reporting by the SVO as of December 31, 2013. Per the analysis within,
this memo highlights the inconsistencies that currently exist with the reporting of ETFs. This memo highlights that moving towards a fair value measurement method (or Net Asset Value - NAV - as a practical expedient) for all ETFs at this time, in most instances, would have a negligible impact to the reporting company and would result with companies consistently reporting these assets at a publicly-traded value, which represents the amount available for policyholder claims. *(Note: Staff is currently working to complete this assessment for 2014 financial statements.)*

- **Definitions of Non-Bond Items** *(Attachment P)* – This memo provides definitions for debt-like investments that are outside of the bond definition proposed in SSAP No. 26. This memorandum seeks first to clarify definitions of these investments, and request whether other terms should be defined, so that discussion on the appropriate statutory accounting guidance can subsequently occur.

3. Consideration of Maintenance Agenda – NONSUBSTANTIVE ACTIVE LIST
   (Page 5 of Attachment A)

   - **2014-25: Holders of Surplus Notes** *(Attachment Q – Julie)*

   **Summary:**
   Questions have been received on the current guidance for the holders of surplus notes within paragraph 10 of SSAP No. 41—Surplus Notes. This agenda item proposes to clarify this guidance for consistency purposes. Particularly, this agenda item proposes to clarify the application of the guidance in paragraph 10a and 10b to the paragraph 10 “hanging paragraph” guidance. In addition, it asks questions regarding whether the valuation method used for surplus notes designated at NAIC 1 for holders of surplus notes should always be amortized cost, or if the hanging paragraph which introduces a “lesser of value” threshold was intended to possibly reduce amortized cost if the outstanding face value is less. Questions have arisen as to what aspects of paragraph 10 this guidance is intended to apply. In reviewing older guidance (and *Issue Paper No. 41—Surplus Notes*), the placement of this paragraph has not changed and it appears to be applicable to the entire paragraph 10 (not just paragraph 10.b.). In discussing the hanging paragraph issue, questions were raised on whether the threshold guidance in paragraphs 10b is still applicable and if it should be reconsidered. On November 16, 2014, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft revisions to clarify existing guidance related to non-rated surplus notes and surplus notes with a designation below an NAIC 1. In addition, the Working Group affirmed that surplus notes with an NAIC 1 designation should be carried at amortized cost, and not the lesser of amortized cost or outstanding face value.

   **Recommendation:**
   After considering interested parties comments, and reviewing the Schedule BA reporting process for surplus notes, **staff is recommending that the Working Group move this to the substantive active listing and expose proposed revisions to SSAP No. 41.** *(Staff notes that by moving this to the substantive active listing, an Issue Paper will be needed. However, staff would suggest that the Working Group first expose these proposed revision in the agenda item, and then move forward with a subsequent Issue Paper.)* The revisions reflect the following elements:

   1) Surplus notes with a CRP rating equivalent to an NAIC 1 shall be reported at amortized cost.

   2) Surplus notes that are not rated by a CRP, or have a CRP rating that is anything other than NAIC 1 shall be reported at the lower of amortized cost or fair value. This proposed guidance eliminates the concept of reporting the surplus note at “outstanding face value” or a calculated amount based on a “statement factor.” Staff believes the prior guidance in SSAP No. 41 for determining which method to use is outdated, and the reporting process on Schedule BA does not encompass these concepts. (There is no column for par or outstanding face value on Schedule BA. Additionally, if the statement factor is used, it is not possible on Schedule BA to identify the calculation and the resulting amount.) By using the lower of amortized cost or fair
value for everything other than NAIC 1, the measurement method is consistent with the SAP method for other lower-quality debt-like investments, and the highest possible value reported would reflect an amount the reporting entity should be able to obtain if they sold the surplus note (FV). Staff recognizes that for some surplus notes, the amount currently reported (if using a statement factor) may be increased with these revisions. As this would only happen in situations in which amortized cost is greater than the fair value, and the surplus note is not an NAIC 1, staff does not have concerns with this increase in value. As previously noted, since fair value is the amount that would be received if selling the surplus note under, staff is not concerned with fair value being the amount recognized.

3) The previous guidance in SSAP No. 41 seemed to commingle when changes in the value for surplus notes should impact unrealized losses or be nonadmitted. With the proposed revisions, valuation changes (e.g., fair value fluctuations, or moving from amortized cost to fair value) would result in unrealized changes. The other aspects that impact the value of surplus notes (such as if the issuer is under regulatory action) would result in a nonadmission of the surplus notes. Staff believes these concepts are similar to other statutory accounting guidance, and would assist with ensuring consistent application of the principles.


**Summary:**
This agenda items addresses the appropriate lines of the annual statement to report Medicare risk adjustment receivables and payables. In addition, this agenda item asks questions regarding whether the current reporting indicated in the statement of statutory accounting principles is the reporting that is desired by the regulators. During the 2014 Fall National Meeting, the Working Group directed staff to work with Working Group members and industry to develop a recommendation on the reporting for all contracts subject to redetermination including amounts resulting from Medicare Part D and Medicare Advantage, and risk adjustment receivables under the ACA. In addition, related reporting guidance is to be developed for the Blanks (E) Working Group. The Working Group also approved a joint referral to the Health Actuarial (B) Task Force and the Life Actuarial (A) Task Force to clarify inclusion in the Statement of Actuarial Opinion regarding the receivables and payables from these amounts.

In 2015, staff met with Working Group representatives from Ohio, Connecticut, Michigan and Texas and industry representatives from AHIP, BCBSA and United Healthcare to develop recommendations. Interim discussions noted a concern that contracts subject to redetermination should be reflected as direct adjustments to written premium when accrued as opposed to going through change in unearned and reserve and reserve for rate credits. This issue will be addressed primarily in the annual statement instructions for the sub schedules.

**Recommendation:**
It is recommended that the Working Group expose proposed revisions to SSAP No. 54, paragraph 30 shown below. It should be noted that this recommendation would apply to all contracts subject to redetermination. In addition, an annual statement blanks proposal will be submitted to the Blanks (E) Working Group. A summary of the recommendations regarding annual statements reporting is detailed in the agenda item. Discussions also noted that the Working Group should consider a separate project, which reviews health receivable disclosures with the possibility of a comprehensive federal health receivables note.

30. Premium adjustments for contracts subject to redetermination are estimated for the portion of the policy period that has expired and shall be considered an immediate adjustment to premium. Accrued premium adjustments shall be recorded as a write-in for other-than-invested assets in premium and considerations receivable, with a corresponding entry to written premiums. Accrued return premium adjustments shall be recorded as a liability with a
corresponding entry to written premiums. The annual statement liability lines will vary by the type of annual statement reporting entity files. Managed care/accident and health reporting entities report as aggregate health policy reserves; life and accident and health reporting entities report as aggregate reserves for accident and health contracts; property and casualty reporting entities report as aggregate write-ins for liabilities.

4. ANY OTHER MATTERS

A. Update on Restricted Asset Subgroup (Possible Additional Handout – Julie)

The Restricted Asset Subgroup conducted a conference call on Feb. 18, 2015. During this conference call, the Subgroup discussed clarifying the existing guidance in SSAP No. 103 for collateral requirements, discussed clarifying language for limited repurchase agreements to short-term transactions as a result of the state survey, and received comments from industry for consideration as part of an initial review of the accounting method for repurchase agreements. As a result of the discussion, the Subgroup agreed to the following next steps:

1) The Subgroup agreed to consider immediate revisions to SSAP No. 103 to clarify that collateral (or the purchased security) shall meet the requirements to be an admitted asset. Additionally, the Subgroup agreed to consider immediate revisions to update the collateral percentages required under repurchase and reverse-repurchase agreements. *(Although additional collateral revisions may be considered, those will be discussed as part of the broader discussions.)*

2) The Subgroup agreed to consider immediate revisions to SSAP No. 103 to clarify the short-term restrictions for repurchase agreements.

3) The Subgroup requested staff to complete additional research into repurchase agreements. Additionally, the Subgroup directed staff to request formal comments on the memorandum discussing possible accounting methods for an additional 30 days.

Per an evote on February 24, the Subgroup exposed proposed revisions to SSAP No. 103 to clarify the collateral requirements for repurchase and reverse repurchase agreements, as well as to clarify the short-term restrictions for repurchase agreements. Comments on this exposure were due March 6. The Subgroup anticipates subsequent conference calls.

B. Review of GAAP Decisions and Exposures (Attachment S – Josh / Julie)

<table>
<thead>
<tr>
<th>Exposed FASB ASUs</th>
<th>Comment Deadline &amp; Initial Staff Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions</td>
<td>Comment Deadline has passed. Exposure is not applicable to statutory accounting.</td>
</tr>
<tr>
<td>(2) Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)</td>
<td>Comment Deadline has passed. Review ASU under the SAP Maintenance Process</td>
</tr>
<tr>
<td>(3) Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies</td>
<td>February 17, 2015 Staff: No comment letter believed to be necessary. Review ASU under the SAP Maintenance Process</td>
</tr>
<tr>
<td>(5) Derivatives and Hedging (Topic 815): Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives</td>
<td>April 30, 2015 Exposure is not applicable to statutory accounting</td>
</tr>
</tbody>
</table>
C. Adoption of National Meeting & Interim Working Group and Subgroup Minutes

- December 11 and 12, 2014 – SAPWG (Attachments T & U)
- February 18 and 24, 2015 – Restricted Asset (E) Subgroup (Attachments V & W)

D. Update on PBR Charge Regarding Primary Security Definition & Reinsurance Model Reg.

The Principle-Based Reserving Implementation (EX) Task Force adopted the XXX/AXXX Reinsurance Framework in concept and adopted the charges needed to detail and finalize the Framework. The following charge has been assigned to the Statutory Accounting Principles (E) Working Group: Develop the proposed definition for “Primary Security” for use in the Principle-Based Reserving Implementation (EX) Task Force’s future consideration of a proposed NAIC XXX/AXXX Reinsurance Model Regulation.—Essential

The XXX/AXXX Captive Reinsurance Drafting (E) Subgroup heard a summary of the updated draft Term Life and Universal Life With Secondary Guarantees (XXX/AXXX) Credit for Reinsurance Model Regulation and related documents as developed by Neil Rector and Associates on March 10, and another call is planned before the National Meeting. The current draft regarding primary security is consistent with Actuarial Guideline 48. The Working Group will be included on future discussions regarding this model.

E. Update on FASB Discussions (Industry Update)

Comment deadline for exposed and new items is May 21, 2015.
<table>
<thead>
<tr>
<th>Ref#</th>
<th>Stmt. Ref.</th>
<th>Title</th>
<th>Proposed By</th>
<th>Description of Proposed Change</th>
<th>Priority</th>
<th>Date Added</th>
<th>Status</th>
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<tbody>
<tr>
<td>2007-03</td>
<td>6, 64</td>
<td>Reporting of premium receivables with credit balances on group contracts</td>
<td>Emerging Accounting Issue, WG Referral</td>
<td>Aks questions about the proper reporting of premium receivable with credit balances on group contracts (gross or net reporting)</td>
<td>A</td>
<td>2/26/2007</td>
<td>Staff to prepare language for consideration.</td>
</tr>
<tr>
<td>2007-04</td>
<td>26-30, 32</td>
<td>Investments in Lots</td>
<td>Emerging Accounting Issue, WG Referral</td>
<td>Addresses footnote 1 to paragraph 7 of FSP FAS 115-</td>
<td>A</td>
<td>2/26/2007</td>
<td>Staff has begun work on this issue.</td>
</tr>
<tr>
<td>2008-23</td>
<td></td>
<td>SSAP No. 51, Modal Reinsurance Premium</td>
<td>CA DOI</td>
<td>Recommends clarifications to SSAP No. 62, related to when the reimbursement payment is less frequent than premium from the insured.</td>
<td>A</td>
<td>8/11/2008</td>
<td></td>
</tr>
<tr>
<td>2015-01</td>
<td></td>
<td>SSAP No. 54, ASU 2010-23 – Health Care Entities, Measuring Charity Care</td>
<td>GAAP Hierarchy</td>
<td>Recommends nonsubstantive revisions to incorporate a definition of charity care and disclosure.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
</tr>
<tr>
<td>2015-02</td>
<td></td>
<td>SSAP No. 86 and 103, Short Sales</td>
<td>NAR Staff</td>
<td>Possible substantive revisions to incorporate guidance for short sales.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
</tr>
<tr>
<td>2015-04</td>
<td></td>
<td>SSAP Nos. 26 and 37, Prepayment Penalties and Amortization on Callable Bonds</td>
<td>NAR Staff</td>
<td>Recommends nonsubstantive revisions to require prepayment penalties and acceleration fees to be reported as realized capital gain, incorporate guidance to clarify the &quot;yield to worst&quot; concept for continuously callable bonds, and revise the measurement method for bonds with make whole call provisions.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
</tr>
<tr>
<td>2015-05</td>
<td></td>
<td>SSAP Title Revisions</td>
<td>NAR Staff</td>
<td>Recommends nonsubstantive revisions to various SSAP titles.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
</tr>
<tr>
<td>2015-08</td>
<td></td>
<td>SSAP No. 97, Nonadmitted Assets and Application of the SAP Guidance</td>
<td>NAR Staff</td>
<td>Possible substantive revisions from various topics related to valuation and nonadmittance of SCA entities.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
</tr>
<tr>
<td>2015-09</td>
<td></td>
<td>Various Technical Edits to APP Manual</td>
<td>NAR Staff</td>
<td>Recommends nonsubstantive technical edits to various SSAPs and the introduction to Appendix D.</td>
<td>A</td>
<td>3/5/2015</td>
<td>Discussion Expected Spring 2015</td>
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Italics indicates that item was added to listing or item was modified since last National Meeting.
<table>
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<tr>
<th>Ref #</th>
<th>Statement/Reference</th>
<th>Title</th>
<th>Proposed By</th>
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<th>Priority</th>
<th>Moved to Active</th>
<th>Status</th>
<th>Note</th>
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<tbody>
<tr>
<td>2001-32</td>
<td>SSAP No. 62</td>
<td>Quarterly Computation of Provision for Reinsurance</td>
<td>NAIC Staff</td>
<td>Nonsubstantive modification to provide computation of Provision for Reinsurance in SSAP No. 6; 12/10/01 for further study. Reinsurance Subgroup will address.</td>
<td>A</td>
<td>12/10/2001</td>
<td>Moved from nonsubstantive list on 12/10/01 for further study. Reinsurance Subgroup will address.</td>
<td></td>
</tr>
<tr>
<td>2002-10</td>
<td>SSAP No. 62</td>
<td>Consistent application of 90 day nonadmission/reimbursement</td>
<td>Referal from EAIWG</td>
<td>Noadmission and the 90 Day Rule</td>
<td>A</td>
<td>6/10/2002</td>
<td>Reinsurance Subgroup has been formed and will report to the WG.</td>
<td></td>
</tr>
<tr>
<td>2003-01</td>
<td>SSAP No. 51</td>
<td>Investments in Guaranteed Investment Contracts</td>
<td>SVO Oversight Working Group</td>
<td>Form A recommends referral to the VOSTF.</td>
<td>A</td>
<td>3/10/2008</td>
<td>Substantive change to SSAP No. 21 referred to the Invested Assets WG for comment.</td>
<td></td>
</tr>
<tr>
<td>2003-16</td>
<td>SSAP No. 53 and others</td>
<td>Statutory Accounting Treatment of Bail Premiums</td>
<td>American Surety Company</td>
<td>Proposes changing how bail bond premium is reported and accounted for, in addition, immigration bonds will also be considered.</td>
<td>A</td>
<td>6/23/2008</td>
<td>Bail Bond Subgroup will meet in 2009.</td>
<td></td>
</tr>
<tr>
<td>2003-22</td>
<td>INT 03-02</td>
<td>Modification to an Existing Intercompany Pooling Arrangements</td>
<td>Referal from EAIWG</td>
<td>Review intercompany pooling guidance in SSAP No. 61, SSAP No. 62 and SSAP No. 63 for clarification.</td>
<td>A</td>
<td>6/23/2008</td>
<td>Referred the issue to the Reinsurance Subgroup of the SAPWG.</td>
<td></td>
</tr>
<tr>
<td>2004-33</td>
<td>IP No. 99</td>
<td>EITF 03-8: Accounting for Claims Made and Retroactive Insurance Contracts by the Insured Entity</td>
<td>EITF 03-8: presents guidance for claims-made reinsurance policies that specifically scopes in insurance companies. New SAP guidance may be necessary.</td>
<td>A</td>
<td>12/6/2004</td>
<td>Working Group review pending.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-21</td>
<td>SSAP 21</td>
<td>FSP FIB 85-4; Accounting for Life Settlement Contracts by Third-Party Investors</td>
<td>GAAP Hierarchy</td>
<td>Form A recommends referral to the VOSTF.</td>
<td>A</td>
<td>8/22/2006</td>
<td>Referred to Valuation of Securities Task Force for input on marketability and for preferred accounting method. During the 2007 Fall National Meeting, the working group reviewed the referral response from the VOSTF and requested interested parties of the ACLI to provide the SVO with information necessary to perform adequate analysis. No discussion during Winter 2007. During the Spring 2008 National Meeting, this item was deferred, as the Working Group referred an ACLI comment letter to the VOS Task Force. Summer 2008 - Comments from ACLI considered, but continued dekerral until the SVO is provided requisite information that affords an informed recommendation. Spring 2010 - Working Group discussed information previously received from VOSTF Working Group deferred action to allow for additional review.</td>
<td></td>
</tr>
<tr>
<td>2008-20</td>
<td>SSAP 60</td>
<td>FAS 165, Accounting for Financial Guarantee Contracts</td>
<td>GAAP Hierarchy</td>
<td>Recommends adopting FAS 165 with modification. Key items that are recommended for incorporation within SSAP No. 60 include: specific disclosures for financial guaranty contracts, recognition of entire premium and unearned liability at inception for installment contracts and recognize when a claim is expected, rather than when a default has occurred.</td>
<td>A</td>
<td>7/8/2008</td>
<td>Fall 2008 - Directed staff to draft an Issue Paper proposing substantive revisions to SSAP No. 60 to incorporate several aspects of FAS 163. Winter 2008 - Exposed IP 136 for comment. Spring 2009 - Subgroup was formed to review the comments received on IP 136. The Subgroup will (1) prioritize adopting enhanced financial guaranty disclosures effective for the 2009 reporting period; (2) coordinate with the Financial Guaranty Insurance Guideline Working Group; and (3) conduct conference calls to address the technical comments. Summer, Fall and Winter 2009 - Subgroup update received.</td>
<td></td>
</tr>
<tr>
<td>2009-07</td>
<td>INT 06-07</td>
<td>FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments</td>
<td>GAAP hierarchy</td>
<td>Recommends that the Working Group move this item to the substantive active listing and direct staff to draft an Issue Paper for the development of a new SSAP that addresses guidance for OTTI.</td>
<td>A</td>
<td>6/13/2009</td>
<td>Summer 2009 - Moved to Substantive Active Listing and directed SG to draft an Issue Paper for a new SSAP to incorporate guidance from FSP FAS 115-2 and 124-2. Noted that SG may elect to reconsider this direction based on assessment of this FSP for statutory accounting. Fall 2009 - Working Group deferred consideration of this issue, Winter 2009 - Discussed interested parties request to consider item - directed to continue dekerral.</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>61</td>
<td>Deferred Premium Asset and the Unearned Premium Reserve</td>
<td>ACLI</td>
<td>Recommends changes to SSAP No. 61 related to when the reinsurance payment is less frequent than premiums from the insured.</td>
<td>A</td>
<td>6/13/2009</td>
<td>Summer 2009 - Moved to Substantive Active Listing and deferred further discussion until a joint call with LHATF. Fall 2009 - Staff directed to proceed with scheduling conference call. Noted call is needed before exposure.</td>
<td></td>
</tr>
<tr>
<td>Ref #</td>
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<td>Title</td>
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<tr>
<td>2009-15</td>
<td>None</td>
<td>Amendments to FASB Interpretation No. 46R - Variable Interest Entities</td>
<td>GAAP Hierarchy</td>
<td>Recommends that the Working Group move this to the Substantive Active Listing and direct staff to draft an Issue Paper proposing the development of a new SSAP to address variable interest entities</td>
<td>A</td>
<td>10/5/2009</td>
<td>Full 2009 - Moved to the Substantive Active Listing and directed staff to draft an Issue Paper for a new SSAP on variable interest entities. Winter 2009 - Exposed IP No. 142 for comment and formed subgroup to review (joint subgroup with item #2009-14). Spring 2010 - The Working Group received comments on the exposed Issue Paper and referred them to the FAS 166/167 Subgroup. Fall 2010 and Spring 2011 - Subgroup update received. Summer 2011 - Subgroup deferred until the SSAP No. 25 project (ref #2001-16) is complete.</td>
<td></td>
</tr>
<tr>
<td>2010-10</td>
<td>New SSAP SSAP No. 60</td>
<td>ASU 2010-15, Financial Services - Insurance - How Investments Held Through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments</td>
<td>GAAP Hierarchy</td>
<td>Referred this item to the FAS 166/167 Subgroup.</td>
<td>A</td>
<td>8/14/2010</td>
<td>Spring 2011 - Subgroup update received. Summer 2011 - Subgroup deferred until the SSAP No. 25 project (ref #2001-16) is complete.</td>
<td></td>
</tr>
<tr>
<td>2011-16</td>
<td>25, 48 &amp; 97</td>
<td>Definition of Related Party in SSAP No. 25</td>
<td>NAIC Staff</td>
<td>Proposes revisions to clarify the relationships that should be considered related parties in SSAP No. 25.</td>
<td>A</td>
<td>3/26/2011</td>
<td>Spring 2011 - Exposed substantive revisions to SSAP No. 25 to clarify the relationships that should be considered related parties. Also exposed nonsubstantive revisions to SSAP No. 48 and SSAP No. 97 to replace duplicative guidance from SSAP No. 25 with a reference to that standard. Although a substantive change, the revisions were exposed for initial comment, and the Working Group will subsequently consider development of an Issue Paper for discussion. Summer 2011 - Working Group directed staff to prepare an Issue Paper. Staff Update: As FASB issued exposure drafts in Fall 2011, with comments received in Spring 2012, NAIC staff is waiting to assess GAAP guidance before moving forward with the issue paper.</td>
<td></td>
</tr>
<tr>
<td>2012-14</td>
<td>100R</td>
<td>Fair Value Measurements</td>
<td>NAIC Staff</td>
<td>Proposes substantive revisions for a new SSAP No. 100 (SSAP No. 100R) to adopt with modification ASU 2011-04</td>
<td>A</td>
<td>3/3/2012</td>
<td>Spring 2012 - Exposed agenda item proposing adoption, with modification of the GAAP guidance for statutory accounting. Summer 2012 - Directed staff to develop an Issue Paper, working with interested parties on their submitted comments during development. Discussion expected in 2015.</td>
<td></td>
</tr>
<tr>
<td>2013-13</td>
<td>SSAP No. 86</td>
<td>Derivative Investment Reporting Subgroup Referrals</td>
<td>NAIC Staff</td>
<td>Reviews the referrals from the Derivative Investment Subgroup and suggests potential substantive revisions to SSAP No. 86</td>
<td>A</td>
<td>4/6/2013</td>
<td>Spring 2013 - Exposed concept revisions for accounting of collateral posted or received in accordance with derivative transactions and accounting for futures and forwards with specialized daily true-up features. Summer 2013 - Staff directed to prepare issue paper considering accounting and reporting guidance for centrally cleared derivatives, including guidance for collateral and initial and variation margin. Staff to consult with key regulators and industry representatives. Fall 2013 - Update given that issue paper for centrally cleared derivatives is in preliminary form and any interested regulators and interested parties should contact NAIC staff. Discussion expected in 2015.</td>
<td></td>
</tr>
<tr>
<td>2013-16</td>
<td>Various SSAPs</td>
<td>Investment Classification Project</td>
<td>NAIC Staff</td>
<td>This proposes a comprehensive project to review the “investment SSAPs” with suggestions to clarify definitions, scope, and the accounting method / related reporting.</td>
<td>A</td>
<td>12/15/2013</td>
<td>Fall 2013 - Exposed comprehensive project and requested comments on the overall proposal. Spring 2014 - Received comments from interested parties and directed staff to begin work on an issue paper, create a list of possible topics, and send referrals to the Valuation of Securities Task Force, Capital Adequacy Task Force and Blanks Working Group to respect collaboration. Summer 2014 - Exposed proposed discussion topics and suggested prioritization. Fall 2014 - Discussed comments received and directed staff to proceed with the first two issues in the prioritization list: develop a security definition and work on a fund SSAP schedule. Discussion expected Spring 2015.</td>
<td></td>
</tr>
</tbody>
</table>
## Statutory Accounting Principles Working Group
### 2015 Maintenance Agenda
#### Substantive Listing
March 5, 2015

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Statement Reference</th>
<th>Title</th>
<th>Proposed By</th>
<th>Description of Change</th>
<th>Priority</th>
<th>Moved to Active</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>Highest priority (disposition desired within the next 12 months)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>B</td>
<td>Less than highest and more than lowest priority</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Lowest priority (action deferred pending further consideration)</td>
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<tr>
<td>2002-16</td>
<td>SSAP No. 72</td>
<td>Inconsistent Treatment of Retroactive Reinsurance Transactions in Surplus Account</td>
<td>Texas</td>
<td>Sets forth consistent treatment of increases in surplus as a result of certain reinsurance transactions</td>
<td>A</td>
<td>9/13/2002</td>
<td>Nonsubstantive modification to SSAP No. 72 referred to the Reinsurance Subgroup</td>
</tr>
<tr>
<td>2004-17</td>
<td>SSAP No. 86, 51, 61 &amp; 26</td>
<td>Clarification and Reporting Guidance for Financial Instruments Used to Hedge Options Embedded in Variable Annuity Guarantees</td>
<td>American Academy of Actuaries’ VARWG</td>
<td>LHATF is developing a new reserving methodology for Guaranteed Minimum Death Benefits and Guaranteed Living Benefits that will include recognition of hedging instruments in the calculation of reserves, which requires modification of the AP&amp;P Manual</td>
<td>A</td>
<td>9/13/2004</td>
<td>Referred to LHATF in Sept 2004; Subgroup to be formed with members of SAPWG and LHATF.</td>
</tr>
<tr>
<td>2007-28</td>
<td>SSAP No. 25</td>
<td>FIN 46-R, FSP FIN 46-R-4, FSP FIN 46-R-5 - Consolidation of Variable Interest Entities an interpretation of ARB No. 51</td>
<td>GAAP Hierarchy</td>
<td>Provides guidance on consolidation, maximum loss reporting, and clarification on a technical question regarding variable interest entities.</td>
<td>A</td>
<td>12/2/2007</td>
<td>Exposed change to SSAP No. 25 to include implicit and explicit variable interest entities within the examples of related parties and expand disclosure requirements to include the maximum loss exposure as a result of explicit or implicit variable interest entities, rejecting other aspects in both SSAP No. 25 and SSAP No. 22. Summer 2008 - Working Group re-exposed nonsubstantive revisions to SSAP No. 25, with staff directed to work with interested parties to develop appropriate disclosure for loss exposure resulting from variable interest entities. Fall 2008 - Deferred action on this item until the FASB completes a related project regarding FIN46(R). (See ref #2009-15).</td>
</tr>
<tr>
<td>2008-21</td>
<td>SSAP 54</td>
<td>A&amp;H Claims with multiple dates of service</td>
<td>KS DOH</td>
<td>Recommends more explicit reserving guidance in SSAP No. 54 related to subsequent treatment for the same illness.</td>
<td>A</td>
<td>8/1/2008</td>
<td>Fall 2008 - Referred this item to the Accident and Health Working Group.</td>
</tr>
<tr>
<td>2009-03</td>
<td>IP No. 99</td>
<td>FSP EITF 99-20-1: Amendments to the Impairment Guidance of EITF Issue No. 99-20</td>
<td>NAC Staff</td>
<td>Proposes the inclusion of the FASB’s impaired investment guidance in IP 99-06 to provide additional information on determining impairment.</td>
<td>A</td>
<td>2/23/2009</td>
<td>Spring 2009 - Moved this item to the nonsubstantive active listing and requested that the Emerging Accounting Issues Working Group consider revising IP 96-07 to include guidance from paragraphs 9 and 10 of FSP EITF 99-20-1. The Working Group also referred this item to the Fair Value Subgroup to consider what impact the adoption of FAS 157, Fair Value Measurements, would have on impairment assessments based on a fair value determination.</td>
</tr>
<tr>
<td>2009-11</td>
<td>Preamble Appendix D</td>
<td>Impact of FASB Codification on the AP&amp;P Manual</td>
<td>NAC Staff</td>
<td>Recommends forming a subgroup to consider changes to the AP&amp;P Manual that will be necessitated by the pending FASB Codification and other issues.</td>
<td>A</td>
<td>6/13/2009</td>
<td>Summer 2009 - Formed a Subgroup to consider changes to the AP&amp;P manual to address changes due to FASB codification, PBR, and content and format. Fall 2009 - Subgroup update received.</td>
</tr>
<tr>
<td>2010-06</td>
<td>New SSAP</td>
<td>ASU 2010-10, Consolidation (Topic 810) - Amendments for Certain Investment Funds</td>
<td>GAAP Hierarchy</td>
<td>Recommends that the item be moved to the nonsubstantive active listing with direction to the FAS 166 and 167 Subgroup to consider the guidance in accordance with comments received on IP No. 142.</td>
<td>A</td>
<td>3/26/2010</td>
<td>Spring 2010 - Working Group directed the FAS 166/167 Subgroup to consider this item in addition to the review of comments received on Issue Paper Nos. 141 and 142. (see also #2009-14 and #2009-15).</td>
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<tr>
<td>2011-44</td>
<td>84</td>
<td>Pharmacy Rebates Under Medicare Part D GAP Discount</td>
<td>NAC Staff</td>
<td>Recommends review of the Medicare Part D GAP Discount to determine whether statutory accounting provisions shall be incorporated for consistent reporting.</td>
<td>A</td>
<td>11/3/2011</td>
<td>Fall 2011 - Directed staff to work with regulators and industry for future discussion.</td>
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<td>2011-46</td>
<td>SSAP No. 62R</td>
<td>Additional Reserve under Provision for Reinsurance</td>
<td>Jeff Alton, CNA</td>
<td>Sponsor recommends revisions to SSAP No. 62R to modify the manner in which the additional reserve is established in order to achieve a level of consistency with how the provision of reinsurance is established.</td>
<td>A</td>
<td>11/3/2011</td>
<td>Fall 2011 - Work Group directed to do research this issue. Summer 2013 - Receive referral from Blank Working Group related to 2013-09BWG as it has opposing view of this proposal. Discussion expected in 2015.</td>
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<tr>
<td>2012-15</td>
<td>SSAP No. 65</td>
<td>Accounting for Policyholder Loyalty Program Obligations</td>
<td>GA DOI</td>
<td>Recommends revisions to incorporate guidance for the accounting of medical professional liability policyholder loyalty programs as part of policy reserves.</td>
<td>A</td>
<td>7/2/2012</td>
<td>Summer 2012 - Exposed revisions to SSAP No. 65 to clarify that cash benefits under policyholder loyalty programs should be included in policy reserves. Also sent a referral to the Casualty Actuarial and Statistical Task Force and requested comments during the exposure period. Fall 2012 - Item deferred with staff directed to gather additional information. Spring 2013 - Proposed industry survey was posted until April 26 to allow for review and comments to ensure the clarity of questions. July 3, 2013 - Survey distributed. Summer 2013 - Summary information discussed with additional analysis to be completed. Discussion expected in 2015.</td>
</tr>
<tr>
<td>2012-16</td>
<td>SSAP No. 65</td>
<td>Actuarial Calculation of Death, Disability or Retirement Reserve (DDR)</td>
<td>Susan Forray, Milliman</td>
<td>Recommends revisions to SSAP No. 65, and a referral to the Casualty Actuarial Task Force, to address 1) the measurement method of DDR reserves, 2) Reporting inconsistencies, and 3) Reinsurance application</td>
<td>A</td>
<td>7/2/2012</td>
<td>Summer 2012 - Exposed revisions to SSAP No. 65 to incorporate additional and clarifying guidance related to the DDR reserve. Also send a referral to the CASTF on the issues identified and requested info from interested parties and the Reinsurance TF on how reinsurance transactions impact reserves. Fall 2012 - Item deferred with staff directed to gather additional information. Spring 2013 - Proposed industry survey was posted until April 26 to allow for review and comments to ensure the clarity of questions. July 3, 2013 - Survey distributed. Summer 2013 - Summary information discussed with additional analysis to be completed. Discussion expected in 2015.</td>
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<tr>
<td>2013-26</td>
<td>SSAP No. 101</td>
<td>Review of FSP FIN 48</td>
<td>NAC Staff</td>
<td>Recommends revisions to consider FSP FIN 48 and ASU 2009-06</td>
<td>A</td>
<td>8/24/2013</td>
<td>Summer 2013 - Exposed revisions to reject ASU 2009-06 and FSP FIN 48-1, incorporate guidance for tax contingency settlement in SSAP No. 5R, and define a tax position in SSAP No. 101. Information is requested related to statutory application. Fall 2013 - comments received from interested parties and additional analysis determined to be necessary. Discussion expected in 2015.</td>
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<td>2014-23</td>
<td>SSAP No. 69</td>
<td>Treatment of Non-Cash Items in the Cash-Flow Statements</td>
<td>NAC Staff</td>
<td>Recommends clarification of the cash flow guidance in SSAP No. 69 and/or the A/S instructions. Explicit revisions are anticipated after receiving comments from interested parties and regulators.</td>
<td>A</td>
<td>8/1/2014</td>
<td>Summer 2014 - Initial exposure requests information on cash and non-cash transactions in Cash Flow Statement with staff directed to send confidential state survey to determine usage. Fall 2014 - Staff was directed to draft revisions to SSAP No. 69 to clarify that items included in the cash flow statement should be limited to those that involve cash (as defined in SSAP No. 69), expand the disclosure to include non-cash operating items, and work with Blanks to incorporate revisions to the instructions for the cash flow worksheets. Dec. 2014 - Moved to nonsubstantive and exposed revisions to expand disclosure to non-cash operating items. Discussion expected Spring 2015.</td>
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<tr>
<td>2014-24</td>
<td>SSAP No. 93</td>
<td>ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects</td>
<td>GAAP Hierarchy</td>
<td>Recommends that the Working Group consider revisions to SSAP No. 93 in accordance with existing statutory accounting concepts.</td>
<td>A</td>
<td>8/1/2014</td>
<td>Summer 2014 - Staff was directed to draft revisions to SSAP No. 93 to continue modified amortized cost methodology and gross presentation in investment income. Fall 2014 - Exposed revisions to adopt with modification ASU 2014-01 to prohibit elective proportional amortization method and net reporting and to update terminology. Discussion expected Spring 2015.</td>
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<td>2014-25</td>
<td>SSAP No. 41</td>
<td>Holders of Surplus Notes</td>
<td>NAI Staff</td>
<td>Recommends nonsubstantive revisions to clarify the accounting for holders of surplus notes. Initial agenda item requests comments on use of a “lower of” accounting standard as well as a proposal to review the thresholds for applying the statement factor.</td>
<td>A</td>
<td>8/1/2014</td>
<td>Summer 2014 - Initially exposed agenda item requesting comments on need to clarify existing surplus notes guidance and whether to revise thresholds used when applying statement factor for surplus note valuation. Fall 2014 - Staff to draft revisions to clarify existing guidance around non-rated surplus notes and surplus notes with an NAI designation below NAI 1, to clarify that surplus notes with an NAIC 1 designation should be carried at amortized cost and not a lessee-of-standard. Discussion expected Spring 2015.</td>
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<tr>
<td>2014-27</td>
<td>SSAP No. 54</td>
<td>Medicare Advantage and Medicare Part D Risk Adjustment Premium Receivables and Payable</td>
<td>AGI Services</td>
<td>Requests comments on Medicare and Medicare advantage plans and ACA Risk Adjustment Premium annual statement reporting and if the aggregate write in reporting in SSAP No. 54 should be updated to require reporting in a place other than aggregate write-ins.</td>
<td>A</td>
<td>8/1/2014</td>
<td>Summer 2014 - Exposed agenda item requesting information on whether the reporting of balances for contracts subject to redetermination in the aggregate write-ins should be updated. In addition requested input on the expansion of Medicare guidance. Fall 2014 - Staff to develop a recommendation on the reporting for contracts subject to redetermination amounts resulting from Medicare Part D and Medicare Advantage, and risk adjustment receivables under the ACA. Discussion expected in Spring 2015.</td>
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<tr>
<td>2014-28</td>
<td>SSAP No. 62R</td>
<td>Asbestos and Pollution Reinsurance Reporting Exception</td>
<td>CNA question</td>
<td>The original sponsor of agenda item 2011-45 raised questions about the blanks proposal presented by SAPWG. The guidance adopted in SSAP No. 62R allowed an environmental asbestos reporting exception for paid losses.</td>
<td>A</td>
<td>8/1/2014</td>
<td>Summer 2014 - Exposed revisions for two options; one with disclosure of uncollateralized liabilities in Schedule F Part 5 and one without. Comments for the preferred reporting option and language are requested by Sept. 16. Fall 2014 - Exposed revisions clarify amounts to be included in Schedule F related to asbestos and environmental reinsurance reporting exception for retroactive counterparties, along with updates for proposed reporting. Discussion expected Spring 2015.</td>
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<tr>
<td>2014-29</td>
<td>SSAP Nos. 1, 46, 68, and 97</td>
<td>ASU 2014-15: Presentation of Financial Statements – Going Concern</td>
<td>GAAP Hierarchy</td>
<td>Recommends nonsubstantive revisions to adopt GAAP guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to require related disclosures.</td>
<td>A</td>
<td>11/16/2014</td>
<td>Fall 2014 - Exposed revisions to SSAP No. 1 to adopt ASU 2014-15. Also exposed revisions to SSAP Nos. 46, 68, and 97 to nonadmit investments in related affiliated holdings whose audited financial statements include a going concern note from management. Discussion expected Spring 2015.</td>
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<tr>
<td>2014-31</td>
<td>SSAP No. 61R</td>
<td>Charges from the Principle-Based Reserving Implementation (EX) Task Force Framework</td>
<td>Principle-Based Reserving Implementation (EX) Task Force Referral</td>
<td>Proposes to address the disclosure charge to develop a Note to the Audited Financial Statements regarding compliance with the NAIC XXX/AXXX Reinsurance Model Regulation.</td>
<td>A</td>
<td>11/16/2014</td>
<td>Fall 2014 - Exposed revisions to SSAP No. 61R require disclosure for the annual audited financial statements indicating compliance with AG 48 or the XXX/AXXX Reinsurance Model Regulation. Discussion expected Spring 2015.</td>
</tr>
<tr>
<td>2014-32</td>
<td>SSAP No. 74</td>
<td>Protected Cell Reporting</td>
<td>NAI Staff</td>
<td>Recommends nonsubstantive revisions to SSAP No. 74 to update the references from aggregate write-ins to the pre-printed lines related to protected cells.</td>
<td>A</td>
<td>11/16/2014</td>
<td>Fall 2014 - Exposed revisions to update the references from aggregate write-ins to specific preprint lines for protected cells. Discussion expected Spring 2015.</td>
</tr>
<tr>
<td>2014-33</td>
<td>SSAP Nos. 92 &amp; 102</td>
<td>Move INT 13-03 Guidance into Applicable SSAPs</td>
<td>NAI Staff</td>
<td>Recommends nonsubstantive revisions to SSAP Nos. 92 and 102 to incorporate the guidance from INT 13-03-03, thereby nullifying INT 13-03.</td>
<td>A</td>
<td>11/16/2014</td>
<td>Fall 2014 - Exposed revisions to SSAP Nos. 92 and 102 to incorporate the guidance from INT 13-03. Discussion expected Spring 2015.</td>
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<td>2014-35</td>
<td>SSAP No. 11</td>
<td>SSAP No. 11 Disclosures</td>
<td>NAC Staff</td>
<td>Recommends deleting disclosures that pertain to defined benefit and defined contribution plans, with a reference to complete the disclosures in SSAP No. 92, as applicable, if the reporting entity is providing special or contractual termination benefits.</td>
<td>A</td>
<td>11/06/2014</td>
<td>Fall 2014 - Exposed revisions to SSAP No. 11 to delete disclosures that pertain to defined benefit and defined contribution plans, with a reference to complete the disclosures in SSAP No. 92 if the entity is providing special or contractual termination benefits. Discussion expected Spring 2015.</td>
</tr>
<tr>
<td>2014-36</td>
<td>SSAP No. 25</td>
<td>ASU 2013-06 – Not-For-Profit Entities – Services Received from Personnel of Affiliate</td>
<td>GAAP Hierarchy</td>
<td>Recommends nonsubstantive revisions to SSAP No. 25 to reject ASU 2013-06 as guidance requiring reasonable charges is detailed in Model Act #440. Revisions are proposed to SSAP No. 25 to incorporate references and disclosures for services provided at no charge.</td>
<td>A</td>
<td>11/16/2014</td>
<td>Fall 2014 - Exposed revisions to SSAP No. 25 to reject ASU 2013-06 and incorporate disclosures regarding services for not-for profit entities. Discussion expected Spring 2015.</td>
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A  Highest priority (disposition desired within the next 12 months).
B  Less than highest and more than lowest priority.
C  Lowest priority (action deferred pending further consideration).
Issue: *ASU 2010-23 – Health Care Entities, Measuring Charity Care*

**Check (applicable entity):**

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**Description of Issue:**

*ASU 2010-23, Health Care Entities, Measuring Charity Care* (ASU 2010-23), effective under GAAP on a retrospective basis for fiscal years beginning after Dec. 15, 2010, requires that “cost” be used as the measurement basis for charity care disclosure purposes and that “cost” be identified as the direct and indirect costs of providing the charity care. ASU 2010-23 also requires disclosure of the method used to determine the costs. This GAAP update was issued to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care as some entities have determined charity cost disclosures on a cost measurement, whereas others have used a revenue measurement.

**GAAP Disclosure - Charity Care**

954-605-50-3 Management’s policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure generally is made in the notes to financial statements and is shall be measured based on the provider’s rates, direct and indirect costs, units of service, or other statistical measure of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques. For example, one such estimation technique might involve calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Other reasonable techniques also are permitted. The method used to identify or estimate such costs shall be disclosed. Funds received to offset or subsidize charity services provided, for example, from gifts or grants restricted for charity care or from an uncompensated care fund, also shall be separately disclosed.

Charity care as defined in the FASB’s Accounting Standards Codification is:

Charity care represents health care services that are provided but are never expected to result in cash flows. Charity care is provided to a patient with demonstrated inability to pay. Each entity establishes its own criteria for charity care consistent with its mission statement and financial ability.

**Existing Authoritative Literature:**

*AICPA Audit and Accounting Guide – Health Care Organizations* was rejected in SSAP No. 73—Health Care Delivery Assets – Supplies, Pharmaceuticals and Surgical Supplies, Durable Medical Equipment, Furniture, Medical Equipment and Fixtures, and Leasehold Improvements in Health Care Facilities (SSAP No. 73).

Previous GAAP guidance specific to Health Care Entities in the related AICPA Audit and Accounting Guide has been rejected for statutory accounting. The provisions within ASU 2010-23 are specific to Health Care Entities as defined:
Pursuant to ASC 954, the Health Care Entities topic applies to health care entities, which are the following types of entities: a) Entities whose principal operations consist of providing or agreeing to provide health care services and that derive all or almost all of their revenues from the sale of goods or services, and b) Entities whose primary activities are the planning, organization, and oversight of such entities, such as parent or holding companies of health care providers.

The Health Care Entities Topic applies to the following types of health care entities:

a. Clinics, medical group practices, individual practice associations, individual practitioners, emergency care facilities, laboratories, surgery centers, and other ambulatory care entities

b. Continuing care retirement communities

c. **Health maintenance organizations and similar prepaid health care plans**

d. Home health agencies

e. Hospitals

f. Nursing homes that provide skilled, intermediate, and less intensive levels of health care

g. Drug and alcohol rehabilitation centers and other rehabilitation facilities

h. Integrated delivery systems that include one or more of the above types of entities

**Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG:** None

**Convergence with IFRS:**

IFRS does not provide any specific guidance on the disclosure of charity care.

**Staff Recommendation:**

Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 54—Individual and Group Accident and Health Contracts to adopt the ASU 2010-23 definition of charity care, and adopt with modification the charity care disclosure within ASU 2010-23:

37. Management’s policy for providing charity care\(^1\), as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider’s direct and indirect costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques, with the method used to identify or estimate such costs disclosed. Funds received to

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\(^1\) Charity care represents health care services that are provided but are never expected to result in cash flows. Charity care is provided to a patient with demonstrated inability to pay. Each entity establishes its own criteria for charity care consistent with its mission statement and financial ability.
offset or subsidize charity services provided, for example, from gifts or grants restricted for charity care or from an uncompensated care fund, also shall be disclosed.

37-38. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature
39. This statement adopts the definition of charity care, and adopts with modification the disclosure within ASU 2010-23, Health Care Entities, Measuring Charity Care, as applicable.

38. This statement incorporates the requirements of Appendices A-010, A-225, A-641, A-820, A-822 (as applicable), the Actuarial Standards Board Actuarial Standards of Practice and the actuarial guidelines found in Appendix C of this manual (as applicable).

39. This statement rejects FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises relating to accounting and reporting for individual and group accident and health contracts.

Effective Date and Transition
40. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state’s statutory authority and due process procedures. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The disclosure related to charity care shall be applied prospectively beginning (adopted date).

Staff Review Completed by:
Linda Hunsucker – November 2014
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Issue: Short-Sales

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Description of Issue:
Historically, questions have been received regarding the statutory accounting treatment for “short sales.” Previously the staff response to these questions have directed the caller to inquire with their state of domicile, as it was believed that several states prohibit short sales in their state laws. Recently, the amount of questions have increased, with inquiries on whether statutory accounting guidance addresses these transactions, and if these actions should fall within the scope of SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 103) and/or SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions (SSAP No. 86).

This agenda item provides information regarding short sales and requests consideration by the Working Group on statutory accounting guidance.

As noted by the SEC, short sales are different from a traditional long position, in which risk is limited to the amount invested. **With a short sale, an investor is open to the possibility of unlimited losses since a stock can theoretically keep rising indefinitely.**

Information from SEC:
(This information is from the SEC Website: [http://www.sec.gov/answers/shortsale.htm](http://www.sec.gov/answers/shortsale.htm))

**Short Sales:** A short sale is the sale of a stock that an investor does not own or a sale which is consummated by the delivery of a stock borrowed by, or for the account of, the investor. Short sales are normally settled by the delivery of a security borrowed by or on behalf of the investor. The investor later closes out the position by returning the borrowed security to the stock lender, typically by purchasing securities on the open market.

Investors who sell stock short typically believe the price of the stock will fall and hope to buy the stock at the lower price and make a profit. Short selling is also used by market makers and others to provide liquidity in response to unanticipated demand, or to hedge the risk of an economic long position in the same security or in a related security. If the price of the stock rises, short sellers who buy it at the higher price will incur a loss.

Brokerage firms typically lend stock to customers who engage in short sales, using the firm’s own inventory, the margin account of another of the firm’s customers, or another lender. As with buying stock on margin, short sellers are subject to the margin rules and other fees and charges may apply (including interest on the stock loan). If the borrowed stock pays a dividend, the short seller is responsible for paying the dividend to the person or firm making the loan.
The following reflects excerpts from the SEC publication: Division of Market Regulation:

Key Points About Regulation SHO - http://www.sec.gov/spotlight/keyregshoissues.htm

Example of a Short-Sale: For example, an investor believes that there will be a decline in the stock price of Company A. Company A is trading at $60 a share, so the investor borrows shares of Company A stock at $60 a share and immediately sells them in a short sale. Later, Company A’s stock price declines to $40 a share, and the investor buys shares back on the open market to replace the borrowed shares. Since the price is lower, the investor profits on the difference -- in this case $20 a share (minus transaction costs such as commissions and fees). However, if the price goes up from the original price, the investor loses money. Unlike a traditional long position — when risk is limited to the amount invested — shorting a stock leaves an investor open to the possibility of unlimited losses, since a stock can theoretically keep rising indefinitely.

“Naked” Short Sales

In a "naked" short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period. As a result, the seller fails to deliver securities to the buyer when delivery is due (known as a "failure to deliver" or "fail").

Failures to deliver may result from either a short or a long sale. There may be legitimate reasons for a failure to deliver. For example, human or mechanical errors or processing delays can result from transferring securities in physical certificate rather than book-entry form, thus causing a failure to deliver on a long sale within the normal three-day settlement period ($T+3$). A fail may also result from naked short selling. For example, market makers who sell short thinly traded, illiquid stock in response to customer demand may encounter difficulty in obtaining securities when the time for delivery arrives.

Naked short selling is not necessarily a violation of the federal securities laws or the Commission's rules. Indeed, in certain circumstances, naked short selling contributes to market liquidity. For example, broker-dealers that make a market in a security generally stand ready to buy and sell the security on a regular and continuous basis at a publicly quoted price, even when there are no other buyers or sellers. Thus, market makers must sell a security to a buyer even when there are temporary shortages of that security available in the market. This may occur, for example, if there is a sudden surge in buying interest in that security, or if few investors are selling the security at that time. Because it may take a market maker considerable time to purchase or arrange to borrow the security, a market maker engaged in bona fide market making, particularly in a fast-moving market, may need to sell the security short without having arranged to borrow shares. This is especially true for market makers in thinly traded, illiquid stocks such as securities quoted on the OTC Bulletin Board as there may be few shares available to purchase or borrow at a given time.

Summary of GAAP Guidance:

Pursuant to GAAP guidance, short-sales are not included within the derivative guidance unless a forward purchase or forward sale is involved. Even if a forward purchase or forward sale was involved, if the contract included a regular-way security trade exception, it would not be subject to the derivative guidance. Regular-way security trades are defined as contracts that provide for delivery of a security within a period of time after the trade date generally established by regulations or conventions in the marketplace or exchange in which it is being executed. (Pursuant to the SEC guidance, as short sale sellers need to borrow or arrange to borrow the securities to deliver within $T+3$ to avoid them from being considered “naked”, even if a forward contract is involved, it is anticipated that these would be captured within the regular-way security trade exception and not reported as derivatives.)
Summary of SAP Guidance:
There is no explicit guidance regarding short sales in statutory accounting guidance. With the SAP definition of a derivative (which is different from U.S. GAAP), a position could be taken that short sales would be within the confines of SSAP No. 86:

Definitions (for purposes of this statement)
4. “Derivative instrument” means an agreement, option, instrument or a series or combination thereof:
   a. To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or
   b. That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

In reviewing the history of the SSAP No. 86 derivative definition and the variation of the definition from GAAP detailed in Issue Paper No. 114—Accounting for Derivative Instruments and Hedging Activities, there is no reference that the SAP derivative definition was intended to capture short sales. Instead, the rationale for the definition difference indicates that the SAP definition results in contracts not being captured as derivatives, whereas other contracts may be considered derivatives under U.S. GAAP:

48. This issue paper defines a derivative instrument somewhat differently than FAS No. 133. The Statutory Accounting Principles (SAP) working group evaluated the FAS No. 133 definition and found that it was inconsistent with the manner in which derivatives are regulated in the insurance industry. While FAS 133 defines derivatives in the context of the characteristics contained in an instrument, the working group concluded that a definition based upon the legal form/contractual rights and obligations is more relevant to statutory reporting. As a result, the definition of a derivative in paragraph 5 of this issue paper is not intended to include life contracts, accident and health contracts, property and casualty contracts and deposit-type contracts as defined within SSAP No. 50—Classifications and Definitions of Insurance or Managed Care Contracts in Force. Some of these contracts may be considered derivatives under the FAS No. 133 definition.

Without other statutory guidance for short sales, it could be concluded that short sales are required to be captured within the SSAP No. 86 derivative definition. If the transaction was not a hedging transaction under SSAP No. 86, then short sales would be considered “income generation transactions”. Guidance in the income generation section (paragraphs 37-38) of SSAP No. 86 requires income generation transactions to be “covered”. Per that guidance, in order to be “covered” “offsetting assets can be used to fulfill potential obligations”. This guidance highlights that “the combination of the derivative and the covering asset work as a reverse hedge, where the asset owned by the reporting entity in essence hedges the derivative risk”. (The definition of a short sale is a sale of stock that the investor does not own, or which is consummated by stock that is borrowed. As such, if the sale is “covered” per the guidance in SSAP No. 86, the transaction does not meet the definition of a short sale. As such, the SSAP No. 86 guidance seemingly prohibits the concepts of a “true” short sale within statutory accounting if the transaction was classified as an income generation transaction.) The SSAP No. 86 “covered” concept is not the same as the SEC guidance regarding “naked” short-sales. Under the SEC guidelines, a “naked” short sale is one in which the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period (T+3). Under the SEC guidelines (and the inherent definition of a short sale), offsetting assets are not required at the time of the transaction.

Short sales are often supported by a securities borrowing transaction. (The insurer borrows the securities, sells them to a third party, and then purchases securities on the open market to return to the lending in the
security borrowing transaction.) Although there is guidance in SSAP No. 103 for securities lending transactions (insurer lends securities), the only guidance for the “borrowing” side (unless the transaction was accounted for as a sale) is an illustration that mirrors the GAAP guidance in paragraph 19 related to cash collateral. This illustration does not reflect the securities lending guidance or concepts reflected in paragraphs 79-83 for non-cash collateral. (Securities lending transactions are either accounted for as “sales” or as “secured borrowings”. Similar to repurchase agreements, it is believed that very few securities lending transactions meet the requirements to be a “sale”. The detailed guidance in SSAP No. 103, paragraph 79-83 for securities lending transactions accounted for as secured borrowings is limited to situations when the insurer lends securities.)

Per SEC requirements to avoid a “naked” short sale, sellers must borrow, or make arrangements to borrow securities for delivery under a short-sale within a three-day settlement period (T+3). This three-day settlement period is a significantly shorter timeframe than the 15 days allowed for pending receivables for securities to be admitted under SSAP No. 21—Other Admitted Assets. Pursuant to SSAP No. 21, receivables for securities not received within 15 days from the settlement date shall be nonadmitted and classified as other-than-invested assets.

State Restrictions of Short Sales:
Per a search of state laws, 17 jurisdictions (16 states and Puerto Rico) have statute restrictions on short sales: (This is limited to those states with specific statutes.)

<table>
<thead>
<tr>
<th>States</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>The portfolio of an investment pool under this chapter may not contain</td>
</tr>
<tr>
<td></td>
<td>(1) more than five percent of total investments in securities of one issuer unless the securities are an obligation of or guaranteed by the United States; or</td>
</tr>
<tr>
<td></td>
<td>(2) transactions in futures, options, derivative securities, or short sales.</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>An insurer shall not short sell equity investments unless the insurer covers the short sale by owning the equity investment or an unrestricted right to the equity instrument exercisable within 6 months of the short sale.</td>
</tr>
<tr>
<td>Illinois</td>
<td>An insurer shall not short sell equity investments unless the insurer covers the short sale by owning the equity investment or an unrestricted right to the equity instrument exercisable within 6 months of the short sale.</td>
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<tr>
<td>Kentucky</td>
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<td>Missouri</td>
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<td>South Carolina</td>
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<td>Vermont</td>
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<tr>
<td>West Virginia</td>
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<tr>
<td>Georgia</td>
<td>It shall be unlawful for any beneficial owner, director, or officer directly or indirectly to sell any equity security of such insurer if the person selling the security or his principal:</td>
</tr>
<tr>
<td>Indiana</td>
<td>(1) Does not own the security sold;</td>
</tr>
<tr>
<td>Mississippi</td>
<td>(2) If owning the security, does not deliver it against such sale within 20 days thereafter; or</td>
</tr>
<tr>
<td>Montana</td>
<td>Does not within five days after the sale deposit it in the mails or other usual channels of transportation; but no person shall be deemed to have violated this Code section if he proves that notwithstanding the exercise of good faith he was unable to make the delivery or deposit within that time or that to do so would cause undue inconvenience or expense.</td>
</tr>
<tr>
<td>New Hampshire</td>
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<tr>
<td>Oregon</td>
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<td>Rhode Island</td>
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<tr>
<td>South Dakota</td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>An insurer shall not, directly or indirectly:</td>
</tr>
<tr>
<td></td>
<td>(6) An insurer may not make short sales of securities.</td>
</tr>
</tbody>
</table>
Section 13. Equity Interests

D. An insurer shall not short sell equity investments unless the insurer covers the short sale by owning the equity investment or an unrestricted right to the equity instrument exercisable within six (6) months of the short sale.

(As discussed previously, the guidance in Model appears to be conflicting with the SEC definition of a short sale. If the equity investment being sold is owned by the insurer, the transaction to sell that equity investment would not meet the definition of a short sale.)

Existing Authoritative Literature:
The above discussion provided a summary of existing guidance. Explicit references are provided below:

SSAP No. 86—Accounting for Derivative Instruments, and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions:

Definitions (for purposes of this statement)

5. “Derivative instrument” means an agreement, option, instrument or a series or combination thereof:

a. To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or

b. That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.

Note: This derivative definition does not mirror GAAP. Discussion on the differences between the GAAP and SAP definition are on page 3.

Recognition and Measurement of Derivatives Used in Income Generation Transactions

37. Income generation transactions are defined as derivatives written or sold to generate additional income or return to the reporting entity. They include covered options, caps, and floors (e.g., a reporting entity writes an equity call option on stock that it already owns).

38. Because these transactions require writing derivatives, they expose the reporting entity to potential future liabilities for which the reporting entity receives a premium up front. Because of this risk, dollar limitations and additional constraints are imposed requiring that the transactions be "covered" (i.e., offsetting assets can be used to fulfill potential obligations). To this extent, the combination of the derivative and the covering asset works like a reverse hedge where an asset owned by the reporting entity in essence hedges the derivative risk.

SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Securities Lending Transactions

79. Securities lending transactions are generally initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer’s failure to deliver securities sold. Securities lending transactions typically extend less than one year. Transferees (borrowers) of securities generally are required to provide collateral to the
transferor (lender) of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities borrowed. If the collateral is cash, the transferor typically earns a return by investing that cash at rates higher than the rate paid or rebated to the transferee. If the collateral is other than cash, the transferor typically receives a fee. Securities custodians or other agents commonly carry out securities lending activities on behalf of clients. Because of the protection of collateral (typically valued daily and adjusted frequently for changes in the market price of the securities transferred) and the short terms of the transactions, most securities lending transactions in themselves do not impose significant credit risks on either party. Other risks arise from what the parties to the transaction do with the assets they receive. For example, investments made with cash collateral impose market and credit risks on the transferor.

80. If the criteria conditions in paragraph 8 (sales criteria) are met, securities lending transactions shall be accounted for:

   a. By the transferor as a sale of the “loaned” securities for proceeds consisting of the cash collateral\(^9\) and a forward repurchase commitment.

   b. By the transferee as a purchase of the “borrowed” securities in exchange for the collateral and a forward resale commitment. During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that case, creditors of the transferor have a claim only to the “collateral” and the forward repurchase commitment.

81. Many securities lending transactions are accompanied by an agreement that entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity under which the transferor maintains effective control over those financial assets (paragraphs 51-52). Those transactions shall be accounted for as secured borrowings, in which cash (or securities that the holder or its agent is permitted by contract or custom to sell or repledge) received as collateral is considered the amount borrowed, the securities loaned are considered pledged as collateral against the cash or securities borrowed and reclassified as set forth in paragraph 19.a., and any rebate paid to the transferee of securities is interest on the cash or securities the transferor is considered to have borrowed.

82. The transferor of securities being “loaned” accounts for cash received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The cash received shall be recognized as the transferor’s asset – as shall investments made with that cash, even if made by agents or in pools with other securities lenders – along with the obligation to return the cash. If securities that may be sold or repledged are received, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for cash received.

83. The transferor of securities being “loaned” accounts for collateral received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The collateral received shall be recognized as the transferor’s asset – as shall investments made with that collateral, even if made by agents or in pools with other securities lenders – along with the obligation to return the collateral. If securities that may be sold or repledged are received by the transferor or its agent, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for collateral received. Collateral which may be sold or repledged by the transferor or its agent is reflected on balance sheet, along with the obligation to return that collateral.

\(^9\) If the “collateral” in a transaction that meets the criteria in paragraph 8 is a financial asset that the holder or its agent is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the “loaned” securities. To the extent that the “collateral” consists of letters of credit or other financial instruments that the holder or its agent is not permitted by contract or custom to sell or repledge, a securities lending transaction does not satisfy the sale criteria and is accounted for as a loan of securities by the transferor to the transferee.
return the asset\(^{10}\). Collateral received which may not be sold or repledged by the transferor or its agent is off balance sheet\(^{11}\). For collateral on the balance sheet, the reporting is determined by the administration of the program.

a. Securities lending programs where the collateral received by the reporting entity’s unaffiliated agent that can be sold or repledged is reported on the balance sheet. The collateral received and reinvestment of that collateral by the reporting entity’s unaffiliated agent shall be reflected as a one-line entry on the balance sheet (Securities Lending Collateral) and a detailed schedule will be required each quarter and at year-end to list the description of the collateral asset. This description shall include the NAIC designation, fair value; book adjusted carrying value and maturity date. A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities)

b. Securities lending programs where the collateral received by the reporting entity that can be sold or repledged is reported on the balance sheet. If the reporting entity is the administrator of the program, then, the collateral received and any reinvestment of that collateral is reported with the invested assets of the reporting entity based on the type of investment (i.e. bond, common stock, etc). A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities)

c. Securities lending programs where the collateral received by the reporting entity’s affiliated agent can report using either one line reporting (paragraph 83.a.) or investment schedule reporting (paragraph 83.b.).

84. Reinvestment of the collateral by the reporting entity or its agent shall follow the same impairment guidance as other similar invested assets reported on the balance sheet. Any fees received by the transferor for loaning the securities shall be recorded as miscellaneous investment income.

**Securities Lending Transactions – Collateral Requirements\(^{12}\)**

85. The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 102 percent of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 100 percent of the fair value of the loaned securities, the counterparty shall be obligated to deliver additional collateral by the end of the next business day, the fair value of which, together with the fair value of all collateral then held in connection with the transaction at least equals 102 percent of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100 percent at the reporting date, the difference between the actual collateral and 100 percent will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.

86. In the event that foreign securities are loaned and the denomination of the currency of the collateral is other than the denomination of the currency of the loaned foreign securities, the

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\(^{10}\) If cash is received by the transferor or its agent and reinvested or repledged it is reported on balance sheet. It is explicitly intended that when the lender bears reinvestment risk, that collateral is on balance sheet.

\(^{11}\) An example of collateral which is off balance sheet is when securities are received by the transferor or its agent in which the collateral must be held and returned, without the ability to transfer or repledge the collateral. This would involve limited situations in which the transferor or agent is prohibited from reinvesting the collateral.

\(^{12}\) The collateral requirements are required for determining admitted assets under statutory accounting, but the receipt of collateral is not a factor in determining whether the transferor has effective control over the loaned assets in accordance with paragraph 51.
amount of collateral shall be at least equal to 105 percent of the fair value of the loaned securities at that date. If at any time the fair value of the collateral received from the counterparty is less than 102 percent of the fair value of the loaned securities, the reporting entity must obtain additional collateral by the end of the next business day, the fair value of which together with the fair value of all collateral then held in connection with the transaction at least equals 105 percent of the fair value of the loaned securities. If the collateral received from the counterparty is less than 100 percent at the reporting date, the difference between the actual collateral and 100 percent will be nonadmitted. Collateral value is measured and compared to the loaned securities in aggregate by counterparty.

**SSAP No. 21—Other Admitted Assets** provides guidance for “receivables for securities”. Under this guidance, a 15-day allowance past the settlement date is permitted before nonadmitting the assets.

**Receivables for Securities**

7. Sales of securities are recorded as of the trade date. A receivable due from the broker is established in instances when a security has been sold, but the proceeds from the sale have not yet been received. Unless the receivable for securities, other than a receivable arising from the sale of a security which was acquired on a “To Be Announced” (“TBA”) basis, or from the sale of securities that are received as stock distributions that may be restricted (unregistered) or in physical form, and which has yet to be actually received (see paragraph 10), meets the criteria set forth in paragraph 9, the receivable for securities is an admitted asset to the extent it conforms to the requirements of this statement.

8. An evaluation shall be made in accordance with SSAP No. 5R, to determine if there is impairment. If, in accordance with SSAP No. 5R, it is probable the balance or any portion thereof is uncollectible, any such deemed uncollectible receivable shall be written off and charged against income in the period the determination is made. If it is reasonably possible, but not probable, the balance or any portion thereof is uncollectible and is therefore not written off, the disclosure requirements outlined in SSAP No. 5R shall be followed.

9. **Receivables for securities not received within 15 days from the settlement date shall be nonadmitted and shall be classified as “Other-than-invested assets.”**

10. Receivables arising from the secondary sale of securities acquired on a TBA basis, or from stock distributions that may be restricted (unregistered) or in physical form, which have not yet been received by the seller in the secondary sale transaction, may be admitted until the security is exchanged for payment. TBA securities are originally purchased well in advance of the actual date of security issuance (frequently 90 days or more). Accordingly, secondary sales of securities so acquired may occur before the date of issuance. Sales of securities so acquired always include a provision that requires simultaneous delivery of the security and receipt of consideration. Upon the secondary sale, and prior to the actual receipt, of a security acquired on a TBA basis, the seller in the secondary sale transaction records a liability for the book value of the security thus sold and a receivable for the consideration reflected in the secondary sale transaction. Profits or losses emanating from the secondary sale transaction are recorded in the same manner as profits and losses emanating from any other sale transaction involving an investment.

**SEC Guidelines:**

Pursuant to SEC guidelines, investors must complete or settle their security transactions within **three** business days. This settlement cycle is known as T+3. Per the SEC, T+3 means that when an entity buys a security, payment must be received by the purchaser’s brokerage firm no later than three business days after the trade is executed. **When an entity sells a security, the seller must deliver the securities in certified or electronic form, to the seller’s brokerage firm no later than three business days after the sale.** The three-day settlement date applies to most security transactions, including stocks, bonds, municipal securities, mutual funds traded through a brokerage firm and limited partnerships that trade on an exchange. Government securities and stock options settle on the next business day following the trade.
GAAP Guidance for Shorts Sales:

Financial Services – Depository and Lending – Liabilities (ASC 942-405)

Short Sales of Securities

25-1 The obligations incurred in short sales shall be reported as liabilities. Such liabilities are generally called securities sold, not yet purchased.

25-2 See paragraph 815-10-55-57 for additional guidance concerning short sales.

35-1 The obligations incurred in short sales shall be subsequently measured at fair value through the income statement at each reporting date. Interest on the short positions shall be accrued periodically and reported as interest expense.

815-10-15-83 – Definition of Derivative Instrument

A derivative instrument is a financial instrument or other contract with all of the following characteristics:

a. Underlying, notional amount, payment provision. The contract has both of the following terms, which determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required:
   1. One or more underlyings
   2. One or more notional amounts or payment provisions or both.

b. Initial net investment. The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c. Net settlement. The contract can be settled net by any of the following means:
   1. Its terms implicitly or explicitly require or permit net settlement.
   2. It can readily be settled net by a means outside the contract.
   3. It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The following GAAP Guidance details why short sales are not derivatives:

815-10-55-57 – Derivatives and Hedging (Implementation Guidance)

Short Sales (Sales of Borrowed Securities)

55-57 The following discussion applies only to short sales with the characteristics described. Some groups of transactions that are referred to as short sales may have different characteristics. If so, a different analysis would be appropriate, and other derivative instruments may be involved. Short sales (sales of borrowed securities) typically involve all of the following activities:

a. Selling a security (by the short seller to the purchaser)

b. Borrowing a security (by the short seller from the lender)

c. Delivering the borrowed security (by the short seller to the purchaser)

d. Purchasing a security (by the short seller from the market)

e. Delivering the purchased security (by the short seller to the lender).

Those five activities involve three separate contracts.

55-58 A contract that distinguishes a short sale involves activities in (b) and (e) in the preceding paragraph, borrowing a security and replacing it by delivering an identical security. Such a contract
has two of the three characteristics of a derivative instrument. The settlement is based on an underlying (the price of the security) and a notional amount (the face amount of the security or the number of shares), and the settlement is made by delivery of a security that is readily convertible to cash. However, the other characteristic, no initial net investment or an initial net investment that is smaller by more than a nominal amount than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, is not present. (See paragraphs 815-10-15-94 through 15-96.) The borrowed security is the lender’s initial net investment in the contract. Consequently, the contract relating to activities in (b) and in (e) in the preceding paragraph is not a derivative instrument.

55-59 The other two contracts (one for activities in paragraph 815-10-55-57[a] and in paragraph 815-10-55-57[c] and the other for activity in paragraph 815-10-55-57[d]) are routine and do not generally involve derivative instruments. However, if a forward purchase or forward sale is involved, and the contract does not qualify for the exception in paragraphs 815-10-15-15 through 15-17, it is subject to the requirements of this Subtopic.

(Per the above paragraph, if a forward purchase or forward sale was involved, and the security qualified for a regular-way security trade exception, it would not be subject to the derivative guidance.)

815-10-15-15: Derivatives & Hedging (Scope and Scope Exclusions – Regular-Way Security Trades)

15-15 Regular-way security trades are defined as contracts that provide for delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within three business days. If a contract for purchase of that type of security requires settlement in three business days, the regular-way security trades scope exception applies, but if the contract requires settlement in five days, the regular-way security trades scope exception does not apply unless the reporting entity is required to account for the contract on a trade-date basis.

15-16 Except as provided in (a) in the following paragraph, a contract for an existing security does not qualify for the regular-way security trades scope exception if either of the following is true:

   a. It requires or permits net settlement (as discussed in paragraphs 815-10-15-100 through 15-109).
   b. A market mechanism exists to facilitate net settlement of that contract (as discussed in paragraphs 815-10-15-110 through 15-118).

15-17 The scope exception for regular-way security trades applies only to a contract that requires delivery of securities that are readily convertible to cash except that the scope exception also shall or may apply in any of the following circumstances:

   a. If an entity is required, or has a continuing policy, to account for a contract to purchase or sell an existing security on a trade-date basis, rather than a settlement-date basis, and thus recognizes the acquisition (or disposition) of the security at the inception of the contract, then the entity shall apply the regular-way security trades scope exception to that contract.
   b. If an entity is required, or has a continuing policy, to account for a contract for the purchase or sale of when-issued securities or other securities that do not yet exist on a trade-date basis, rather than a settlement-date basis, and thus recognizes the acquisition or disposition of the securities at the inception of the contract, that entity shall apply the regular-way security trades scope exception to those contracts.
   c. Contracts for the purchase or sale of when-issued securities or other securities that do not yet exist, except for those contracts accounted for on a trade-date basis, are excluded from
the requirements of this Subtopic as a regular-way security trade only if all of the following are true:

1. There is no other way to purchase or sell that security.
2. Delivery of that security and settlement will occur within the shortest period possible for that type of security.
3. It is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued. (The entity shall document the basis for concluding that it is probable that the contract will not settle net and will result in physical delivery.)

Example 9 (see paragraph 815-10-55-118) illustrates the application of item (c) in this paragraph.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG: None

Staff Recommendation:
Staff recommends that the Working Group move this to the substantive active listing and expose this agenda item to get initial feedback before providing staff direction.

After obtaining initial information, it is recommended that the Working Group direct staff to prepare explicit guidance regarding short sales. Depending on the preference of the Working Group, guidance could expressly prohibit short-sale transactions for statutory accounting purposes, or, if these transactions should be considered, incorporate specific accounting provisions.

If the Working Group would like to consider allowing these transactions, staff is anticipating discussions on the extent SAP guidance should follow market terms, or if specific statutory terms / restrictions should be implemented. Direction is requested on what guidance should govern these transactions.

As part of the discussion of this topic, staff would suggest consideration of securities lending “borrowing” guidance (when the insurer is borrowing securities under a securities lending transaction that is accounted for as a “secured borrowing” and not as a sale). Additionally, staff would suggest reconsideration of the 15-day settlement period in SSAP No. 21, with a suggestion to mirror the SEC requirements of T+3.

Staff Note: The FASB and IASB has a joint project to reconsider the accounting for leases. Current the FASB is redeliberating decisions based on comments from their exposure draft. Although staff suggests that the elements of the exposure draft move forward, a comprehensive project to review the GAAP guidance (including possible re-consideration of capital leases) is expected once the FASB issues their revised standard. (There is no expected release date on the FASB website.)

Staff Review Completed by:

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Statutory Accounting Principles Working Group  
Maintenance Agenda Submission Form  
Form A  

Issue: Sale-Leasebacks with Nonadmitted Assets  

Check (applicable entity):  

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
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<tr>
<td>New Issue or SSAP</td>
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</table>

Description of Issue:  
Several questions have recently been presented to NAIC staff regarding sale-leaseback transactions involving nonadmitted assets with unrelated parties. Although these transactions may include real estate, the questions received have specifically identified non-real estate depreciable assets (e.g., software) as the nonadmitted assets being sold and leased-back. With the existing guidance in SSAP No. 22—Leases, and references to “property” in the sale-leaseback section, questions have been received on whether these assets were intended to be excluded from the sale-leaseback guidance. In addition to the types of assets captured within the guidance, clarification is requested on the statutory accounting guidance for sale-leaseback transactions involving nonadmitted assets.

Based on the feedback from inquiring states, it appears that explicit guidance disallowing all sale-leaseback transactions with nonadmitted assets may be supported. This agenda item has been developed to clarify the history / scope intent of the existing guidance, and to request Working Group consideration on whether nonadmitted, non-real estate assets should be permitted for sale-leaseback accounting. In researching this item, staff has identified that there are some inconsistencies with the scope of adopted GAAP guidance (e.g., real estate). This agenda item also requests consideration to review and update SSAP No. 22 accordingly.

Existing Authoritative Literature:  
SSAP No. 22—Leases: This SSAP adopts / rejects a variety of GAAP guidance. In reviewing the historical guidance supporting SSAP No. 22, there may be some confusion on the guidance adopted from GAAP with regards to the sale-leasebacks:

- As noted in paragraph 18 of Issue Paper No. 22 and paragraph 40 of SSAP No. 22, the guidance from FAS 13, Accounting for Leases, was rejected “except for certain of the guidance on operating leases, sale-leaseback transactions and leveraged leases.” The adopted FAS 13 paragraphs are noted as 15, 16 (b, c, d), 19 (a, b), 23 (b, c), 36, 37, 39c and 42-47, with all other paragraphs rejected. In reviewing FAS 13 to see what was adopted for sale-leaseback transactions, none of the adopted FAS 13 paragraphs pertain to sale-leaseback transactions. Guidance for sale-leaseback transactions were included in paragraphs 32-34 of FAS 13. Original sale-leaseback guidance in FAS 13, paragraph 32 states: “Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller.” This is not the original guidance adopted in SSAP No. 22 (and Issue Paper No. 22). The original SSAP/Issue Paper guidance stated “Sale-leaseback transactions involve the sale of property, plant or equipment by the owner and a lease of the asset back to the seller.”

- Per paragraph 40f of SSAP No. 22, FAS 28, Accounting for Sales with Leasebacks (an amendment of FAS 13) is adopted in its entirety, except guidance on capital leases is not applicable other than those leases that qualify as leveraged leases and modifications for sale-
leaseback transactions involving real estate settled entirely in cash. The focus of FAS 28 was to identify the accounting for when only portions of an asset were sold and/or leased-back. FAS 28 superseded paragraphs 32 and 33 of FAS 13. As a result of this guidance, the GAAP definition for sale-leasebacks was revised as follows: “Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. A sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life shall be accounted for by the seller-lessee in accordance with the provisions of paragraph 33 [of Statement No. 13] and shall be accounted for by the purchaser-lessee in accordance with the provisions of paragraph 34 [of Statement No. 13].” At the time of adoption, this FAS 28 guidance was also not reflected in SSAP No. 22 or Issue Paper No. 22. (Although this guidance was noted as adopted at original issuance of SSAP No. 22, this guidance was not reflected in SSAP No. 22 until after the adoption of agenda item 2004-06. With the adoption of that agenda item, this guidance was originally included in Appendix A of SSAP No. 22 paragraphs 33-35 within a section entitled “Sale-Leaseback Accounting for Non-Real Estate Transactions.” This guidance is currently included within Appendix A under the section entitled “Sale Leaseback Transactions” in paragraphs 47-49.)

- Per paragraph 40h of SSAP No. 22, the following paragraphs from FAS 98, Accounting for Leases (an amendment of FAS 13, 66 and 91 and a recission of FAS 26 and TB 79-11) were adopted: paragraphs 1-13, 17-22.a., b., d., and e.; adopted with modification paragraph j.to exclude references to sales-type lease classification criterion; adopted with modification paragraphs 27, 30, 31 to reference applicable statements of statutory accounting principles and to reject guidance associated with capital leases; with all other paragraphs rejected. This GAAP standard was issued to specifically address sales-leaseback transactions involving real estate. (Although paragraphs of FAS 98 were adopted at original issuance of SSAP No. 22, changes to those paragraphs, and explicit inclusion in SSAP No. 22 did not occur until after adoption of agenda item 2002-07. The guidance was originally included in a section for “real estate” in SSAP No. 22, but is now included for all sale-leaseback transactions in paragraphs 27-33. Per GAAP guidance in ASC 840-40, this guidance is specific to real-estate transactions.)

- Current GAAP guidance for sale-leaseback transactions is included in ASC 840-40. This guidance has specific sections for real estate. However, the other aspects of the guidance are applicable to non-real estate sale-leaseback transactions. The following chart shows the prior statutory accounting consideration of the underlying GAAP guidance within ASC 840-40:

<table>
<thead>
<tr>
<th>840-40</th>
<th>Pre-Codification Standard</th>
<th>SAP Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAS 13 – Accounting for Leases</td>
<td>Reject except certain paragraphs on operating leases, leveraged leases and sale leaseback transactions. (Adopt paragraphs 15, 16 (b, c, d), 19 (a, b), 23 (b, c), 36, 37, 39c and 42-47. Reject all others.)</td>
<td></td>
</tr>
<tr>
<td>FAS 28 – Accounting for Sales with Leasebacks – An Amendment of FAS 13</td>
<td>Adopt with Modification</td>
<td>Adopted in its entirety, except guidance on capital leases is not applicable other than those leases that qualify as</td>
</tr>
<tr>
<td>Standard/Note</td>
<td>Summary</td>
<td>Relevant Paragraphs/Adoption Details</td>
</tr>
<tr>
<td>---------------</td>
<td>---------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td><strong>FAS 98 – Accounting for Leases</strong></td>
<td>Leased leases and modifications for sale-leaseback transactions involving real estate settled in cash.</td>
<td>Adopt paragraphs 1-13, 17-22.a., b., d., and e., paragraph j. adopted with modification to exclude references to sales-type lease classification criterion, paragraphs 27, 30, 31, adopted with modification to reference applicable statements of statutory accounting principles and reject guidance associated with capital leases; All other paragraphs rejected;</td>
</tr>
<tr>
<td>• Sale-Leaseback Transactions Involving Real Estate</td>
<td></td>
<td></td>
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<tr>
<td>• Sales-Type Leases of Real Estate</td>
<td></td>
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<tr>
<td>• Definition of the Lease Term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Initial Direct Costs of Direct Financing Leases</td>
<td>(an amendment of FASB Statements No. 13, 66 and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11)</td>
<td></td>
</tr>
<tr>
<td><strong>FAS 143 – Accounting for Asset Retirement Obligations</strong></td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Technical Bulletin 88-01 – Issues Relating to the Accounting for Leases: Time Pattern of the Physical Use of the Property in an Operating Lease, Lease Incentives in an Operating Lease, Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor, Money-Over-Money Lease Transactions and Wrap Lease Transactions.</strong></td>
<td></td>
<td>Adopt paragraphs 1-12 Staff Note: The GAAP guidance in TB 88-01, paragraph 22 is the only section that pertained to sale-leaseback transactions, and that guidance was not adopted.</td>
</tr>
<tr>
<td><strong>EITF 84-37 – Sale-Leaseback Transactions with Repurchase Option</strong></td>
<td>No EITF Consensus</td>
<td>Staff Note: The guidance from this EITF included in ASC 840-40 only relates to SEC comments.</td>
</tr>
<tr>
<td><strong>EITF 86-17 – Deferred Profit on Sale-Leaseback Transactions with Lessee Guarantee on Residual Value</strong></td>
<td>Reject in SSAP No. 22</td>
<td></td>
</tr>
<tr>
<td><strong>EITF 88-21 – Accounting for the Sale of Property Subject to the Seller’s Preexisting Lease</strong></td>
<td>Reject in SSAP No. 22</td>
<td></td>
</tr>
<tr>
<td><strong>EITF 89-16 – Consideration of Executory Costs in Sale-Leaseback Transactions</strong></td>
<td>Reject in SSAP No. 22</td>
<td></td>
</tr>
<tr>
<td><strong>EITF 89-20 – Accounting for Cross-Border Benefit Leases</strong></td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td>**EITF 90-14 – Unsecured Guarantee by Parent of Subsidiary’s Lease Payments in a Sale-</td>
<td>Adopted in SSAP No. 22</td>
<td></td>
</tr>
</tbody>
</table>
**History of Statutory Guidance on Nonadmitted Assets:**

The guidance prescribing deposit-method accounting for sale-leaseback transactions involving **nonadmitted assets with related parties** was originally detailed in Issue Paper No. 22 (which at that time referenced “property, plant and equipment” for sale-leaseback transactions). In adopting the guidance, it was noted as conservative as it eliminated the possibility of surplus enhancement:

22. In addition, the statutory accounting principles established in this issue paper provide for the deferral of any gains on sales of property with a leaseback, except if certain strict criteria are met. Such accounting meets the conservatism objective in the Statement of Concepts. Furthermore, the statutory accounting principles established for sale-leaseback transactions of nonadmitted assets with related parties meet the conservatism objective by eliminating the possibility of surplus enhancement through sale-leaseback transactions involving nonadmitted assets.

Issue Paper No. 22 also included in paragraph 27 (discussion) minutes from a September 11, 1989 meeting of the Emerging Accounting Issues Working Group regarding the sale and leaseback of furniture and equipment: (This question focused on operating / capital lease treatment and not the impact to surplus from the removal of nonadmitted assets, but it highlights that these items were discussed.)

**Accounting for Sale and Leaseback of Furniture and Equipment**

Mr. Robert Solitro, Director of Examinations for the State of New Hampshire Insurance Department, had requested that this item be placed on the agenda of the working group. His request included an issue summary (Attachment A).

In the situation described, an insurance company would enter into a sale and leaseback agreement with a third party, non-affiliate, in which nonadmitted furniture is sold and then leased-back. As described, the terms of the agreement would provide that future payments to be made by the insurance company would be equal to or greater than the proceeds to be received from the original sale. The issue identified and addressed by the working group at this meeting was as follows:

**Should the transaction be accounted for as an operating lease or a capital lease?**

The working group reached the consensus that for sale and leaseback transactions involving furniture and non-EDP equipment guidance should be obtained from FASB No. 13 and related amendments. In a case where it is determined that the transaction results in a capital lease, no surplus enhancement should be recorded.
SSAP No. 22 – Revisions History:

- Agenda Item 2001-39, Gain Recognition Related to Sale Leaseback Transactions With More Than A Minor Leaseback (adopted Dec. 10, 2001): This agenda item identified that several insurers have either entered into or contemplated a sale-leaseback of fixed assets, including real estate, furniture, and fixtures, EDP equipment or software. It noted the advantages of sale leaseback transactions to the insurer include ready access to cash, improved risk-based capital from the conversion of a fixed or real estate asset into cash, and perhaps, increasing statutory surplus. The revisions from this agenda item noted that for sale-leaseback transactions with other than a minor leaseback, the profit on sale shall be deferred and amortized in proportion to the amortization of the leased asset in accordance with paragraph 3 of FAS 28. This agenda item specifically stated: “Additionally, the inclusion of this clarification would not affect an entity’s ability to remove nonadmitted assets from their books and recognizing the resulting increase in surplus provided the other conditions of SSAP No. 22 are met.”

- Agenda item 2002-07, Application of FAS 28 and FAS 98 to Sale-Leaseback Transactions Under SSAP No. 22 (adopted June 10, 2002): Revisions were incorporated to SSAP No. 22 to address the inadvertent combination of GAAP provisions for sale-leaseback transactions not involving real estate with the GAAP provisions for sale-leaseback transactions involving real estate. These revisions, reflected in the 2003 Manual, revised the sale-leaseback guidance to no longer reference “property, plant and equipment” but to only reference “property.” The agenda item noted that the criteria for immediate sales recognition are quite different for non-real estate and real estate under GAAP. It noted that the current SSAP applies the GAAP criteria for real estate to all asset classes, and this was inconsistent with GAAP. This resulted in separate sections in the 2003 Manual for “Sale-Leaseback Transactions” and “Sale-Leaseback Transactions Involving Real Estate.” In making this change, the following statement was included in agenda item 2002-07:

  - SSAP 22 adopts FAS 98 paragraph 6 which includes a scope limitation that states, “... this Statement does not address sale-leaseback or other leasing transactions involving only equipment.”

- Agenda item 2004-06, Accounting for Sale-Leaseback Transactions Involving Real Estate Under SSAP No. 22 (adopted June 15, 2004): Revisions to remove certain GAAP references on the basis that “NAIC staff believes the original intent of the Working Group was to treat the gains and losses associated with non-real estate and real estate sales-leaseback transactions differently as it is set forth in the Statement.” (It also identifies that FAS 28 was equally applicable to sale-leaseback transactions involving real estate and non-real estate.) This agenda item noted that the guidance was conflicting as paragraph 22 of SSAP No. 22 suggested that a profit or loss could be recognized immediately (as it references FAS 66), whereas paragraph 26e (as it adopts FAS 28) suggested that profit or loss on the sale portion of the transaction, under certain circumstances, be deferred and amortized over the lease-back period. In addition to removing some references to GAAP guidance, it also incorporated Appendix A for sale-leaseback accounting.

- Agenda item 2006-09, Accounting for the Gain or Loss on Sale on Real Estate Included in a Sale-Leaseback Transaction (adopted Dec. 2, 2007): Revisions were incorporated to combine the guidance for “sale-leaseback transactions” and the “sale-leaseback transactions for non-real estate transactions.” The agenda item identified that the differentiation between non-real estate and real estate was causing confusion, and identifies that the sale-leaseback accounting outlined in FAS 28 was to be applied to both real estate and non-real estate
transactions. Additionally, revisions were incorporated to allow for immediate gain recognition for real-estate sale-leaseback transactions settled entirely in cash.

**Current SSAP No. 22 Excerpts:**

As detailed in the excerpts below, guidance is included in SSAP No. 22 to identify “depreciating assets” within the scope of leases. Then, when sale-leaseback transactions are specifically discussed (paragraph 21), the guidance only refers to “property”. Although the agenda item revisions shown above detail how this guidance has been transformed over time, without knowing the history, it does result in confusion on what is intended to be included within the scope of sale-leaseback transactions.

The following excerpts from SSAP No. 22 are specifically noted (bolded for emphasis):

2. **A lease is defined as an agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets)** usually for a stated period of time. This definition does not include agreements that are contracts for services that do not transfer the right to use property, plant, or equipment from one contracting party to the other (i.e., employee lease contracts) or service concession arrangements. On the other hand, agreements that do transfer the right to use property, plant, or equipment meet the definition of a lease even though substantial services by the contractor (lessor) may be called for in connection with the operation or maintenance of the assets.

5. **Property, plant or equipment, as used in this SSAP, includes only land and/or depreciable assets.** Therefore, inventory (including equipment parts inventory) and minerals, precious metals or other natural resources cannot be the subject of a lease for accounting purposes because those assets are not depreciable. Additionally, intangibles (for example, motion picture film licensing rights or workforce) and rights to explore for minerals, precious metals or other natural resources are not depreciable assets (they are amortized or depleted) so they may not be the subject of a lease.

21. Sale-leaseback transactions **involve the sale of property by the owner and a lease of the property back to the seller.** Sale-leaseback accounting is a method of accounting in which the seller-lessee records the sale, removes all property and related liabilities from its balance sheet.

22. **A sale of property** that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life shall be accounted for by the buyer-lessee and seller-lessee as a purchase and operating lease and a sale and an operating lease, respectively, **unless the sale-leaseback includes sale of nonadmitted assets to a related party.**

25. **If the transaction involves a sale of nonadmitted assets to a related party, the transaction shall be accounted for by the deposit method** (refer to Appendix A, paragraphs 42 and 43).

26. Paragraphs 26-33 present the **additional standards** of statutory accounting by a seller-lessee for sale-leaseback transactions regarding the lease term and sale-leaseback transactions involving real estate, including real estate with equipment, such as office buildings with furniture and fixtures. A sale-leaseback transaction involving real estate with equipment includes any sale-leaseback transaction in which the equipment and the real estate are sold and leased back as a package, irrespective of the relative value of the equipment and the real estate. Those paragraphs also address sale-leaseback transactions in which the seller-lessee sells
property improvements or integral equipment\(^1\) to a buyer-lessor and leases them back while retaining the underlying land.\(^2\)

27. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:

a. A normal leaseback as described in paragraph 28.

b. Payment terms and provisions that adequately demonstrate the buyer-lessor's initial and continuing investment in the property (refer to Appendix A, paragraphs 50-58).

c. Payment terms and provisions that transfer all of the other risks and rewards of ownership as demonstrated by the absence of any other continuing involvement by the seller-lessee described in paragraphs 31-33 of this section and paragraphs 25-39 and 41-43 of FAS 66.

d. **Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party.** For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.

**Deposit Method**

42. Paragraphs 25 and 30 of this statement describe certain circumstances in which it is appropriate to account for a transaction using the deposit method. **If a sale-leaseback transaction is accounted for by the deposit method, lease payments decrease and collections on the buyer-lessor's note, if any, increase the seller-lessee's deposit account. The property and any related debt continue to be included in the seller-lessee's balance sheet, and the seller-lessee continues to depreciate the property.** Under the provisions of paragraph 21 of FAS 66, a seller-lessee that is accounting for any transaction by the deposit method shall recognize a loss if at any time the net carrying amount of the property exceeds the sum of the balance in the deposit account, the fair value of the unrecorded note receivable, and any debt assumed by the buyer.

43. If a sale-leaseback transaction accounted for by the deposit method subsequently qualifies for sales recognition under this statement and SSAP No. 40R, the transaction is accounted for using sale-leaseback accounting, and the gain or loss is recognized in accordance with the provisions of paragraph 46 of this statement. In addition, the leaseback is classified and accounted for in accordance with this statement as if the sale had been recognized at the inception of the lease. The change in the related lease accounts that would have been recorded from the inception of the lease had the transaction initially qualified for sale-leaseback accounting is included in computing the gain or loss recognized in accordance with paragraph 46 of this statement.

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\(^1\) The terms *property improvements* or *integral equipment* as used in paragraphs 26-33 of this section refer to any physical structure or equipment attached to the real estate, or other parts thereof; that cannot be removed and used separately without incurring significant cost.

\(^2\) Paragraphs 38 and 39 of FAS 66 address transactions in which the seller sells property improvements to a buyer and leases the underlying land to the buyer of the improvements. Under certain circumstances, paragraph 38 of FAS 66 precludes sales recognition for such transactions and requires that they be accounted for as leases of both the land and improvements. Paragraphs 26-33 of this section are not intended to modify paragraph 38 of FAS 66; thus, they do not address a sale-leaseback transaction that does not qualify for sales recognition under the provisions of paragraph 38 of FAS 66. However, those paragraphs do address a sale-leaseback transaction that qualifies for sales recognition under the provisions of paragraph 39 of FAS 66.
Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): See discussion of the prior agenda items above.

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

Staff Recommendation:

Staff recommends that the Working Group expose the agenda item to get initial feedback before providing direction on the following items and before classifying this agenda item as substantive or nonsubstantive. After receiving initial information, whichever direction the Working Group prefers for sale-leasebacks, staff recommends revisions in SSAP No. 22 to eliminate future questions.

Staff has received several questions regarding sale-leaseback transactions involving nonadmitted assets with unrelated parties. These questions have noted that these transactions are seemingly being completed only to remove nonadmitted assets from the financial statements, resulting in an increase in surplus. Several questions have been received regarding why sale-leaseback transactions with nonadmitted assets with related parties are excluded from sale-leaseback accounting, and other transactions with nonadmitted assets and unrelated parties are permitted. These questions have speculated that the use of “property” in the sale-leaseback section were intended to reflect “real estate” and not other depreciating assets (e.g., software).

As detailed in the history section, it appears that sale-leaseback transactions involving nonadmitted assets with unrelated parties were considered and permitted sale-leaseback accounting from the original adoption of SSAP No. 22. However, the discussion section of the Issue Paper noted that the exclusion of nonadmitted asset sale-leaseback transactions with related parties was intended to eliminate the possibility of surplus enhancement through sale-leasebacks with nonadmitted assets. It is staff’s assessment that unless the deposit method of accounting is used, sale-leaseback with nonadmitted assets, regardless if it is with a related party, results with surplus enhancement.

Sale-Leaseback Accounting: Removes the “sold” property from the insurer’s financial statements, with recognition of an operating lease. (This allows for elimination of previously nonadmitted assets, resulting in an increase to surplus.)

Deposit Method of Accounting: The property and any related debt continue to be included in the balance sheet, with continued depreciation of the property.

In addition to the specific questions on sale-leaseback transactions involving nonadmitted assets, the guidance in SSAP No. 22 does not match GAAP – particularly as SSAP No. 22 combines guidance for sales-leasebacks for real estate with the accounting guidance for non-real estate sale-leasebacks.

Staff requests that the exposure solicit guideline on the following three items to assist the Working Group in providing staff direction:

1) Incorporate guidance to clarify that the reference to “property” in the sale-leaseback section has the same scope as the full SSAP - property, plant or equipment (land or depreciable assets). This proposal also suggests clarifying the guidance specific to “real estate” versus “non-real estate.”

2) Incorporate guidance to clarify when sale-leaseback transactions involving nonadmitted assets shall follow the deposit method of accounting. (These revisions would be proposed to either
require all such transactions to follow the deposit method of accounting, or, if the Working Group wants to allow these items, clarify that they are permitted within SSAP No. 22.)

3) Incorporate guidance / revisions to clearly identify and reflect the guidance adopted under GAAP. This proposal would incorporate the current GAAP guidance in ASC 840-40 to the extent that the pre-codification GAAP standards were adopted by the Working Group, with the modifications previously adopted unless items are specifically noted for reconsideration.

Staff Review Completed by:
Julie Gann - Dec. 19, 2014

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Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Prepayment Penalties and Amortization on Callable Bonds

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>New Issue or SSAP</td>
<td></td>
<td></td>
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</tbody>
</table>

Description of Issue: SSAP No. 26—Bonds, Excluding Loan-backed and Structured Securities currently has guidance requiring 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, to amortize the premium or discount to the call or maturity value/date which produces the lowest asset value (yield to worst). Questions have been received on this accounting guidance for make whole call provision bonds and continuous callable bonds. This agenda item proposes revisions to SSAP No. 26 to clarify the accounting treatment of these bonds.

Additionally, SSAP No. 26 has guidance requiring prepayment penalties and acceleration fees received upon liquidation of a bond prior to its scheduled termination date to be reported as investment income upon receipt. Questions have been received on this accounting guidance and whether the prepayment penalties and acceleration fees should be treated as investment income or capital gain. This agenda item proposes revisions to SSAP No. 26 to clarify the treatment of prepayment penalty and acceleration fees when received.

Item 1: Prepayment Penalties and Acceleration Fees
Often, callable bonds provide a prepayment penalty (or acceleration fee) in the event the bond is liquidated prior to its scheduled termination date. Questions have been received on the accounting treatment of these penalties and whether they should be recorded as investment income or as a capital gain and how they should be reported within the financial statements and supporting schedules. Current guidance in SSAP No. 26, paragraph 14 indicates these penalties and fees should be classified as investment income. However, this guidance is conflicting with existing annual statement instructions, as well as how information currently flows on Schedule D-Part 4. Furthermore, with the differences in types of calls (e.g., make-whole call provisions), the “penalty” may not be as easily identifiable (e.g., a standard call price of 105 indicates a penalty of 5). This agenda item proposes that the Working Group consider reporting all prepayment penalties and acceleration fees as realized gains, which would result with the total difference between the consideration (amount received – including penalties and fees) and BACV being subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

Item 2: Continuously Callable Bonds
Bonds that are considered “continuously callable” without specific “make whole” call provisions are intended to capture bonds that have a lock-out period before the first call date, and bonds (if any) that are callable immediately after acquisition. These bonds are proposed to be captured within the existing guidance of SSAP No. 26 (yield to worst – amortized to the lowest asset value). Questions have been received regarding the amortization on continuously callable bonds and the concept of “Yield to Worst” – more specifically, the instances in which the premium needs to be immediately expensed. This agenda item provides illustrations and proposes revisions to clarify the existing accounting guidance.
Item 3: Make Whole Call Provisions
Make whole call provisions allow the borrower to pay off the remaining debt at any time by making a lump-sum payment to the holder derived from a contractual agreement, usually based on the net present value of future cash flows not paid because of the call. This agenda item provides illustrations and proposes revisions to revise the measurement method for make whole call provisions. Make whole call provisions are intended to be infrequently exercised. However, in 2014 there were numerous bonds with these provisions that were called, resulting in proposed revisions to the guidance.

Existing Authoritative Literature:
SSAP No. 26—Bonds, Excluding Loan-backed and Structured Securities:

Amortized Cost
6. 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.

Footnote 1 – For continuously callable bonds with a lockout period, the first call date after the lockout period shall be used in determining the amortization of any premium. If there is no lockout period, and make whole call provisions are not included, any premium for continuously callable bonds shall be expensed completely at acquisition. (For continuously 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.)

Income
14. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

SSAP No. 37—Mortgage Loans:
(Staff Note: Similar language is also included in SSAP No. 37 for investment income.)

Prepayments
11. A mortgage loan may provide for a prepayment penalty or acceleration fee in the event the loan is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received.

Additional Information – Superseded SSAP Guidance:
As detailed in the INT 99-04 excerpt below, prior to codification some insurers were recording prepayment penalties and acceleration fees as realized gains and amortizing through IMR. While the intent of INT 99-04 was to no longer have prepayment penalties or acceleration fees recognized as realized gains upon adoption of the Codification (and release all unamortized amounts within IMR); it was noted, through discussions with regulators and interested parties, that some insurers would still record these fees as realized gains and amortize through IMR.
If the Working Group chooses to recognize prepayment penalties and acceleration fees as realized capital gains, staff also recommends revisions to SSAP No. 37—Mortgage Loans to clarify this accounting treatment.

**INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification:**

1. SSAP No. 37 requires insurers to report a prepayment penalty or acceleration fee as investment income when received. Currently, some insurers record these fees as realized gains and thus amortize them through IMR. SSAP No. 37 also stipulates a change resulting from the adoption of the statement be accounted for as a change in accounting principle. Upon adoption of Codification, it is probable that some insurers might continue to amortize the existing gain included in IMR and recognize subsequent fees as investment income.

2. Should an insurer release all unamortized amounts included in IMR and related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3)?

**INT 99-04 Discussion**

3. The working group reached a consensus to instruct insurer’s to release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG:

None

**Staff Recommendation:**

**Summary Recommendation:** It is recommended that the Working Group move this agenda item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 26:

1) Require prepayment penalties and acceleration fees to be reported as realized capital gains instead of investment income. *(A similar revision is also suggested for SSAP No. 37.)* This agenda item proposes that the Working Group consider reporting all prepayment penalties and acceleration fees as realized gains, which would result with the total difference between the consideration (amount received – including penalties and fees) and BACV being subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

2) Incorporate guidance to clarify the “yield to worst” concept (including when to expense premium) for continuously callable bonds.

3) Revise the measurement method for bonds with make whole call provisions to follow the yield-to-worst concept without exception.

**Proposed Revisions to SSAP No. 26 for Exposure:**

6. 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 *(INT 07-07)*. 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.

7. 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 6 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 (which includes bonds with make whole call provisions) the BACV (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 or contractual elements to calculate make whole call provisions, 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.

d. If a bond has both scheduled call dates and contains a make whole call provision, the bond shall be accounted for under the provisions of this paragraph (7a-7c) that results in the lowest asset value.

Income

14. A bond may provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income or realized capital gain when received.

Proposed Revisions to SSAP No. 37 for Exposure:

Prepayments

1 Reference to the “next call price” indicates that the reporting entity shall continuously review the call dates / prices to ensure that the amortization (and resulting BACV) follows the yield-to-worst concept throughout the time the reporting entity holds the bond.

2 The reporting entity shall only consider call dates / prices that occur after the reporting entity acquires the bond. If all of the call dates had expired prior to the reporting entity acquiring the bond, the reporting entity would consider the bond continuously callable without a lock-out period.

4 For continuously callable bonds with a lockout period, the first call date after the lockout period shall be used in determining the amortization of any premium. If there is no lockout period, and make whole call provisions are not included, any premium for continuously callable bonds shall be expensed completely at acquisition. (For continuously 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.)
11. A mortgage loan may provide for a prepayment penalty or acceleration fee in the event the loan is liquidated prior to its scheduled termination date. Such fees shall be reported as **investment income** or a realized capital gain when received.

Additional Discussion and Illustrations Supporting Summary Recommendation and Proposed Revisions:

**Item 1: Prepayment Penalty and Acceleration Fees**

As illustrated within the Description of Issue and Summary Recommendation above, staff is recommending revisions to reflect prepayment penalties and acceleration fees as gains. However, the following discussion provides information if the Working Group would like to consider continued reporting as investment income.

Based on the current guidance within SSAP No. 26, paragraph 14, these prepayment and acceleration fees are classified as investment income. The following would be recognized at the call date (when called prior to scheduled termination date):

- Call Price in excess of Par = Prepayment Penalty (or Acceleration Fee) = Investment Income
- BACV in excess of Par (Premium) = Loss
- Par in excess of BACV (Discount) = Gain

Gains and losses incurred at the call date are recognized and documented on Schedule D Part 4, column 18 and are subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. Currently, Schedule D-Part 4 does not include a column specific for investment income. However, per the Annual Statement instructions, the proportionate share of investment income directly related to the securities reported shall be included within column 20 (Bond Interest/Stock Dividends Received during the Year). If these fees continue to be reported as investment income, staff would recommend adding a column to Schedule D-Part 4, to account for the investment income generated upon disposal of callable bonds. Additionally, the annual statement instructions for Schedule D-Part 4, Column 18 specifies that the realized gain (loss) on disposal should be the difference between the Consideration received (Column 7) and the Book Adjusted Carrying Value at Disposal Date (Column 16). If a portion of the Consideration (for the penalty/fee) is deemed to be investment income (Column 20), then revisions to the annual statement instructions for Column 18 would be needed to clarify the presentation of disposals of callable bonds on Schedule D-Part 4.

If prepayment penalties and acceleration fees were recognized as a gain upon liquidation (which is reflected in the staff recommendation), the following accounting would be recognized when the bond is called prior to scheduled termination date:

- Call Price in excess of Par = Prepayment Penalty (or Acceleration Fee) = Gain
- BACV in excess of Par (Premium) = Loss
- Par in excess of BACV (Discount) = Gain

With the staff recommendation, the prepayment penalty would be included with other gains and losses (BACV in excess of Par) and would be recognized and documented on Schedule D-Part 4, Column 18 and be subject to authoritative literature (if applicable) within SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. With this change, the “Consideration” (amount received) received in disposal of a bond would flow through existing columns in Schedule D-Part 4. However, staff would still suggest clarification revisions to annual statement instructions.

**Item 2: Continuously Callable Bonds**

As illustrated within the Description of Issue and Summary Recommendation above, staff is recommending revisions to SSAP No. 26 to incorporate guidance to clarify the “yield to worst” concept (including when to expense premium) for continuously callable bonds. As detailed in the illustrations, the
amortization based on the call schedules (dates/price) should be compared to the standard amortization (cost to par) to determine the lowest asset value. As noted in the examples, depending on the lockout periods and set call prices, it is possible for the lowest asset value to alternate between the call price/date and the standard amortization.

**Item 3: Make Whole Call Provisions**

As illustrated within the Description of Issue and Summary Recommendation above, staff is recommending revisions to SSAP No. 26 to revise the measurement method for bonds with make whole call provisions. These revisions propose to eliminate the exception for make whole call provisions so that they also follow the yield-to-worst concept, with the bond reflecting the lowest asset value. With the number of make whole call provisions invoked in 2014, and the extent of questions received, staff is recommending that the Working Group incorporate a consistent basis of accounting for all callable bonds that utilizes the lowest asset value consistent with other callable bonds.

Staff Note: In reviewing bonds that have been recently called with make whole call provisions, there have been instances in which the holder only received an amount equal to the fair value of the bond. Apparently, the contract contained provisions that allowed a fair value redemption price. Staff has internally discussed including an element to require a lower of cost or fair value measurement for bonds with these provisions (similar to mandatorily convertible bonds). However, without knowing more information on how prevalent these provisions are reflected in the contractual terms of make whole bonds, staff currently anticipates that the proposed revisions to paragraph 7 of SSAP No. 26 will provide suitable guidance, and will be consistent with other callable bonds. **However, comments are welcome on whether a lower of cost or fair value threshold should be reflected.**

**Staff Review Completed by:**

Josh Arpin / Julie Gann – February 2015

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Example 1 - Call Price Less Than BACV Throughout the Life of the Bond
12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price 107
1/1/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 104
1/1/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 103
1/1/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102

General Note for Examples: The reporting entity purchased the bond at a premium (cost was greater than par). The 1/1/2009 call date and price is ignored as it occurred prior to the reporting entity acquiring the bond. The bolded numbers represent the lowest asset value at each reporting period. The bond is amortized to the lowest asset value, which in this scenario, is amortizing to the call dates and prices. (The standard amortization to the maturity date is shown as it should be compared to the amortization to the call date/price to verify that the BACV at any given reporting date reflects the lowest asset value.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization to the Lowest Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>106</td>
<td>106</td>
<td>106</td>
<td>106</td>
<td></td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Lock Out Period</td>
<td></td>
<td></td>
<td>104</td>
<td>2</td>
<td>105.25</td>
</tr>
<tr>
<td>1/1/2012</td>
<td>Call Date</td>
<td></td>
<td>104</td>
<td>104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td></td>
<td>103.5</td>
<td>0.5</td>
<td>104.50</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td></td>
<td>103</td>
<td>0.5</td>
<td>103.75</td>
</tr>
<tr>
<td>1/1/2014</td>
<td>Call Date</td>
<td></td>
<td>103</td>
<td>103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td></td>
<td>102.5</td>
<td>0.5</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>Year-End Reporting</td>
<td></td>
<td></td>
<td>102</td>
<td>0.5</td>
<td>102.25</td>
</tr>
<tr>
<td>1/1/2016</td>
<td>Call Date Exercised</td>
<td></td>
<td></td>
<td>102</td>
<td></td>
<td>102</td>
</tr>
</tbody>
</table>

Standard Amortization
This table shows the amortization with a purchase date of 12/15/2010 at $106 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortization</th>
<th>BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>.75</td>
<td>105.25</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>.75</td>
<td>104.50</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>.75</td>
<td>103.75</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>.75</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>.75</td>
<td>102.25</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>.75</td>
<td>101.50</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>.75</td>
<td>100.75</td>
</tr>
<tr>
<td>12/31/2017</td>
<td>.75</td>
<td>100</td>
</tr>
<tr>
<td>12/31/2018</td>
<td>.75</td>
<td>100</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Par Value</th>
<th>BACV at Disposal Date</th>
<th>Realized Gain/Loss*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016 Call Exercised</td>
<td>102</td>
<td>100</td>
<td>102</td>
</tr>
</tbody>
</table>

* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. Since the BACV equaled the consideration received (which includes the
prepayment penalty), there is no gain or loss recognized on this transaction. If the existing guidance in SSAP No. 26 had been followed, the entity would have recognized a $(2) loss (BACV less Par), and investment income of $2 (Consideration less Par).

Example 2 - Call Price Could be Greater Than BACV
12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price 107
12/15/2010 – Reporting Entity Acquires Bond. Cost = 104
1/1/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 106
1/1/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 103
1/1/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102

The bolded numbers represent the lowest asset value:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization To the Lowest Asset Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>104</td>
<td>104</td>
<td></td>
<td></td>
<td>104</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Lock Out Period</td>
<td></td>
<td>104</td>
<td>104</td>
<td>0.5</td>
<td>103.50</td>
</tr>
<tr>
<td>1/1/2012</td>
<td>Call Date</td>
<td>106</td>
<td>104</td>
<td></td>
<td></td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td>103.5</td>
<td></td>
<td>0.5</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td>103</td>
<td></td>
<td>0.5</td>
<td>102.50</td>
</tr>
<tr>
<td>1/1/2014</td>
<td>Call Date</td>
<td>103</td>
<td>103</td>
<td></td>
<td></td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td>102.5</td>
<td></td>
<td>0.5</td>
<td>102</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>Year-End Reporting</td>
<td></td>
<td>102</td>
<td></td>
<td>0.5</td>
<td>101.50</td>
</tr>
<tr>
<td>1/1/2016</td>
<td>Call Date Exercised</td>
<td>102</td>
<td>102</td>
<td></td>
<td></td>
<td>101.50</td>
</tr>
</tbody>
</table>

**Standard Amortization**
This table shows the amortization with a purchase date of 12/15/2010 at $104 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortization</th>
<th>BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>0.50</td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>0.50</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>0.50</td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>0.50</td>
<td>102</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>0.50</td>
<td>101.50</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>0.50</td>
<td>101</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>0.50</td>
<td>100.50</td>
</tr>
<tr>
<td>12/31/2017</td>
<td>0.50</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Par Value</th>
<th>BACV at Disposal Date</th>
<th>Net Realized Gain/Loss*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016 Call Exercised</td>
<td>102</td>
<td>100</td>
<td>101.50</td>
</tr>
</tbody>
</table>

* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. With the proposed revisions, the difference from par and the prepayment penalty are netted to reflect $0.50 as the total gain. If the existing guidance in SSAP No. 26 had been followed, the
entity would have recognized a $(1.50) loss (BACV less Par), and investment income of $2 (Consideration less Par). With the proposed revisions, these are netted to reflect 0.50 as the total gain.

Example 3 - Call Price Could be Greater Than BACV
12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price 107
12/15/2010 – Reporting Entity Acquires Bond. Cost = 104
1/1/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 106
1/1/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 102
1/1/2016 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 101

Note – This illustration shows that the evaluation of whether standard amortization (to the maturity date) or the call date / price may change over the time. The bolded numbers represent the lowest asset value:

The bolded numbers represent the lowest asset value:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV Under Standard Amortization</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization To the Lowest Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>104</td>
<td>104</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Lock Out Period</td>
<td></td>
<td>106</td>
<td>104</td>
<td>0.5</td>
<td>103.50</td>
</tr>
<tr>
<td>1/1/2012</td>
<td>Call Date</td>
<td></td>
<td>106</td>
<td>104</td>
<td></td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td>103</td>
<td></td>
<td>0.5</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td>102</td>
<td></td>
<td>1</td>
<td>102.50</td>
</tr>
<tr>
<td>1/1/2014</td>
<td>Call Date</td>
<td></td>
<td>102</td>
<td>102</td>
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<td>102.50</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td>101.5</td>
<td></td>
<td>0.5</td>
<td>102</td>
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<tr>
<td>12/31/2015</td>
<td>Year-End Reporting</td>
<td></td>
<td>101</td>
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<td>0.5</td>
<td>101.50</td>
</tr>
<tr>
<td>1/1/2016</td>
<td>Call Date Exercised</td>
<td></td>
<td>101</td>
<td>101</td>
<td></td>
<td>101.50</td>
</tr>
</tbody>
</table>

Standard Amortization
This table shows the amortization with a purchase date of 12/15/2010 at $104 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortization</th>
<th>BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>0.50</td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>0.50</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>0.50</td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>0.50</td>
<td>102</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>0.50</td>
<td>101.50</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>0.50</td>
<td>101</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>0.50</td>
<td>100.50</td>
</tr>
<tr>
<td>12/31/2017</td>
<td>0.50</td>
<td>100</td>
</tr>
</tbody>
</table>
* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. Since the BACV equaled the consideration received (which includes the prepayment penalty), there is no gain or loss recognized on this transaction. If the existing guidance in SSAP No. 26 had been followed, the entity would have recognized a $(1) loss (BACV less Par), and investment income of $1 (Consideration less Par).
Example 4 – Continuously Callable Bond - Callable at Par After Initial Lock-Out Period

12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price 107 – Continuously Callable Thereafter at Par
12/15/2010 – Reporting Entity Acquires Bond. Cost = 104

The bolded numbers represent the lowest asset value:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization To the Lowest Asset Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>104</td>
<td>100</td>
<td>100</td>
<td>4</td>
<td>104</td>
</tr>
<tr>
<td>12/31/2010</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>104</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td>There is no subsequent amortization as the premium was fully expensed at acquisition.</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>102</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>101.50</td>
</tr>
<tr>
<td>1/1/2016</td>
<td>Year-End Reporting</td>
<td></td>
<td>100</td>
<td>100</td>
<td></td>
<td>101.50</td>
</tr>
</tbody>
</table>

Standard Amortization

This table shows the amortization with a purchase date of 12/15/2010 at $104 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortization</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
<th>BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>0.50</td>
<td>103.50</td>
<td>103</td>
<td>102.50</td>
<td>102</td>
<td>101.50</td>
<td>101</td>
<td>100.50</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Consideration Par Value BACV at Disposal Date Net Realized Gain/Loss*

<table>
<thead>
<tr>
<th>Date</th>
<th>Consideration</th>
<th>Par Value</th>
<th>BACV at Disposal Date</th>
<th>Net Realized Gain/Loss*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. Since the call price is par, and could occur immediately after acquisition, the premium is immediately expensed. When the bond is called, there is no gain or loss as the consideration received equals the BACV.
**Example 5 – Continuously Callable Bond - Callable at Set Price After Initial Lock-Out Period, then with Make Whole call Provision**

12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price 107
1/1/2010 – Continuously Callable at 104 through 12/31/2014
1/1/2015 – Subsequently Callable At Make Whole Provision Price. Price is calculated by contractual terms and will fluctuate throughout the life of the bond. For purposes of this example:
- 12/31/2015 – Calculated Make Whole Price is 102
- 12/31/2016 – Calculated Make Whole Price is 100.50

The bolded numbers represent the lowest asset value:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization to Lowest Asset Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>106</td>
<td>104</td>
<td>104</td>
<td>2</td>
<td>104</td>
</tr>
<tr>
<td>12/31/2010</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>104</td>
<td></td>
<td>104</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>103.5</td>
<td>0.50</td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>103</td>
<td>0.50</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>102.50</td>
<td>0.50</td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>102</td>
<td>0.50</td>
<td>102</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>Year-End Reporting Make Whole</td>
<td>102</td>
<td>101.50</td>
<td>0.50</td>
<td></td>
<td>101.50</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>Year-End Reporting Make Whole</td>
<td>100.50</td>
<td>100.50</td>
<td>1.00</td>
<td></td>
<td>101</td>
</tr>
</tbody>
</table>

**Standard Amortization**

This table shows the amortization with a purchase date of 12/15/2010 at $104 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortization</th>
<th>BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td></td>
<td>103.50</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>0.50</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>0.50</td>
<td>102.50</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>0.50</td>
<td>102</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>0.50</td>
<td>101.50</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>0.50</td>
<td>101</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>0.50</td>
<td>100.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Consideration</th>
<th>Par Value</th>
<th>BACV at Disposal Date</th>
<th>Net Realized Gain/Loss*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2017 Call Exercised</td>
<td>100.50</td>
<td>100</td>
<td>100.50</td>
<td>0</td>
</tr>
</tbody>
</table>

* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. Since the BACV equaled the consideration received (which includes the prepayment penalty), there is no gain or loss recognized on this transaction. If the existing guidance in SSAP No. 26 had been followed, the entity would have recognized a $(.5) loss (BACV less Par), and investment income of $.5
(Consideration less Par). For Bonds containing Make Whole Call Provisions, unless specifically identified in the contract terms, companies are often unable to determine the portion that is considered a prepayment penalty and the portion that reflects the net expected cash flows.
**Example 6 – Make Whole Call Provision Bond - No Other Call Provisions**

12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price = 107
12/15/2010– Make Whole Call Provision Price = 106

Make Whole Provision effective throughout life of bond. Price is calculated by contractual terms and will fluctuate throughout the life of the bond. The Make Whole Price shown in the table below is presumed to be calculated as of the noted date. As noted in this example, the amortization shall be the minimum of the standard amortization based on the original terms of the bond, however, a review of the make whole call provisions must occur at each reporting date to ensure the bond is reported at the lowest asset value under the yield-to-worst concept.

The bolded numbers represent the lowest asset value:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Make Whole Call Price</th>
<th>BACV (Under Make Whole)</th>
<th>Amortization to Lowest Asset Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/15/2010</td>
<td>Acquired</td>
<td>108</td>
<td>106</td>
<td>106</td>
<td>2</td>
<td>106</td>
</tr>
<tr>
<td>12/31/2010</td>
<td>Year-End Reporting</td>
<td></td>
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<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/2011</td>
<td>Year-End Reporting</td>
<td></td>
<td>105.5</td>
<td>105.5</td>
<td>0.50</td>
<td><strong>105.25</strong></td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
<td></td>
<td>105</td>
<td>105</td>
<td>0.50</td>
<td><strong>104.50</strong></td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
<td></td>
<td>103.5</td>
<td><strong>103.5</strong></td>
<td>1.0</td>
<td>103.75</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Year-End Reporting</td>
<td></td>
<td>103</td>
<td><strong>103</strong></td>
<td>0.50</td>
<td>103</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>Year-End Reporting</td>
<td></td>
<td>102.5</td>
<td>102.5</td>
<td>0.50</td>
<td><strong>102.25</strong></td>
</tr>
<tr>
<td>12/31/2016</td>
<td>Year-End Reporting</td>
<td></td>
<td>104</td>
<td>102.5</td>
<td></td>
<td><strong>101.50</strong></td>
</tr>
</tbody>
</table>

*As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. With the proposed revisions, the difference from par and the prepayment penalty are netted to reflect $2.5 as the total gain. If the existing guidance in SSAP No. 26 had been followed, the
entity would have recognized a $(1.5) loss (BACV less Par), and investment income of $4 (Consideration less Par). For Bonds containing Make Whole Call Provisions, unless specifically identified in the contract terms, companies are often unable to determine the portion that is considered a prepayment penalty and the portion that reflects the net expected cash flows.

**Example 7 – Bond is Continuously Callable and Contains Make Whole Call Provisions**

(Staff Note – Staff is under the impression that if a bond includes both scheduled and make whole call provisions, the holder would receive the greater amount. In other words, the company would not be able to call a bond under a make whole provision for less than what they would have to pay under the next scheduled call date. However, comments on whether this is consistent with market practices are welcome.)

12/31/2008 – Issuance of Bond. Par = 100 / 10 Year Bond (Matures 12/31/2018)
1/1/2009 – Call Date / Call Price = 107
12/15/2010 – First Make Whole Call Provision Price = 108

1/1/2012 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 106
1/1/2014 – Scheduled Call Date Subsequent to Reporting Entity Acquisition. Call Price 103

Subsequent to 1/1/2014 – Make Whole Call Provisions Calculated as follows:
- 12/31/2014 – Make Whole 105
- 12/31/2015 – Make Whole 104
- 12/31/2016 – Make Whole 103

As it is presumed (see staff note) that the entity would always receive the greater of the make whole call provision or the next scheduled call price, the make whole call provisions would not result in the lowest asset value until after the last scheduled call date. As such the make whole call provisions are not a factor in the yield to worst assessment until after the last scheduled call date.

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Call Price</th>
<th>BACV (Under Call Date / Price)</th>
<th>Amortization to the Lowest Value</th>
<th>BACV Under Standard Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2011</td>
<td>Lock Out Period</td>
<td></td>
<td></td>
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<td>107</td>
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<tr>
<td>1/1/2012</td>
<td>Call Date</td>
<td></td>
<td>106</td>
<td>106</td>
<td></td>
<td>107</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Year-End Reporting</td>
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<td>104.5</td>
<td>1.5</td>
<td>106</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>Year-End Reporting</td>
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<td></td>
<td>103</td>
<td>1.5</td>
<td>105</td>
</tr>
<tr>
<td>1/1/2014</td>
<td>Call Date</td>
<td></td>
<td>103</td>
<td>103</td>
<td></td>
<td>105</td>
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<tr>
<td>12/31/2014</td>
<td>Year-End Make</td>
<td>105</td>
<td>105</td>
<td>1.0</td>
<td>104</td>
<td></td>
</tr>
</tbody>
</table>
### Standard Amortization

This table shows the amortization with a purchase date of 12/15/2010 at $108 through the maturity date of 12/31/2018.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
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<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>BACV</td>
<td>107</td>
<td>106</td>
<td>105</td>
<td>104</td>
<td>103</td>
<td>102</td>
<td>101</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

### Consideration, Par Value, BACV at Disposal Date, Realized Gain/Loss*

<table>
<thead>
<tr>
<th>Date</th>
<th>Consideration</th>
<th>Par Value</th>
<th>BACV at Disposal Date</th>
<th>Realized Gain/Loss*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2017 Call Exercised</td>
<td>103</td>
<td>100</td>
<td>102</td>
<td>1.00</td>
</tr>
</tbody>
</table>

* As detailed in item 1, staff is recommending revisions to reflect all penalties/fees received from an issuer calling a bond to be included with gains/losses. With the proposed revisions, the difference from par and the prepayment penalty are netted to reflect $1.0 as the total gain. If the existing guidance in SSAP No. 26 had been followed, the entity would have recognized a $(2) loss (BACV less Par), and investment income of $3 (Consideration less Par). For bonds containing make whole call provisions, unless specifically identified in the contract terms, companies are often unable to determine the portion that is considered a prepayment penalty and the portion that reflects the net expected cash flows.
Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: SSAP Title Revisions

Check (applicable entity):

<table>
<thead>
<tr>
<th></th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification of existing SSAP</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>New Issue or SSAP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Description of Issue: As part of the efforts to continuously make modifications to the Accounting Practices & Procedures Manual to make the publication more user-friendly for regulators, companies and other users of the manual; this agenda item proposes revisions to the titles of various SSAP’s. In most of the noted instances, the titles are long, and often contain duplicative information that is also outlined within the Scope of Statement section of the SSAP. These revisions are not expected to result in any accounting changes, but rather improve the ability to quickly identify and reference all SSAPs.

Existing Authoritative Literature:
The impacted SSAPs (existing and proposed title) are detailed in Appendix A.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG:
None

Staff Recommendation:
It is recommended that the Working Group move this agenda item to the nonsubstantive active listing and expose proposed nonsubstantive revisions to SSAP titles as detailed in Appendix A.

Upon adoption of a new SSAP title, all references to the title will be updated in the AP&P Manual. Although nonsubstantive revisions are shown as tracked changes, it is proposed that these revisions not be shown as marked. Comments are requested on any concerns with this approach.

Staff Review Completed by:
Josh Arpin - January 2015
## Appendix A – Proposed Revisions to SSAP Titles

<table>
<thead>
<tr>
<th>SSAP</th>
<th>Current Title</th>
<th>Proposed Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Disclosure of Accounting Policies, Risks &amp; Uncertainties, and Other Disclosures</td>
<td>Accounting Policies, Risks &amp; Uncertainties, and Other Disclosures</td>
</tr>
<tr>
<td>16R</td>
<td>Electronic Data Processing Equipment and Accounting for Software</td>
<td>Electronic Data Processing Equipment and Software</td>
</tr>
<tr>
<td>19</td>
<td>Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements</td>
<td>Furniture, Fixtures, Equipment and Leasehold Improvements</td>
</tr>
<tr>
<td>25</td>
<td>Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties</td>
<td>Affiliates and Other Related Parties</td>
</tr>
<tr>
<td>26</td>
<td>Bonds, Excluding Loan-Backed and Structured Securities</td>
<td>Bonds</td>
</tr>
<tr>
<td>27</td>
<td>Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk</td>
<td>Off-Balance-Sheet and Credit Risk Disclosures</td>
</tr>
<tr>
<td>30</td>
<td>Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)</td>
<td>Unaffiliated Common Stock</td>
</tr>
<tr>
<td>32</td>
<td>Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)</td>
<td>Preferred Stock</td>
</tr>
<tr>
<td>50</td>
<td>Classifications and Definitions of Insurance or Managed Care Contracts in Force</td>
<td>Classifications of Insurance or Managed Care Contracts</td>
</tr>
<tr>
<td>63</td>
<td>Underwriting Pools and Associations Including Intercompany Pools</td>
<td>Underwriting Pools</td>
</tr>
<tr>
<td>73</td>
<td>Health Care Delivery Assets—Supplies, Pharmaceuticals and Surgical Supplies, Durable Medical Equipment, Furniture, Medical Equipment and Fixtures, and Leasehold Improvements in Health Care Facilities</td>
<td>Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities</td>
</tr>
<tr>
<td>74</td>
<td>Accounting for the Issuance of Insurance-Linked Securities Issued by a Property and Casualty Insurer Through a Protected Cell</td>
<td>Insurance-Linked Securities Issued Through a Protected Cell</td>
</tr>
<tr>
<td>76</td>
<td>Reporting on the Costs of Start-Up Activities</td>
<td>Start-Up Costs</td>
</tr>
<tr>
<td>84</td>
<td>Certain Health Care Receivables and Receivables Under Government Insured Plans</td>
<td>Health Care and Government Insured Plan Receivables</td>
</tr>
<tr>
<td>86</td>
<td>Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions</td>
<td>Derivatives</td>
</tr>
<tr>
<td>90</td>
<td>Accounting for the Impairment or Disposal of Real Estate Investments</td>
<td>Impairment or Disposal of Real Estate Investments</td>
</tr>
<tr>
<td>92</td>
<td>Accounting for Postretirement Benefits Other than Pensions, A Replacement of SSAP No. 14</td>
<td>Postretirement Benefits Other than Pensions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
</tr>
<tr>
<td>93</td>
<td>Accounting for Low Income Housing Tax Credit Property Investments</td>
<td>Low Income Housing Tax Credit Property Investments</td>
</tr>
<tr>
<td>94R</td>
<td>Accounting for Transferable State Tax Credits</td>
<td>Transferable State Tax Credits</td>
</tr>
<tr>
<td>95</td>
<td>Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions</td>
<td>Nonmonetary Transactions</td>
</tr>
<tr>
<td>97</td>
<td>Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88</td>
<td>Investments in Subsidiary, Controlled and Affiliated Entities</td>
</tr>
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<td>Fair Value Measurements</td>
<td>Fair Value</td>
</tr>
<tr>
<td>101</td>
<td>Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10</td>
<td>Income Taxes</td>
</tr>
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<td>102</td>
<td>Accounting for Pensions, A Replacement of SSAP No. 89</td>
<td>Accounting for Pensions</td>
</tr>
<tr>
<td>103</td>
<td>Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</td>
<td>Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</td>
</tr>
<tr>
<td>107</td>
<td>Accounting for the Risk-Sharing Provisions of the Affordable Care Act</td>
<td>Risk-Sharing Provisions of the Affordable Care Act</td>
</tr>
</tbody>
</table>

**Staff Note:** A separate agenda item currently addresses proposed revisions that would change the title of SSAP No. 24—Discontinued Operations and Extraordinary Items.
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Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2015-01: Income Statement – Extraordinary and Unusual Items

Check (applicable entity):

- Modification of existing SSAP
- New Issue or SSAP

<table>
<thead>
<tr>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
</tbody>
</table>

Description of Issue:

ASU 2015-01: Income Statement—Extraordinary and Unusual Items (ASU 2014-15) was issued in January 2015 to eliminate the concept of extraordinary items from U.S. GAAP. In issuing this standard, the FASB noted that it is extremely rare for an event or transaction to be presented as an extraordinary item. Additionally, the ASU identifies that the term “extraordinary” causes uncertainty because it is often unclear when an item should be considered both unusual and infrequent and what might be considered extraordinary in one industry may not be considered extraordinary to another. Additionally, the concept of extraordinary items has been interpreted narrowly in practice so entities, rarely, if ever, reach a conclusion that the conditions for presentation have been met.

In electing to remove the concept of extraordinary items, the FASB concluded that the amendments will not result with a loss of information as presentation and/or disclosure will now occur for items that are unusual in nature or infrequently occurring, or both.

The amendments in ASU 2015-01 are effective for fiscal periods and interim periods within those fiscal years beginning after Dec. 15, 2015. The GAAP guidance allows for either a prospective or retrospective application. Early adoption is permitted under GAAP provided that the guidance is applied from the beginning of the fiscal year of adoption. For entities that are applying prospectively, the only required transaction is to disclose, if applicable, both the nature and amount of an item included in income from continuing operations after adoption that adjusts an extraordinary item previously classified and presented before the date of adoption. An entity apply retrospectively should provide disclosures for a change in accounting principle.

Existing Authoritative Literature:

Statutory accounting guidance for extraordinary items is included in SSAP No. 24—Discontinued Operations and Extraordinary Items. This guidance adopted the GAAP definition of extraordinary items, but rejected the GAAP guidance for the accounting and reporting of discontinued operations, extraordinary items, and unusual or infrequently occurring events and transactions.

Excerpts of SSAP No. 24: (Only relevant paragraphs included)

2. The following definitions shall apply:

   e. “Extraordinary Items” shall be defined as those events or transactions which meet both of the following criteria:

   i. Unusual nature—the underlying event or transaction possesses a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the reporting entity, taking into account the environment in which the reporting entity operates; and
ii. Infrequency of occurrence—the underlying event or transaction would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the reporting entity operates.

**Extraordinary Items**

8. Extraordinary items, as defined in paragraph 2, shall be reported consistently with the reporting entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the *Accounting Practices and Procedures Manual*.

9. The nature of an extraordinary event or transaction and the principal items entering into the determination of an extraordinary gain or loss shall be disclosed in the financial statements. This disclosure shall include the line items, which have been affected by the estimate of the extraordinary item.

10. Material events or transactions that are either unusual or occur infrequently, but not both, are not considered extraordinary items. However, such material events or transactions shall be disclosed in the financial statements.

**Relevant Literature**

14. This statement adopts the accounting principles relating to the accounting for the disposal of a segment of a business included in *Accounting Principles Board Opinion No.30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, (APB No. 30), paragraphs 13-18 and adopts the definition of an extraordinary item included in paragraph 20 of APB 30. This statement also adopts *Accounting Interpretations of APB Opinion No. 30, reporting the results of operations: Accounting Interpretations*, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss. This statement also adopts *FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses*. This statement adopts with modification *Emerging Issues Task Force No. 01-13: Income Statement Display of Business Interruption Insurance Recoveries*, with changes of GAAP references to statutory terminology.

15. This statement rejects all other paragraphs of APB 30 and all other interpretations of APB 30 relating to the accounting and reporting of discontinued operations, extraordinary items and unusual or infrequently occurring events and transactions. This statement rejects *FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements*.

16. This statement adopts subparagraphs a through c from paragraph 44 of *FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144)*. This statement also defers the implementation of all other paragraphs of FAS 144 to *SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments*.

**ASU 2015-01 – GAAP Guidance**

ASU 2015-01 supersedes a majority of guidance previously included in Subtopic 225-10. The resulting guidance is reflected in the following GAAP paragraphs:
225-20-45-16: A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.

225-20-50-3: The nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently or both shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to the financial statements.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item 2015-07 is considering ASU 2014-08 which pertains to updated GAAP guidance on discontinued operations. That agenda item is also proposing revisions to SSAP No. 24. An exhibit has been prepared to show the full tracked changes, and resulting clean version, of SSAP No. 24 with the revisions proposed in agenda item 2015-06 and 2015-07.

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

Staff Recommendation:
Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to adopt with modification ASU 2015-01. The modifications would prevent reporting entities from recognizing events or transactions that are unusual in nature or infrequent in occurrence as a separate component of operations, but would require disclosure for these transactions. For statutory accounting purposes, these events shall be reported consistently with the reporting of continuing operations. (This is consistent with existing SSAP No. 24 guidance.) Disclosure of events that are unusual, or infrequent, or both shall be provided in the financial statements.

Although revisions are proposed to SSAP No. 24 to reflect the GAAP terms and consideration of ASU 2015-01, the actual accounting guidance is essentially unchanged. (Under SSAP No. 24, entities report extraordinary items consistently with continuing operations. This approach is suggested to be continued for events and transactions considered to be unusual and/or infrequent.) As such, staff does not believe an explicit effective date is required. These nonsubstantive revisions would be effective upon adoption.

In addition to proposing revisions to reflect the adoption with modification of ASU 2015-01, the revisions to SSAP No. 24 move all disclosures into the “disclosure” section at the end.

Proposed revisions to SSAP No. 24 to reflect the staff recommendation:

Staff Note – A review of ASU 2014-08 is also occurring regarding “discontinued operations.” The proposed revisions from that review are not included within the recommendations below. Only the sections from SSAP No. 24 that currently pertain to extraordinary items are included below. An exhibit has also been provided to show the proposed tracked changes, and resulting clean version, of SSAP No. 24 with the proposed revisions from both agenda item 2015-06 and 2015-07.
SSAP No. 24—Discontinued Operations and Extraordinary Unusual or Infrequent Items

SCOPE OF STATEMENT
1. This statement establishes statutory accounting principles related to the accounting and reporting for the effects of the disposal of a segment of a business and unusual or infrequently occurring extraordinary items.

SUMMARY CONCLUSION

Definitions
2. The following definitions shall apply:
   e. “Extraordinary items” shall be defined as those events or transactions which meet both of the following criteria:
      i. Unusual nature—the underlying event or transaction possesses a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the reporting entity, taking into account the environment in which the reporting entity operates; and
      ii. Infrequency of occurrence—the underlying event or transaction would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the reporting entity operates.

Extraordinary Items Unusual or Infrequently Occurring Items
8. A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both, extraordinary items, as defined in paragraph 2, shall be reported consistently with the reporting entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the Accounting Practices and Procedures Manual.
   a. Unusual Nature - shall be defined as the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
   f.b. Infrequency of Occurrence - is defined as the underlying event or transaction that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

9. The nature of an extraordinary event or transaction and the principal items entering into the determination of an extraordinary gain or loss shall be disclosed in the financial statements. This disclosure shall include the line items, which have been affected by the estimate of the extraordinary item.

10. Material events or transactions that are either unusual or occur infrequently, but not both, are not considered extraordinary items. However, such material events or transactions shall be disclosed in the financial statements.

Business Interruption Insurance Recoveries
11. Business interruption (BI) insurance is designed to protect the prospective earnings or profits of the insured entity. That is, BI insurance provides coverage if business
operations are suspended due to the loss of use of property and equipment resulting from a covered cause of loss. BI insurance coverage generally provides for reimbursement of certain costs and losses incurred during the reasonable period required to rebuild, repair, or replace the damaged property. The types of costs and losses covered typically include:

a. Gross margin that was "lost" or not earned due to the suspension of normal operations

b. A portion of fixed charges and expenses in relation to that lost gross margin

c. Other expenses incurred to reduce the loss from business interruption (for example, rent of temporary facilities and equipment, use of subcontractors, and so forth)

An entity may choose how to classify BI insurance recoveries in the statement of operations, as long as that classification is not contrary to existing statutory accounting principles.

Disclosures

Unusual / Infrequent Items

14. The nature and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items, which have been affected by the event or transaction considered to be unusual and/or infrequent.

Business Interruption Insurance Recoveries:

15. The following information should be disclosed in the notes to the financial statements in the period(s) in which BI insurance recoveries are recognized:

   a. The nature of the event resulting in business interruption losses

   b. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts defined as an extraordinary item pursuant to this SSAP).

16. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

STAFF NOTE: The following proposed revisions to the relevant literature would only be reflected if this agenda item was adopted in advance of agenda item 2015-07. A complete re-write of this section is proposed within that agenda item. See the exhibit showing the tracked changes and clean version of SSAP No. 24 with the revisions proposed from agenda item 2015-06 and 2015-07.

17. This statement adopts the accounting principles relating to the accounting for the disposal of a segment of a business included in Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, (APB No. 30), paragraphs 13-18 and adopts the definition of an extraordinary item included in paragraph 20 of APB 30. This statement also adopts AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30, relating to the definition of extraordinary items and terminology relevant to the disposal of
a segment and the criteria for recording a related loss. This statement also adopts FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses. This statement adopts with modification Emerging Issues Task Force No. 01-13: Income Statement Display of Business Interruption Insurance Recoveries, with changes of GAAP references to statutory terminology.

18. This statement adopts with modification ASU 2015-01: Income Statement—Extraordinary and Unusual Items. The statutory accounting modification to ASU 2015-01 requires reporting entities to report unusual or infrequent items consistently with other operations, and prevents recognizing unusual or infrequent events or transactions as a separate component of operations. Additionally, disclosures of these transactions are required in the statutory financial statements. As ASU 2015-01 eliminated the concept of an “extraordinary item,” the adoption of ASU 2015-01 nullifies the previous consideration of GAAP guidance related to this term.

19. This statement rejects all other paragraphs of APB 30 and all other interpretations of APB 30 relating to the accounting and reporting of discontinued operations, extraordinary items and unusual or infrequently occurring events and transactions. This statement rejects FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.

20. This statement adopts subparagraphs a through c from paragraph 44 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). This statement also defers the implementation of all other paragraphs of FAS 144 to SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments.

Effective Date and Transition

21. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in paragraphs 11 and 12 was originally contained in INT 02-17: EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries and was effective Sept. 10, 2002.

Additional SSAP and Appendix D Revisions:

Upon adoption of the proposed revisions to SSAP No. 24, including a new title, references to the phrase “extraordinary” will be updated. Additionally, the Appendix D references pertaining to “extraordinary” will be updated. These proposed changes are shown below:

**SSAP No. 3—Accounting Changes and Corrections of Errors:**

16. This statement rejects paragraphs 1-19 and 26-27 of Accounting Principles Board Opinion No. 9, Reporting the Results of Operations, which address the treatment of extraordinary unusual or infrequently occurring items and prior period adjustments and the related AICPA Accounting Interpretations, Reporting the Results of Operations: Unofficial Accounting Interpretations of APB Opinion No. 9. This statement also rejects Accounting Principles Board Opinion No. 20, Accounting Changes, AICPA Accounting Interpretations, Accounting Changes: Accounting Interpretations of APB Opinion No. 20, and FASB Interpretation No. 20, Reporting Accounting Changes under AICPA Statements of Position, an interpretation of APB Opinion No. 20 and FASB Statement No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 (FAS 154). FASB Statement No. 16, Prior Period
Adjustments, is rejected as corrections of errors in previously issued financial statements are reported as adjustments to unassigned funds (surplus).

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

28. This statement adopts FASB Technical Bulletin No. 80-1, Early Extinguishment of Debt through Exchange for Common or Preferred Stock, with a modification to reject guidance related to classification of the loss as an extraordinary unusual or infrequently occurring item.

**SSAP No. 101—Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10**

1.5. FAS 109 – Changes in DTAs and deferred tax liabilities (DTLs) are included in income tax expense or benefit and are allocated to continuing operations, discontinued operations, extraordinary unusual or infrequently occurring items and items charged directly to shareholders’ equity.

1.8. FAS 109 – Income tax expense or benefit is allocated among continuing operations, discontinued operations, extraordinary unusual or infrequently occurring items, and items charged or credited directly to shareholders’ equity pursuant to paragraphs 36 and 37 of FAS 109

**Appendix D - Informational Revisions**

*STAFF NOTE: The following revisions would only be reflected if this agenda item was adopted in advance of agenda item 2015-07. As noted in that agenda item, additional revisions may be considered to these sections.*

Pre-Codification Standards – Category A GAAP – APB Opinions

- APB 30: Disposition
  - Adopt paragraphs 13-18 and 20. Reject all others.

Pre-Codification Standards – Category D GAAP – AICPA Accounting Interpretations

- Note: SSAP No. 24 adopts guidance related to the definition of extraordinary unusual or infrequently occurring items and terminology relevant to the disposal of a segment and the criteria for recording a related loss. It rejects all interpretations related to the accounting and reporting of discontinued operations, extraordinary items, and unusual or infrequently occurring events and transactions.

**FASB Codification to Pre-Codification GAAP**

- 225-20 – Extraordinary and Unusual Items
  - Unusual or Infrequently Occurring Items

**Staff Review Completed by:**
Julie Gann & Josh Arpin – February 3, 2015
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Issue: ASU 2014-08 – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Check (applicable entity):

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<tr>
<th>Modification of existing SSAP</th>
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Description of Issue:

ASU 2014-08: Presentation of Financial Statements and Property, Plant and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) was issued in April 2014 to develop an improved definition of discontinued operations that also enhances convergence of U.S. GAAP and IFRS, with improved clarity on disposals through disclosures. In making these changes, it was noted that the revisions are intended to improve existing presentation as the amendments limit discontinued operations to components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. Prior to these amendments, it was noted that under U.S. GAAP many disposals, some of which may be routine in nature and not a change in strategy, were reported in discontinued operations.

The amendments in ASU 2014-08 require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position.

ASU 2014-08 includes the following new guidance for determining a discontinued operation:

205-20-45-1B: A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when any of the following occurs:

a. The component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale. (New guidance below)

b. The component of an entity or group of components of an entity is disposed of by sale.

c. The component of an entity or group of components of an entity is disposed of other than by sale in accordance with paragraph 360-10-45-15 (for example, by abandonment or in a distribution to owners in a spinoff). (Guidance below)

205-20-45-1C: Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity (see paragraphs 205-20-55-83 through 55-101 for Examples).

ASU 2014-08 includes the following new guidance for classification as held for sale:

205-20-45-1E: A component of an entity or a group of components of an entity, or a business or nonprofit activity (the entity to be sold), shall be classified as held for sale in the period in which all of the following criteria are met:
a. Management, having the authority to approve the action, commits to a plan to sell the entity to be sold.

b. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such entities to be sold. (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-42], which illustrate when that criterion would be met.)

c. An active program to locate a buyer or buyers and other actions required to complete the plan to sell the entity to be sold have been initiated.

d. The sale of the entity to be sold is probable, and transfer of the entity to be sold is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 205-20-45-1G. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.)

e. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which an entity to be sold is being marketed is indicative of whether the entity currently has the intent and ability to sell the entity to be sold. A market price that is reasonable in relation to fair value indicates that the entity to be sold is available for immediate sale, whereas a market price in excess of fair value indicates that the entity to be sold is not available for immediate sale.

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

FASB Codification Guidance for a Disposal Other Than A Sale:

360-10-45-15 : A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in paragraphs 205-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3 through 45-5 shall apply to the disposal group at the date it is disposed of.

ASU 2014-08 incorporates new and revised disclosures including:

a. Disclosures required for all types of discontinued operations
b. Disclosures when there is a change to the plan of sale
c. Disclosures when there are adjustments to previously reported amounts
d. Disclosures when the entity has continuing involvement after the disposal date
e. Disclosures required for a discontinued operations comprising a component or a group of components of an entity
f. Disclosures required for a discontinued operations comprising an equity method investment.

The effective date of the ASU 2014-08 amendments varies by the type of entity:

1. Public entities and not for profit entities that have issued, or are a conduit bond obligor, for securities that are traded, listed, or quoted on an exchange or an over-the-counter market apply amendments prospectively for noted situations (disposals or classifications as held for sale) within annual periods beginning on or after Dec. 15, 2014 and interim periods within those years.
2. All other entities apply the amendments prospectively for noted situations (disposals or classifications as held for sale) within annual periods beginning on or after Dec. 15, 2014 and interim periods within annual periods beginning on or after Dec. 15, 2015.

**Existing Authoritative Literature:**
Statutory accounting guidance for extraordinary items is included in SSAP No. 24—Discontinued Operations and Extraordinary Items.


- SSAP No. 24 adopts terminology relevant to a disposal of a segment and criteria for recording a loss from AIN APB No. 30, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30.

- SSAP No. 24 adopts EITF 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses.

- SSAP No. 24 adopts subparagraphs a-c of paragraph 44 from FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. (A reference is also included that the implementation for all other paragraphs is deferred to SSAP No. 90.)

In reviewing the FASB Codification, with the exception of FAS 144, the above noted adoptions from GAAP are not included in the FASB Codification. Furthermore, the GAAP guidance noted as adopted is no long available from the FASB website. (Pre-codification standards are generally available from the FASB website, however, these adopted paragraphs / standards have been removed.)

- APB 30 paragraphs 13-18 and footnotes 5 through 7 were deleted by FAS 144, paragraphs C5(d) and C5(e), respectively.

- AIN APB 30 Interpretation No. 1 was amended by FAS 121, paragraph 23; FAS 135, paragraph 4(f); and FAS 144, paragraphs C6 and C23.

- EITF 85-36 was nullified by FAS 144.

Consideration of the FASB standards that deleted or nullified the previously adopted GAAP guidance has occurred with the following actions:

- **FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of** – Adopted with Modification in SSAP No. 40, and adopted specific paragraphs in SSAP No. 68.

- **FAS 135, Rescission of FAS 75 and Technical Corrections** – Rejected as Not Applicable

- **FAS 144, Accounting for the Impairment or disposal of Long-Lived Assets** – Adopted with Modification in SSAP No. 24, 68 and 90.
In addition to the previous adoptions of GAAP guidance, SSAP No. 24 includes the following noted rejections of GAAP guidance:

- APB 30 – All other paragraphs and all other interpretations related to the accounting and reporting of discontinued operations. (As noted above paragraphs 13-18 and the terminology from AIN APB 30 were adopted.)

- FAS 146, Accounting for Costs Associated with Exit or Disposal Activities (This guidance is reflected in Topic 420 - Exit or Disposal Cost Obligations of the FASB Codification.)

- EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Costs Incurred in a Restructuring) (This guidance is not included in the FASB Codification. It is also not available as a pre-codification standard. It was nullified by FAS 146.)

- EITF 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but Before the Issuance of Financial Statements. (This guidance is not included in the FASB Codification. It is also not available as a pre-codification standard. It was nullified by FAS 144.)

**Excerpts of SSAP No. 24: (Only relevant paragraphs included)**

2. The following definitions shall apply:

1. “Discontinued operations” shall be defined as the operations of a segment of a business that has been sold, abandoned, spun off (INT 08-05), or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal;

2. A “segment” of a business shall be defined as a component of an entity, likely in the form of a subsidiary, whose activities represent a separate major type of business or class of customer. The assets, results of operations, and activities of a segment must be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be classified as the disposal of a segment of the business. The disposal of a segment of a business shall be distinguished from other disposals of assets incident to the evolution of the entity’s business, such as the disposal of a line of business or the shifting of marketing activities from one location to another;

3. “Measurement date” shall be defined as the date on which management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan, at a minimum, should include identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date (defined below), and the estimated proceeds or salvage to be realized by disposal;

4. “Disposal date” shall be defined as the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment;

5. “Extraordinary items” shall be defined as those events or transactions which meet both of the following criteria:
Discontinued Operations

3. If a loss is expected from the proposed sale or abandonment of a segment of business, the estimated loss shall be accrued at the measurement date, as defined in paragraph 2. If a gain is expected, it shall be recognized when realized, which ordinarily is the disposal date. This accounting is consistent with the accounting provided for in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets.

4. The determination of whether a gain or loss results from the disposal shall be made at the measurement date based on estimates at that date of the net realizable value of the segment after giving consideration to any estimated costs and expenses directly associated with the disposal and, if a plan of disposal is to be carried out over a period of time and contemplates continuing operations during that period, to any estimated income or losses from operations. If it is expected that net losses from operations will be incurred between the measurement date and the expected disposal date, the computation of the gain or loss on disposal shall also include an estimate of such amounts. If it is expected that net income will be generated from operations during that period the computation shall include the estimated net income, limited however to the amount of any loss otherwise recognizable for the disposal, with any remainder accounted for when realized. Any changes in the original estimate shall be accounted for in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

5. The results of a reporting entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

6. Additionally, the financial statements for the period encompassing the measurement date and the year subsequent shall contain the following:

   a. The identity of the segment of business that has been or will be discontinued;
   b. The expected disposal date, if known (see definition in paragraph 2);
   c. The expected manner of disposal;
   d. A description of the remaining assets and liabilities of the segment at the balance sheet date; and
   e. The amounts related to the discontinued operations and the effect on the financial statements, including the balance sheet and income statement line items which have been affected.

7. If material revisions are made to the estimates of the cost to dispose of a segment in years subsequent to the disclosure required in paragraph 6, the nature and the effect of the revisions to the estimates shall be disclosed for the period in which the revision was made including the effect on income or loss from operations and the effect on the carrying amount of the remaining assets and liabilities of the segment at the balance sheet date. Examples of circumstances in which those types of adjustments may arise include the following:
a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.

b. The resolution of contingencies that arise from and are directly related to the operation of the component prior to its disposal, such as environmental and product warranty obligations retained by the seller.

c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction¹.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item 2015-06 is considering ASU 2015-01 which pertains to updated GAAP guidance on extraordinary items. That agenda item is also proposing revisions to SSAP No. 24. Due to the overlap of revisions, an exhibit has been prepared to show the proposed revisions from both agenda items.

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

Staff Recommendation:
Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions in SSAP No. 24 to adopt with modification ASU 2014-08. The modifications would:

a. Reject guidance in ASU 2014-08 for separate reporting of discontinued operations. An entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations.

b. Not allow for a gain from discontinued operations to be recognized until the disposal transaction is complete. The guidance would require losses to be recognized when discontinued operations are classified as held for sale, and would be required in subsequent periods when the fair value less costs to sell is below the carrying value. Additionally, the guidance would not allow losses to be adjusted for subsequent recoveries in fair value changes, or improvements in the expected costs to sell.

c. Only adopt the ASU 2014-08 disclosures applicable for all types of discontinued operations, and only to the extent reflected in this Statement. The detailed disclosures for discontinued operations for components or group of components, and discontinued operations comprising an equity method investment are rejected and not required.

With this proposal, the overall SAP reporting method is not expected to change (report discontinued operations with other operations), however, several revisions are recommended to reflect the current GAAP guidance and terminology. In addition to proposing revisions to reflect the

¹ Paragraph 51 of SSAP No. 102—Accounting for Pensions, A Replacement of SSAP No. 89 and paragraph 81 of SSAP No. 92—Accounting for Postretirement Benefits Other than Pensions, A Replacement of SSAP No. 14 define settlement as “a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a pension benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement.” A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity’s control (refer to paragraph 22 of SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments, Discontinued Operations).
adoption with modification of ASU 2015-01, the proposed revisions to SSAP No. 24 move all disclosures into the “disclosure” section at the end.

In addition to the proposed revisions to SSAP No. 24, limited revisions have been proposed to SSAP No. 90, paragraphs 31 and 41 as those paragraphs currently refer to SSAP No. 24. However, staff is recommending a separate project for a comprehensive review of SSAP No. 90. It appears that the guidance in SSAP No. 90 has commingled “long lived asset” and “real estate investment” guidance – particularly with regards to separate reporting. Under statutory accounting, only real estate investments held for sale are separately classified on the balance sheet. Subsequent revisions to SSAP No. 90 under a separate project should not impact the discontinued operations proposed revisions.

**Proposed revisions to SSAP No. 24 to reflect the staff recommendation:**

*Staff Note – A review of ASU 2015-01 is also occurring regarding “extraordinary items.” The proposed revisions from that review are not included within the recommendations below.*

*Only paragraphs specific to discontinued operations are shown in the tracked changes below (therefore some paragraphs – such as for Business Interruption Insurance and Extraordinary Items - are missing). The full SSAP after the proposed revisions is shown in an exhibit."

1. This statement establishes statutory accounting principles related to the accounting and reporting for the effects of the disposal of a segment of a business: discontinued operations and extraordinary items.

**SUMMARY CONCLUSION**

**Definitions**

2. The following definitions shall apply:

   a. "Discontinued operations" shall be defined as the operations of a segment of a business that has been sold, abandoned, spun off (INT 08-05), or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal;

   b. A "segment" of a business shall be defined as a component of an entity, likely in the form of a subsidiary, whose activities represent a separate major type of business or class of customer. The assets, results of operations, and activities of a segment must be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be classified as the disposal of a segment of the business. The disposal of a segment of a business shall be distinguished from other disposals of assets incident to the evolution of the entity’s business, such as the disposal of a line of business or the shifting of marketing activities from one location to another;

   c. "Measurement date" shall be defined as the date on which management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan, at a minimum, should include identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date (defined below), and the estimated proceeds or salvage to be realized by disposal;

   d. "Disposal date" shall be defined as the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment;
Discontinued Operations

Identification of Discontinued Operations

2. A disposal of a component shall be considered a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when any situation detailed in paragraphs 2a-2c occurs. Examples of a strategic shift include a disposal of a major geographical area, major line of business, a major equity method investment, or other major parts of the entity.

   a. The entity to be sold meets all of the following criteria to be classified as held for sale:

      i. Management, having the authority to approve the transaction, commits to a plan to sell.

      ii. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary.

      iii. An active program to locate a buyer and other actions to complete the sale have been initiated.

      iv. The sale and transfer is expected to qualify as a completed sale within one year unless the qualifying exceptions in paragraph 4 are noted.

      v. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value.

      vi. Actions required to complete the plan to sell indicate that is unlikely that significant changes will be made to the plan or that the plan will be withdrawn.

   b. The component is disposed of by sale.

   c. The component is disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff (INT 08-08))

3. A business or nonprofit activity that, on acquisition, meets the criteria of paragraph 2a is a discontinued operation.

4. Events or circumstances beyond an entity’s control may extend the period required to complete the sale of an entity to be sold beyond one year. An exception to the one-year requirement in paragraph 2a.iv shall apply in the following situations in which those events or circumstances arise:

   a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:

2 A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. For purposes of this SSAP, reference to a component also includes “groups of components.”

3 A component, group of components, or a business or nonprofit activity subject to this statement are collectively referred to as “the entity to be sold.”
(i) Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained; and

(ii) A firm purchase commitment is probable within one year.

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:

(i) Actions necessary to respond to the conditions have been or will be timely initiated.

(ii) A favorable resolution of the delaying factors is expected.

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

(i) During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.

(ii) The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.

(iii) The criteria in paragraph 2a are met.

Measurement and Reporting of Discontinued Operations

5. Upon classification as held for sale \(^4\) [paragraph 2a], the entity to be sold shall be measured and reported at the lower of its carrying value or fair value less costs to sell. Costs to sell are incremental direct costs to transact a sale. These costs include broker commissions, legal and title transfer fees and closing costs that must be incurred before legal title can be transferred. These costs exclude expected future losses associated with the operations of the entity to be sold while it is classified as held for sale. The calculation of fair value less costs to sell shall be updated each period until the disposal transaction occurs, but only additional losses shall be recognized. Entities are not permitted to recognize recoveries as a result of improvements in fair value or costs to sell. Depreciation or amortization shall no longer be recognized once an asset is classified as held for sale.

6. A realized loss shall be recognized for any initial or subsequent write-down to fair value less costs to sell. If a component is disposed of without being classified as held for sale, a realized loss shall be recognized in the period of the disposal. Regardless if an entity is classified as held for sale, a gain shall not be recognized until the disposal transaction is complete.

3. If a loss is expected from the proposed sale or abandonment of a segment of business, the estimated loss shall be accrued at the measurement date, as defined in paragraph 2. If a gain is expected, it shall be recognized when realized, which ordinarily is the disposal date. This accounting is consistent with the accounting provided for in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets.

\(^4\) Pursuant to SSAP No. 90, paragraph 21, real estate investments are classified as held for sale under the same criteria identified in paragraph 2a. These real estate investments are not considered discontinued operations and shall follow the guidelines in SSAP No. 90.
4. The determination of whether a gain or loss results from the disposal shall be made at the measurement date based on estimates at that date of the net realizable value of the segment after giving consideration to any estimated costs and expenses directly associated with the disposal and, if a plan of disposal is to be carried out over a period of time and contemplates continuing operations during that period, to any estimated income or losses from operations. If it is expected that net losses from operations will be incurred between the measurement date and the expected disposal date, the computation of the gain or loss on disposal shall also include an estimate of such amounts. If it is expected that net income will be generated from operations during that period the computation shall include the estimated net income, limited however to the amount of any loss otherwise recognizable for the disposal, with any remainder accounted for when realized. Any changes in the original estimate shall be accounted for in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

7. The results of a reporting entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

8. If the entity decides not to sell the discontinued operation, the assets shall be reported at the lower of the carrying amount before the asset was classified as held for sale, adjusted for depreciation that would have been recognized if the asset had not been classified as held for sale, or fair value at the date of the decision not to sell.

6. Additionally, the financial statements for the period encompassing the measurement date and the year subsequent shall contain the following:
   f. The identity of the segment of business that has been or will be discontinued;
   g. The expected disposal date, if known (see definition in paragraph 2);
   h. The expected manner of disposal;
   i. A description of the remaining assets and liabilities of the segment at the balance sheet date; and
   j. The amounts related to the discontinued operations and the effect on the financial statements, including the balance sheet and income statement line items which have been affected.

7. If material revisions are made to the estimates of the cost to dispose of a segment in years subsequent to the disclosure required in paragraph 6, the nature and the effect of the revisions to the estimates shall be disclosed for the period in which the revision was made, including the effect on income or loss from operations and the effect on the carrying amount of the remaining assets and liabilities of the segment at the balance sheet date. Examples of circumstances in which those types of adjustments may arise include the following:
   d. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.
   e. The resolution of contingencies that arise from and are directly related to the operation of the component prior to its disposal, such as environmental and product warranty obligations retained by the seller.
f. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction5.

(Staff Note – Paragraphs for Unusual / Infrequent Transactions and BII not included)

Disclosures

4. Discontinued Operations:

9. The following shall be disclosed in the notes to the financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under paragraph 2a:

   a. Description of the facts and circumstances leading to the disposal or expected disposal and a description of the expected manner and timing of that disposal.

   b. The loss recognized on the discontinued operation. The recognized loss shall be reported for the reporting period, and as a cumulative total since classified as held for sale.

   c. The carrying amount immediately prior to the classification as held for sale, and the current fair value less costs to sell, including the balance sheet lines where the item is reported. Also report income received from the discontinued operation prior to the disposal transaction.

10. If the entity decides to change its plan of sale for the discontinued operation, disclose a description of the facts and circumstances leading to the decision to change the plan and the effect on the assets reported in the financial statements.

11. Adjustments to amounts reported related to discontinued operations as a result of:

   a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.

   b. The resolution of contingencies that arise from and are directly related to the disposal of a discontinued operation of the component in a period prior to its disposal, such as environmental and product warranty obligations retained by the seller.

   c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction. (A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity’s control.)

12. If the entity will retain significant continuing involvement with a discontinued operation after the disposal transaction the entity shall complete the disclosures in paragraphs 12a-12c. Examples of

5 Paragraph 51 of SSAP No. 102—Accounting for Pensions, A Replacement of SSAP No. 89 and paragraph 81 of SSAP No. 92—Accounting for Postretirement Benefits Other than Pensions, A Replacement of SSAP No. 14 define settlement as “a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a pension benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement.” A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity’s control (refer to paragraph 22 of SSAP No. 90—Accounting for the Impairment or Disposa l of Real Estate Investments, Discontinued Operations).
significant continuing involvement include a supply and distribution arrangement, a financial guarantee, an option to repurchase, and an equity method investment in the discontinued operation.

a. Description of the activities that give rise to the continuing involvement,

b. The period of time the involvement is expected to continue,

c. The expected cash inflows / outflows as a result of continuing involvement.

13. If the entity will retain an equity interest in the discontinued operations after the disposal date, disclose the ownership interest before and after the disposal transaction, and the entity’s share of the income or loss of the investee as of the year-end reporting date after the disposal transaction.

Staff Note – Paragraphs Related to Other Topics Not Included

Relevant Literature

17. This statement adopts with modification ASU 2014-08, Presentation of Financial Statements and Property, Plant and Equipment – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Modifications from ASU 2014-08 include:

a. This Statement rejects guidance in ASU 2014-08 for separate reporting of discontinued operations. An entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations.

b. A gain from discontinued operations shall not be recognized until the disposal transaction is complete. Losses shall be recognized when discontinued operations are classified as held for sale, and are required in subsequent periods when the fair value less costs to sell is below the carrying value. Losses are not permitted to be adjusted for subsequent recoveries in fair value changes, or improvements in the expected costs to sell.

c. This Statement only adopts the ASU 2014-08 disclosures applicable for all types of discontinued operations, and only to the extent reflected in this Statement. The detailed disclosures for discontinued operations for components or group of components, and discontinued operations comprising an equity method investment are rejected and not required.

3. This statement adopts the accounting principles relating to the accounting for the disposal of a segment of a business included in Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, (APB No. 30), paragraphs 13-18 and adopts the definition of an extraordinary item included in paragraph 20 of APB 30. This statement also adopts AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss. This statement also adopts FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses. This statement adopts with modification Emerging Issues Task Force No. 01-13: Income Statement Display of Business Interruption Insurance Recoveries, with changes of GAAP references to statutory terminology.

20. The following U.S. GAAP accounting principles were previously noted as adopted in this Statement. However, upon the adoption with modification of ASU 2014-05, the following guidance is considered rejected for statutory accounting purposes:

Unusual and Infrequently Occurring Events and Transactions, (APB No. 30), paragraphs 13-18

b. AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss.

c. FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses.

d. FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), paragraphs 44a - 44c.

21. The following standards were rejected prior to the adoption with modification of ASU 2014-08, and are still noted as rejected for statutory accounting:

a. FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities,

b. FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and

c. FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.

4. This statement rejects all other paragraphs of APB 30 and all other interpretations of APB 30 relating to the accounting and reporting of discontinued operations, extraordinary items and unusual or infrequently occurring events and transactions. This statement rejects FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.

5. This statement adopts subparagraphs a through c from paragraph 44 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). This statement also defers the implementation of all other paragraphs of FAS 144 to SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments.

Effective Date and Transition

22. This statement was originally effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in paragraphs 44-8 and 42-15 was originally contained in INT 02-17: EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries and was effective Sept. 10, 2002.

23. Changes from the adoption with modification of ASU 2014-05 are not expected to change the measurement or reporting process for discontinued operations. As such, these changes are considered nonsubstantive and are effective immediately upon adoption (month / year).

Additional SSAP Revisions:
In addition to the proposed revisions to SSAP No. 24, limited revisions have been proposed to SSAP No. 90, paragraphs 31 and 41 as those paragraphs currently refer to SSAP No. 24. However, staff is
recommending a separate project for a comprehensive review of SSAP No. 90. It appears that the guidance in SSAP No. 90 has commingled “long lived asset” and “real estate investment” guidance—particularly with regards to separate reporting. Under statutory accounting, only real estate investments held for sale are separately classified on the balance sheet. Subsequent revisions to SSAP No. 90 under a separate project should not impact the discontinued operation proposed revisions detailed above.

With the revisions to SSAP No. 24, the following limited revisions are proposed to SSAP No. 90:

**SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments:**

31. For purposes of reporting income and losses related to discontinued operations, any reference to the phrase “component of an entity” is replaced with “segment” as defined in SSAP No. 24.

41. The modifications to FAS 144 were made in order to maintain consistency with current statutory accounting principles and the Statement of Concepts:

h. Paragraph 35 allows for expected future losses associated with the operations of a long-lived asset (disposal group) while it is held for sale to be excluded from the costs to sell. For statutory accounting purposes, if a discontinued operation, the cost to sell should include expected future losses in accordance with SSAP No. 24, paragraph 34.

k. Within paragraphs 41, 42 and 44 of FAS 144 addressing discontinued operations; any reference to the phrase “component of an entity” is replaced with “segment” as defined in SSAP No. 24;

l. Paragraph 42 is amended to state that the results of operations of a discontinued operation shall be reported consistently with the entity’s reporting of continuing operations. This is consistent with the guidance found in paragraph 5 of SSAP No. 24;

m. Paragraph 44 is amended to state that adjustments to amounts previously reported related to continuing operations shall be reported consistently with the entity’s reporting of continuing operations. This is consistent with the guidance found in paragraph 5 of SSAP No. 24. In addition, paragraphs 44.a. through 44.c. are adopted into paragraph 5 of SSAP No. 24;

o. The disclosures in paragraphs 47.a. and 47.b. are adopted with respect to properties held for sale, except for the disclosures related to major classes of assets, as grouping has been rejected in this statement. Paragraphs 47.c. and 47.d. are rejected as such paragraphs relate to discontinued operations and segment reporting. The disclosures included in paragraphs 69 and 713 of SSAP No. 24 are more appropriate given the differences between statutory and generally accepted accounting principles reporting of discontinued operations;

q. Paragraph 43 is rejected and the guidance related to the recognition of losses/income expected between the measurement date and the expected disposal date included in paragraph 4 of SSAP No. 24 is retained, as such guidance is consistent with the concept of conservatism in the Statement of Concepts.

Staff Review Completed by:
Julie Gann– February 10, 2015
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Exhibit – Collective Revisions to SSAP No. 24 – Tracked Changes

Statement of Statutory Accounting Principles No. 24

Discontinued Operations and Extraordinary, Unusual or Infrequent Items

STATUS

Type of Issue: Common Area
Issued: Initial Draft
Effective Date: January 1, 2001
Affects: Nullifies and incorporates INT 02-17
Affected by: No other pronouncements
Interpreted by: INT 08-05

(The pages numbers will be updated after final adoption.)
Discontinued Operations and Extraordinary-Unusual or Infrequent Items

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles related to the accounting and reporting for the effects of the disposal of a segment of a business and extraordinary items discontinued operations and unusual or infrequently occurring items.

SUMMARY CONCLUSION

Definitions

2. The following definitions shall apply:

a. “Discontinued operations” shall be defined as the operations of a segment of a business that has been sold, abandoned, spun-off [INT-08-05], or otherwise disposed of, or, although still operating, is the subject of a formal plan for disposal;

b. A “segment” of a business shall be defined as a component of an entity, likely in the form of a subsidiary, whose activities represent a separate major type of business or class of customer. The assets, results of operations, and activities of a segment must be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be classified as the disposal of a segment of the business. The disposal of a segment of a business shall be distinguished from other disposals of assets incident to the evolution of the entity’s business, such as the disposal of a line of business or the shifting of marketing activities from one location to another;

c. “Measurement date” shall be defined as the date on which management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan, at a minimum, should include identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date (defined below), and the estimated proceeds or salvage to be realized by disposal;

d. “Disposal date” shall be defined as the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment;

e. “Extraordinary items” shall be defined as those events or transactions which meet both of the following criteria:

i. Unusual nature—the underlying event or transaction possesses a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the reporting entity, taking into account the environment in which the reporting entity operates; and

ii. Infrequency of occurrence—the underlying event or transaction would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the reporting entity operates.
Discontinued Operations

Identification of Discontinued Operations

2. A disposal of a component\(^1\), shall be considered a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when any situation detailed in paragraphs 2a-2c occurs. Examples of a strategic shift include a disposal of a major geographical area, major line of business, a major equity method investment, or other major parts of the entity.

a. The entity to be sold\(^2\) meets all of the following criteria to be classified as held for sale:
   i. Management, having the authority to approve the transaction, commits to a plan to sell.
   ii. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary.
   iii. An active program to locate a buyer and other actions to complete the sale have been initiated.
   iv. The sale and transfer is expected to qualify as a completed sale within one year unless the qualifying exceptions in paragraph 4 are noted.
   v. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
   vi. Actions required to complete the plan to sell indicate that is unlikely that significant changes will be made to the plan or that the plan will be withdrawn.

b. The component is disposed of by sale.

c. The component is disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff\(^{\text{INT 08-08}}\)).

3. A business or nonprofit activity that, on acquisition, meets the criteria of paragraph 2a is a discontinued operation

4. Events or circumstances beyond an entity’s control may extend the period required to complete the sale of an entity to be sold beyond one year. An exception to the one-year requirement in paragraph 2a.iv shall apply in the following situations in which those events or circumstances arise:

\(^{1}\) A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. For purposes of this SSAP, reference to a component also includes “groups of components.”

\(^{2}\) A component, group of components, or a business or nonprofit activity subject to this statement are collectively referred to as “the entity to be sold.”
a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:

(i) Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained; and

(ii) A firm purchase commitment is probable within one year.

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:

(i) Actions necessary to respond to the conditions have been or will be timely initiated.

(ii) A favorable resolution of the delaying factors is expected.

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

(i) During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.

(ii) The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.

(iii) The criteria in paragraph 2a are met.

Measurement and Reporting of Discontinued Operations

5. Upon classification as held for sale (paragraph 2a), the entity to be sold shall be measured and reported at the lower of its carrying value or fair value less costs to sell. Costs to sell are incremental direct costs to transact a sale. These costs include broker commissions, legal and title transfer fees and closing costs that must be incurred before legal title can be transferred. These costs exclude expected future losses associated with the operations of the entity to be sold while it is classified as held for sale. The calculation of fair value less costs to sell shall be updated each period until the disposal transaction occurs, but only additional losses shall be recognized. Entities are not permitted to recognize recoveries as a result of improvements in fair value or costs to sell. Depreciation or amortization shall no longer be recognized once an asset is classified as held for sale.

6. A realized loss shall be recognized for any initial or subsequent write-down to fair value less costs to sell. If a component is disposed of without being classified as held for sale, a realized loss shall be

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3 Pursuant to SSAP No. 90, paragraph 21, real estate investments are classified as held for sale under the same criteria identified in paragraph 2a. These real estate investments are not considered discontinued operations and shall follow the guidelines in SSAP No. 90.
recognized in the period of the disposal. Regardless if an entity is classified as held for sale, a gain shall not be recognized until the disposal transaction is complete.

3. If a loss is expected from the proposed sale or abandonment of a segment of business, the estimated loss shall be accrued at the measurement date, as defined in paragraph 2. If a gain is expected, it shall be recognized when realized, which ordinarily is the disposal date. This accounting is consistent with the accounting provided for in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets.

4. The determination of whether a gain or loss results from the disposal shall be made at the measurement date based on estimates at that date of the net realizable value of the segment after giving consideration to any estimated costs and expenses directly associated with the disposal and, if a plan of disposal is to be carried out over a period of time and contemplates continuing operations during that period, to any estimated income or losses from operations. If it is expected that net losses from operations will be incurred between the measurement date and the expected disposal date, the computation of the gain or loss on disposal shall also include an estimate of such amounts. If it is expected that net income will be generated from operations during that period the computation shall include the estimated net income, limited however to the amount of any loss otherwise recognizable for the disposal, with any remainder accounted for when realized. Any changes in the original estimate shall be accounted for in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

5. The results of a reporting entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

6. If the entity decides not to sell the discontinued operation, the assets shall be reported at the lower of the carrying amount before the asset was classified as held for sale, adjusted for depreciation that would have been recognized if the asset had not been classified as held for sale, or fair value at the date of the decision not to sell:

6a. The identity of the segment of business that has been or will be discontinued;

6b. The expected disposal date, if known (see definition in paragraph 2);

6c. The expected manner of disposal;

6d. A description of the remaining assets and liabilities of the segment at the balance sheet date; and

6e. The amounts related to the discontinued operations and the effect on the financial statements, including the balance sheet and income statement line items which have been affected.

7. If material revisions are made to the estimates of the cost to dispose of a segment in years subsequent to the disclosure required in paragraph 6, the nature and the effect of the revisions to the estimates shall be disclosed for the period in which the revision was made including the effect on income or loss from operations and the effect on the carrying amount of the remaining assets and liabilities of the segment at the balance sheet date. Examples of circumstances in which those types of adjustments may arise include the following:
Discontinued Operations and Extraordinary Unusual or Infrequent Items

a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.

b. The resolution of contingencies that arise from and are directly related to the operation of the component prior to its disposal, such as environmental and product warranty obligations retained by the seller.

c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction.  

Extraordinary Unusual or Infrequently Occurring Items

9. A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both. Extraordinary items, as defined in paragraph 2, shall be reported consistently with the reporting entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the Accounting Practices and Procedures Manual.

a. "Unusual Nature" shall be defined as the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

b. "Infrequency of Occurrence" is defined as the underlying event or transaction that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

9. The nature of an extraordinary event or transaction and the principal items entering into the determination of an extraordinary gain or loss shall be disclosed in the financial statements. This disclosure shall include the line items, which have been affected by the estimate of the extraordinary item.

10. Material events or transactions that are either unusual or occur infrequently, but not both, are not considered extraordinary items. However, such material events or transactions shall be disclosed in the financial statements.

Business Interruption Insurance Recoveries

10. Business interruption (BI) insurance is designed to protect the prospective earnings or profits of the insured entity. That is, BI insurance provides coverage if business operations are suspended...
due to the loss of use of property and equipment resulting from a covered cause of loss. BI insurance coverage generally provides for reimbursement of certain costs and losses incurred during the reasonable period required to rebuild, repair, or replace the damaged property. The types of costs and losses covered typically include:

a. Gross margin that was "lost" or not earned due to the suspension of normal operations
b. A portion of fixed charges and expenses in relation to that lost gross margin
c. Other expenses incurred to reduce the loss from business interruption (for example, rent of temporary facilities and equipment, use of subcontractors, and so forth)

An entity may choose how to classify BI insurance recoveries in the statement of operations, as long as that classification is not contrary to existing statutory accounting principles.

Disclosures

Discontinued Operations:

11. The following shall be disclosed in the notes to the financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under paragraph 2a:

   a. Description of the facts and circumstances leading to the disposal or expected disposal and a description of the expected manner and timing of that disposal.

   b. The loss recognized on the discontinued operation. The recognized loss shall be reported for the reporting period, and as a cumulative total since classified as held for sale.

   c. The carrying amount immediately prior to the classification as held for sale, and the current fair value less costs to sell, including the balance sheet lines where the item is reported. Also report income received from the discontinued operation prior to the disposal transaction.

12. If the entity decides to change its plan of sale for the discontinued operation, disclose a description of the facts and circumstances leading to the decision to change the plan and the effect on the assets reported in the financial statements.

13. Adjustments to amounts reported related to discontinued operations as a result of:

   a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.

   b. The resolution of contingencies that arise from and are directly related to the disposal of a discontinued operation of the component in a period prior to its disposal, such as environmental and product warranty obligations retained by the seller.

   c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction. (A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the
settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity’s control.)

14. If the entity will retain significant continuing involvement with a discontinued operation after the disposal transaction the entity shall complete the disclosures in paragraphs 14a-14c. Examples of significant continuing involvement include a supply and distribution arrangement, a financial guarantee, an option to repurchase, and an equity method investment in the discontinued operation.

   a. Description of the activities that give rise to the continuing involvement
   b. The period of time the involvement is expected to continue
   c. The expected cash inflows/outflows as a result of continuing involvement

§.15. If the entity will retain an equity interest in the discontinued operations after the disposal date, disclose the ownership interest before and after the disposal transaction, and the entity’s share of the income or loss of the investee as of the year-end reporting date after the disposal transaction.

Unusual/Infrequent Items:

6.16. The nature and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items, which have been affected by the event or transaction considered to be unusual and/or infrequent.

Business Interruption Insurance Recoveries:

17. The following information should be disclosed in the notes to the financial statements in the period(s) in which BI insurance recoveries are recognized:

   a. The nature of the event resulting in business interruption losses
   b. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts defined as an extraordinary item pursuant to this SSAP).

§.18. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

19. This statement adopts with modification ASU 2014-08, Presentation of Financial Statements and Property, Plant and Equipment – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Modifications from ASU 2014-08 include:

   a. This Statement rejects guidance in ASU 2014-08 for separate reporting of discontinued operations. An entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations.
   b. A gain from discontinued operations shall not be recognized until the disposal transaction is complete. Losses shall be recognized when discontinued operations are classified as held for sale, and are required in subsequent periods when the fair value less costs to sell is below the
carrying value. Losses are not permitted to be adjusted for subsequent recoveries in fair value changes, or improvements in the expected costs to sell.

a.c. This Statement only adopts the ASU 2014-08 disclosures applicable for all types of discontinued operations, and only to the extent reflected in this Statement. The detailed disclosures for discontinued operations for components or group of components, and discontinued operations comprising an equity method investment are rejected and not required.

20. This statement adopts with modification ASU 2015-01: Income Statement—Extraordinary and Unusual Items. The statutory accounting modification to ASU 2015-01 requires reporting entities to report unusual or infrequent items consistently with other operations, and prevents recognizing unusual or infrequent events or transactions as a separate component of operations. Additionally, disclosures of these transactions are required in the statutory financial statements. As ASU 2015-01 eliminated the concept of an “extraordinary item,” the adoption of ASU 2015-01 nullifies the previous consideration of GAAP guidance related to this term.

9.21. This statement adopts the accounting principles relating to the accounting for the disposal of a segment of a business included in Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, (APB No. 30), paragraphs 13-18, and adopts the definition of an extraordinary item included in paragraph 20 of APB 30. This statement also adopts AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss. This statement also adopts FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses. This statement adopts with modification Emerging Issues Task Force No. 01-13: Income Statement Display of Business Interruption Insurance Recoveries, with changes of GAAP references to statutory terminology.

40.22. The following U.S. GAAP accounting principles were previously noted as adopted in this Statement. However, upon the adoption with modification of ASU 2014-08 and ASU 2015-01, the following guidance is considered rejected for statutory accounting purposes:


   b. AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss.

   c. FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses.

   d. FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), paragraphs 44a - 44c.

41.23. The following standards were rejected prior to the adoption with modification of ASU 2014-08, and ASU 2015-01 are still noted as rejected for statutory accounting:
a. FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

b. FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and

c. FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.

11. This statement rejects all other paragraphs of APB 30 and all other interpretations of APB 30 relating to the accounting and reporting of discontinued operations, extraordinary items and unusual or infrequently occurring events and transactions. This statement rejects FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.

12. This statement adopts subparagraphs a through c from paragraph 44 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). This statement also defers the implementation of all other paragraphs of FAS 144 to SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments.

Effective Date and Transition

12.24. This statement is was originally effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in paragraphs 11910 and 16172 was originally contained in INT 02-17: EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries and was effective Sept. 10, 2002.

13.25. Changes from the adoption with modification of ASU 2014-05 and ASU 2015-01 are not expected to change the measurement or reporting process for discontinued operations or unusual or infrequent items. As such, these changes are considered nonsubstantive and are effective immediately upon adoption.

REFERENCES

Relevant Issue Papers

- Issue Paper No. 24—Discontinued Operations and Extraordinary Items
Exhibit – Collective Revisions to SSAP No. 24 – Clean Version

Statement of Statutory Accounting Principles No. 24

Discontinued Operations and Unusual or Infrequent Items

STATUS

Type of Issue: Common Area
Issued: Initial Draft
Effective Date: January 1, 2001
Affects: Nullifies and incorporates INT 02-17
Affected by: No other pronouncements
Interpreted by: INT 08-05

(The pages numbers will be updated after final adoption.)
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Discontinued Operations and Unusual or Infrequent Items

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles related to the accounting and reporting for discontinued operations and unusual or infrequently occurring items.

SUMMARY CONCLUSION

Discontinued Operations

Identification of Discontinued Operations

2. A disposal of a component, shall be considered a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when any situation detailed in paragraphs 2a-2c occurs. Examples of a strategic shift include a disposal of a major geographical area, major line of business, a major equity method investment, or other major parts of the entity.

   a. The entity to be sold meets all of the following criteria to be classified as held for sale:
      i. Management, having the authority to approve the transaction, commits to a plan to sell.
      ii. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary.
      iii. An active program to locate a buyer and other actions to complete the sale have been initiated.
      iv. The sale and transfer is expected to qualify as a completed sale within one year unless the qualifying exceptions in paragraph 4 are noted.
      v. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
      vi. Actions required to complete the plan to sell indicate that is unlikely that significant changes will be made to the plan or that the plan will be withdrawn.
   b. The component is disposed of by sale.
   c. The component is disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff).

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5 A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. For purposes of this SSAP, reference to a component also includes “groups of components.”

6 A component, group of components, or a business or nonprofit activity subject to this statement are collectively referred to as “the entity to be sold.”

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3. A business or nonprofit activity that, on acquisition, meets the criteria of paragraph 2a is a discontinued operation.

4. Events or circumstances beyond an entity’s control may extend the period required to complete the sale of an entity to be sold beyond one year. An exception to the one-year requirement in paragraph 2.a.iv shall apply in the following situations in which those events or circumstances arise:

   a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:

      (i) Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained; and

      (ii) A firm purchase commitment is probable within one year.

   b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:

      (i) Actions necessary to respond to the conditions have been or will be timely initiated.

      (ii) A favorable resolution of the delaying factors is expected.

   c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

      (i) During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.

      (ii) The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.

      (iii) The criteria in paragraph 2a are met.

Measurement and Reporting of Discontinued Operations

5. Upon classification as held for sale\(^7\) (paragraph 2a), the entity to be sold shall be measured and reported at the lower of its carrying value or fair value less costs to sell. Costs to sell are incremental direct costs to transact a sale. These costs include broker commissions, legal and title transfer fees and closing costs that must be incurred before legal title can be transferred. These costs exclude expected future losses associated with the operations of the entity to be sold while it is classified as held for sale. The calculation of fair value less costs to sell shall be updated each period until the disposal transaction.

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\(^7\) Pursuant to SSAP No. 90, paragraph 21, real estate investments are classified as held for sale under the same criteria identified in paragraph 2a. These real estate investments are not considered discontinued operations and shall follow the guidelines in SSAP No. 90.
occurs, but only additional losses shall be recognized. Entities are not permitted to recognize recoveries as a result of improvements in fair value or costs to sell. Depreciation or amortization shall no longer be recognized once an asset is classified as held for sale.

6. A realized loss shall be recognized for any initial or subsequent write-down to fair value less costs to sell. If a component is disposed of without being classified as held for sale, a realized loss shall be recognized in the period of the disposal. Regardless if an entity is classified as held for sale, a gain shall not be recognized until the disposal transaction is complete.

7. The results of a reporting entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

8. If the entity decides not to sell the discontinued operation, the assets shall be reported at the lower of the carrying amount before the asset was classified as held for sale, adjusted for depreciation that would have been recognized if the asset had not been classified as held for sale, or fair value at the date of the decision not to sell.

Unusual or Infrequently Occurring Items

9. A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both, shall be reported consistently with the reporting entity’s reporting of continuing operations (i.e., no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the Accounting Practices and Procedures Manual.

   a. “Unusual Nature” shall be defined as the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

   b. “Infrequency of Occurrence” is defined as the underlying event or transaction that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

Business Interruption Insurance Recoveries

10. Business interruption (BI) insurance is designed to protect the prospective earnings or profits of the insured entity. That is, BI insurance provides coverage if business operations are suspended due to the loss of use of property and equipment resulting from a covered cause of loss. BI insurance coverage generally provides for reimbursement of certain costs and losses incurred during the reasonable period required to rebuild, repair, or replace the damaged property. The types of costs and losses covered typically include:

   a. Gross margin that was "lost" or not earned due to the suspension of normal operations

   b. A portion of fixed charges and expenses in relation to that lost gross margin

   c. Other expenses incurred to reduce the loss from business interruption (for example, rent of temporary facilities and equipment, use of subcontractors, and so forth)
An entity may choose how to classify BI insurance recoveries in the statement of operations, as long as that classification is not contrary to existing statutory accounting principles.

Disclosures

Discontinued Operations:

11. The following shall be disclosed in the notes to the financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under paragraph 2a:
   a. Description of the facts and circumstances leading to the disposal or expected disposal and a description of the expected manner and timing of that disposal.
   b. The loss recognized on the discontinued operation. The recognized loss shall be reported for the reporting period, and as a cumulative total since classified as held for sale.
   c. The carrying amount immediately prior to the classification as held for sale, and the current fair value less costs to sell, including the balance sheet lines where the item is reported. Also report income received from the discontinued operation prior to the disposal transaction.

12. If the entity decides to change its plan of sale for the discontinued operation, disclose a description of the facts and circumstances leading to the decision to change the plan and the effect on the assets reported in the financial statements.

13. Adjustments to amounts reported related to discontinued operations as a result of:
   a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price contingencies and indemnification issues with the purchaser.
   b. The resolution of contingencies that arise from and are directly related to the disposal of a discontinued operation of the component in a period prior to its disposal, such as environmental and product warranty obligations retained by the seller.
   c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction. (A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity’s control.)

14. If the entity will retain significant continuing involvement with a discontinued operation after the disposal transaction the entity shall complete the disclosures in paragraphs 14a-14c. Examples of significant continuing involvement include a supply and distribution arrangement, a financial guarantee, an option to repurchase, and an equity method investment in the discontinued operation.
   a. Description of the activities that give rise to the continuing involvement
   b. The period of time the involvement is expected to continue
c. The expected cash inflows/outflows as a result of continuing involvement

15. If the entity will retain an equity interest in the discontinued operations after the disposal date, disclose the ownership interest before and after the disposal transaction, and the entity’s share of the income or loss of the investee as of the year-end reporting date after the disposal transaction.

Unusual/Infrequent Items:

16. The nature and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items, which have been affected by the event or transaction considered to be unusual and/or infrequent.

Business Interruption Insurance Recoveries:

17. The following information should be disclosed in the notes to the financial statements in the period(s) in which BI insurance recoveries are recognized:

   a. The nature of the event resulting in business interruption losses
   
   b. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts defined as an extraordinary item pursuant to this SSAP).

18. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

19. This statement adopts with modification ASU 2014-08, Presentation of Financial Statements and Property, Plant and Equipment – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Modifications from ASU 2014-08 include:

   a. This Statement rejects guidance in ASU 2014-08 for separate reporting of discontinued operations. An entity’s discontinued operations shall be reported consistently with the entity’s reporting of continuing operations.
   
   b. A gain from discontinued operations shall not be recognized until the disposal transaction is complete. Losses shall be recognized when discontinued operations are classified as held for sale, and are required in subsequent periods when the fair value less costs to sell is below the carrying value. Losses are not permitted to be adjusted for subsequent recoveries in fair value changes, or improvements in the expected costs to sell.
   
   c. This Statement only adopts the ASU 2014-08 disclosures applicable for all types of discontinued operations, and only to the extent reflected in this Statement. The detailed disclosures for discontinued operations for components or group of components, and discontinued operations comprising an equity method investment are rejected and not required.

20. This statement adopts with modification ASU 2015-01: Income Statement—Extraordinary and Unusual Items. The statutory accounting modification to ASU 2015-01 requires reporting entities to report unusual or infrequent items consistently with other operations, and prevents recognizing unusual or infrequent events or transactions as a separate component of operations. Additionally, disclosures of these transactions are required in the statutory financial statements. As ASU 2015-01 eliminated the concept of
an “extraordinary item,” the adoption of ASU 2015-01 nullifies the previous consideration of GAAP guidance related to this term.

21. This statement adopts with modification *Emerging Issues Task Force No. 01-13: Income Statement Display of Business Interruption Insurance Recoveries*, with changes of GAAP references to statutory terminology.

22. The following U.S. GAAP accounting principles were previously noted as adopted in this Statement. However, upon the adoption with modification of ASU 2014-08 and ASU 2015-01, the following guidance is considered rejected for statutory accounting purposes:

   
   b. *AICPA Accounting Interpretations, Reporting the Results of Operations: Accounting Interpretations of APB Opinion No. 30*, relating to the definition of extraordinary items and terminology relevant to the disposal of a segment and the criteria for recording a related loss.
   
   
   d. *FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), paragraphs 44a - 44c.

23. The following standards were rejected prior to the adoption with modification of ASU 2014-08, and ASU 2015-01 are still noted as rejected for statutory accounting:

   a. *FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities,*
   
   b. *FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring),* and
   
   c. *FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.*

**Effective Date and Transition**

24. This statement was originally effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in paragraphs 10 and 17 was originally contained in *INT 02-17: EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries* and was effective Sept. 10, 2002.

25. Changes from the adoption with modification of ASU 2014-05 and ASU 2015-01 are not expected to change the measurement or reporting process for discontinued operations or unusual or
infrequent items. As such, these changes are considered nonsubstantive and are effective immediately upon adoption (month / year).

REFERENCES

Relevant Issue Papers

• Issue Paper No. 24—Discontinued Operations and Extraordinary Items
Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: SSAP No. 97 – Nonadmitted Assets and Application of the SAP Guidance

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Description of Issue:

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88 provides the statutory accounting guidance for determining the measurement method and value for an investment in an SCA. Questions have been received regarding the application of guidance, and the intent of this agenda item is to consider those issues to improve consistency in statutory accounting.

Item 1: Nonadmitted Assets in Non-Insurance SCAs – Non-insurance SCAs can either be measured under the “market valuation approach” (paragraph 8a) or under the equity methods described in paragraphs 8bii or 8biii:

8bii – Entities under 8bii are non-insurance entities that engage in specific “insurance-related” transactions that generate 20% or more of the SCA’s revenue. The investment recorded for these entities is based on audited U.S. GAAP equity, with adjustments in accordance with specific SSAPs. (These adjustments are detailed in paragraph 9 of SSAP No. 97.)

8biii – Entities under 8biii are non-insurance entities that do not qualify under 8bii. The measurement recorded for these entities is based on audited U.S. GAAP equity.

With the current guidance in SSAP No. 97, assets that would not qualify as admitted assets under statutory accounting principles, which are owned by a non-insurance entity valued under paragraphs 8a or 8biii are effectively included as admitted assets when included in the reported investment of the SCA. If the SCA was captured under 8bii, some assets would be nonadmitted with the statutory adjustments, but the adjustments required under paragraph 9 would not eliminate all nonadmitted assets.

Item 1 Issue – Reporting entities can transfer nonadmitted assets into a non-insurance SCA, thereby improving the surplus position of a reporting entity as follows:

A. By removing the nonadmitted asset, the reporting entity experiences a change (decrease) in nonadmitted assets, and this change results with an increase in the reporting entity’s surplus.

B. By transferring the nonadmitted asset to an audited SCA, the reporting entity recognizes an admitted asset from the investment in the SCA, resulting in a higher asset value for the investment in SCA, which also increases the reporting entity’s surplus.

1. Should guidance be considered to restrict the amount of assets held in an SCA that would not be admitted assets if held directly by the reporting entity?

2. Should guidance be considered to restrict or eliminate the extent to which nonadmitted assets can be transferred to an SCA and included in the reported value of the SCA?
Guidance currently exists in SSAP No. 25—Accounting for and Disclosures with Affiliates and Other Related Parties (SSAP No. 25) paragraph 16d that specifies “Transactions which are designed to avoid statutory accounting practices shall be reported as if the reporting entity continued to own the assets or to be obligated for the liability directly instead of through a subsidiary.” However, with the specific guidance in SSAP No. 97 for the GAAP equity or market valuation method based on the classification of the SCA, it is not believed that this guidance is widely enforced with SCA transactions.

Item 2: Valuation of U.S. Insurance SCAs (8bi) – The guidance in paragraph 8bi of SSAP No. 97 requires that U.S. Insurance SCAs be recorded based on the underlying audited statutory equity of the respective entity’s financial statements, adjusted for any amortized goodwill. Reporting entities are to record their investment in the U.S. Insurance SCA on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA.

Issue – The statutory equity reported by the SCA may be impacted by permitted or prescribed practices, and this impact is not detailed when the reporting entity recognizes their investment in the SCA.

There is a presumption that the statutory equity in the U.S. insurance SCA would be in compliance with the statutory accounting principles detailed in the NAIC Accounting Practices and Procedures Manual, with the additional adjustment for unamortized goodwill. However, as 8bi entities that file statutory financial statements, these U.S. insurance entities could have permitted or prescribed practices impacting their statutory equity. As these permitted or prescribed practices are reflected in the SCA’s statutory financial statements, by requiring the investment in the SCA to be calculated by the “audited statutory equity of the SCA’s financial statements” the amount reported would include the impact of any SCA permitted or prescribed practices. Additionally, there is no disclosure required by the reporting entity to identify whether the reported statutory value reflects statutory value under the AP&P Manual, or whether it includes permitted or prescribed practices.

Item 2 Discussion Options:

1. Should guidance be considered to require that the value reported for investments in U.S. insurance SCAs reflect statutory value as calculated per the AP&P Manual, and not the statutory value from the SCA’s financial statements, which would include deviations from SAP through prescribed or permitted practices?

2. Should guidance be considered to require that the value reported for investments in U.S. insurance SCAs be the calculated statutory value per the AP&P Manual, with allowances for prescribed practices only, with disclosure required in the reporting entity’s financial statements regarding the SCA’s prescribed deviations from SAP?

3. Should guidance be considered to allow the value reported for investments in U.S. insurance SCAs to be the statutory value as reported on the SCA’s statutory financial statements (current guidance) with disclosure required in the reporting entity’s financial statements regarding the SCA’s prescribed and permitted practices that deviate from SAP?

The statutory statements of the SCA should have the detail for prescribed and permitted practices, so the info needed for a disclosure by the reporting entity (parent) should be readily available.

Item 3: Valuation of Non-Insurance SCAs Engaging in Insurance Activities (8bii) and Foreign Insurance Entities (8biv) – Non-insurance SCAs that meet the activity and revenue test of paragraph 8bii and foreign insurance SCAs captured within 8biv are to be reported based on the underlying U.S.
GAAP equity (or foreign statutory basis) adjusted to a “statutory basis of accounting” in accordance with the adjustments specifically included in paragraph 9.

Issue – The adjustments required in paragraph 9 detail specific changes required to determine the value of the SCAs captured under paragraphs 8bii and 8biv. However, as these are only adjustments for specific items within certain SSAPs, the adjustments do not result in a value that reflects a “statutory basis of accounting” for the SCA. Furthermore, some of the adjustments do not appear consistent with current statutory accounting guidance (e.g., adjustment for DTAs).

Item 3 Discussion Options:

1. Should the guidance be revised to clarify that the SCA entities captured within 8bii and 8biv be adjusted to a “full statutory accounting basis”? (With this option, it would be proposed that the specific adjustments in SSAP No. 9 be removed, with an overall reference to make adjustments to comply with the AP&P Manual.)

2. Should the guidance be revised to clarify that the SCA entities captured within 8bii and 8biv do not reflect a “statutory basis of accounting” but rather reflect a value determined after applying limited adjustments per paragraph 9 to their underlying U.S. GAAP or foreign statutory financial statements?

3. If option 2 is pursued, should the guidance in paragraph 9 be updated to reflect more SAP adjustments, or be updated to reflect changes in SSAPs? For example, paragraph 9e requires an adjustment to nonadmit the net DTA of the SCA in excess of 10% of the audited US GAAP equity. This 10% threshold was included in SSAP No. 10, but this guidance was superseded by SSAP No. 101, which has a more detailed admittance calculation. Additionally, most SSAPs identify situations that can generate nonadmitted assets (e.g., if criteria of the SSAP are not met). The adjustments required in paragraph 9a only include five SSAPs. Should more SSAPs be added to this listing to ensure adjustments for nonadmitted assets?

Since the guidance in paragraph 8bii and 8biv requires an “adjustment” to the underlying U.S. GAAP, if an adjustment detailed in paragraph 9 is not made, it would be considered a deviation from statutory accounting principles by the reporting entity (not the SCA) and would be required to be disclosed in Note 1 of the reporting entity’s financial statements.

Existing Authoritative Literature:

SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities (SSAP No. 97) provides the statutory accounting guidance for SCA entities. This statement adopts/rejects a variety of GAAP guidance, but only the following items are included as relevant to this particular agenda item:

- SSAP No. 97 explicitly adopts the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (paragraph 42)
- SSAP No. 97 rejects *APB Opinion 18, The Equity Method of Accounting for Investments in Common Stock*
Relevant Excerpts from SSAP No. 97 (paragraphs 8 & 9):

Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.).

a. In order to use the market valuation approach for SCA entities, the following requirements apply:
   i. The subsidiary must be traded on one of the following major exchanges: (1) the New York Stock Exchange, (2) the American Stock Exchange, (3) the NASDAQ National exchange, or (4) the Tokyo Stock Exchange;
   ii. The reporting entity must submit subsidiary information to the Securities Valuation Office (SVO) for its calculation of the subsidiary’s market value. Such calculation could result in further discounts in market value above the established base discounts based on ownership percentages detailed below;
   iii. Ownership percentages for determining the discount rate shall be measured at the holding company level;
   iv. If an investment in a SCA results in an ownership percentage between 10% and 50%, a base discount percentage between 0% and 20% on a sliding scale basis is required;
   v. If an investment in a SCA results in an ownership percentage greater than 50% up to and including 80%, a base discount percentage between 20% and 30% on a sliding scale basis is required;
   vi. If an investment in a SCA results in an ownership percentage greater than 80% up to and including 85%, a minimum base discount percentage of 30% is required.
   vii. Further, the SCA must have at least two million shares outstanding, with a total market value of at least $50 million in the public’s control; and
   viii. Any ownership percentages exceeding 85% will result in the SCA being recorded on an equity method.

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity’s proportionate share of its investments in SCAs shall be recorded as follows:
   i. Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity of the respective entity’s financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill (SSAP No. 68). Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end Annual Statement if
the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA’s domiciliary state;

**ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:**

(a) Collection of balances as described in SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers

(b) Sale/lease or rental of EDP Equipment and Software as described in SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in SSAP No. 20—Nonadmitted Assets

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in SSAP No. 20—Nonadmitted Assets

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).

(h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA’s revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity’s audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 21-26 provide guidance for investments in holding companies;
iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 21-26. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 22.b.

iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, if available, or the audited foreign statutory basis financial statements of the respective entity adjusted to a statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the Accounting Practices and Procedures Manual. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

c. The following provides guidance regarding the audits for entities covered under paragraph 8.b.:

i. The recorded GAAP equity shall be adjusted for any audit adjustments resulting from either the annual audited GAAP financial statements of the respective entity or, if the entity is a member of a consolidated or combined group of insurers, the annual audited GAAP financial statements of the consolidated or combined group of companies, as soon as determined. GAAP is defined as those pronouncements included in the FASB codification.

ii. Annual consolidated or combined audits are allowed for the valuation of U.S. insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.

iii. Consolidated or combined financial statements are allowed for the valuation of downstream SCA entities, including downstream SCA entities, that directly or indirectly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. The audited financial statements of the downstream SCA entities shall include, as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities, non SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet of the downstream SCA entities shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii. and 8.b.iv. entities owned directly and indirectly by the downstream SCA entities.

iv. Investments in foreign SCA entities shall follow the guidance in paragraphs 8.b.ii., 8.b.iii. and 8.b.iv. based upon the nature of the SCA as described in the respective paragraphs. To fulfill the requirement for
audited U.S. GAAP basis financial statements, the value of foreign SCA investments may be based on the GAAP equity from audited financial statements prepared on a foreign GAAP basis. The audited foreign GAAP basis financial statements must include an audited footnote that reconciles net income and equity on the foreign GAAP basis of accounting to the U.S. GAAP basis. The statutory carrying value of foreign insurance SCA entities (i.e., 8.b.iv. entities) and foreign noninsurance 8.b.ii. SCA entities shall include the additional adjustments as described in paragraph 9.

9. The statutory basis of accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be based on the underlying audited U.S. GAAP equity of the respective entity with the following adjustments:

a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the Accounting Practices and Procedures Manual:
   i. SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers
   ii. SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software
   iii. SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements
   iv. SSAP No. 20—Nonadmitted Assets
   v. SSAP No. 29—Prepaid Expenses

b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the Accounting Practices and Procedures Manual (e.g., deferred policy acquisition costs);

c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:
   i. SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software
   ii. SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements

d. Nonadmit the amount of goodwill of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA’s last audited financial statements.

e. Nonadmit amount of the net deferred tax assets (DTAs) of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA’s last audited financial statements.

f. Adjust the U.S. GAAP annuity account value reserves of a foreign insurance SCA, with respect to the business it wrote directly, using the commissioners' annuity reserve valuation method (CARVM) as defined in paragraphs 12 and 13.
of Appendix A-820 (including the reserving provisions in the various Actuarial Guidelines which support CARVM). The valuation interest rate and mortality tables to be used in applying CARVM should be that prescribed by the foreign insurance SCA's country of domicile. If the Foreign SCA’s country of domicile does not prescribe the necessary tables and/or rates, no reserve adjustment shall be made.

Note that the outcome of these adjustments, as well as guarantees or commitments of the parent entity to provide additional funding, can result in a negative equity valuation of the investment.

*The section from the P&P Manual on the Valuation of SCAs is included in Exhibit A*

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG: None

**Staff Recommendation:**
It is staff’s recommendation that the Working Group initially move this to the substantive active listing, with a request for comments from regulators and industry on the specific issues noted in the discussion (and duplicated below). Depending on the responses received, the Working Group will assess the extent of revisions necessary and may reconsider whether this is a substantive or nonsubstantive issue.

Comments are Requested on the Following Issues and Discussion Items:

**Item 1: Nonadmitted Assets in Non-Insurance SCAs**
Reporting entities can transfer nonadmitted assets into a non-insurance SCA, thereby improving the surplus position of a reporting entity.

1. Should guidance be considered to restrict the amount of assets held in an SCA that would not be admitted assets if held directly by the reporting entity?

2. Should guidance be considered to restrict or eliminate the extent to which nonadmitted assets can be transferred to an SCA and included in the reported value of the SCA?

**Item 2: Valuation of U.S. Insurance SCAs (8bi)**
The statutory equity reported by the insurance SCA may be impacted by permitted or prescribed practices, and this impact is not detailed within the reporting entity’s (parent) financial statements.

1. Should guidance be considered to require that the value reported for investments in U.S. insurance SCAs reflect statutory value as calculated per the AP&P Manual, and not the statutory value from the SCA’s financial statements, which would include deviations from SAP through prescribed or permitted practices?

2. Should guidance be considered to require that the value reported for investments in U.S. insurance SCAs be the calculated statutory value per the AP&P Manual, with allowances for prescribed practices only, with disclosure required in the reporting entity’s financial statements regarding the SCA’s prescribed deviations from SAP?
3. Should guidance be considered to allow the value reported for investments in U.S. insurance SCAs to be the statutory value as reported on the SCA’s statutory financial statements (current guidance) with disclosure required in the reporting entity’s financial statements regarding the SCA’s prescribed and permitted practices that deviate from SAP?

**Item 3: Valuation of Non-Insurance SCAs Engaging in Insurance Activities (8bii) and Foreign Insurance Entities (8biv)**

The adjustments required in paragraph 9 detail specific changes required to determine the value of the SCAs captured under paragraphs 8bii and 8biv. However, as these are only adjustments for specific items within certain SSAPs, the adjustments do not result in a value that reflects a “statutory basis of accounting” for the SCA. Furthermore, some of the adjustments do not appear consistent with current statutory accounting guidance (e.g., adjustment for DTAs).

1. Should the guidance be revised to clarify that the SCA entities captured within 8bii and 8biv be adjusted to a “full statutory accounting basis”? (With this option, it would be proposed that the specific adjustments in SSAP No. 9 be removed, with an overall reference to make adjustments to comply with the AP&P Manual.)

2. Should the guidance be revised to clarify that the SCA entities captured within 8bii and 8biv do not reflect a “statutory basis of accounting” but rather reflect a value determined after applying limited adjustments per paragraph 9 to their underlying U.S. GAAP or foreign statutory financial statements?

3. If option 2 is pursued, should the guidance in paragraph 9 be updated to reflect more SAP adjustments, or be updated to reflect changes in SSAPs? For example, paragraph 9e requires an adjustment to nonadmit the net DTA of the SCA in excess of 10% of the audited US GAAP equity. This 10% threshold was included in SSAP No. 10, but this guidance was superseded by SSAP No. 101, which has a more detailed admittance calculation. Additionally, most SSAPs identify situations that can generate nonadmitted assets (e.g., if criteria of the SSAP are not met). The adjustments required in paragraph 9a only include five SSAPs. Should more SSAPs be added to this listing to ensure adjustments for nonadmitted assets?

**Staff Review Completed by:**
Julie Gann– February 10, 2015
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### Statutory Accounting Principles Working Group

#### Maintenance Agenda Submission Form

**Form A**

**Issue:** Technical edits to APP Manual

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**Description of Issue:**

During a review of the *Accounting Practices and Procedures Manual*, staff noted areas where technical edits would be beneficial to the guidance. However, these revisions were deemed too extensive to incorporate without review and approval by the Statutory Accounting Principles (E) Working Group. Appendix A includes the proposed revisions to various SSAPs. This table includes three sections to differentiate between the types of revisions proposed:

- The first section details language updates, including a clarification to SSAP No. 106–Affordable Care Act Section 9010 Assessment to address inconsistencies regarding the disclosure of the risk-based capital sensitivity test. The proposed edit to SSAP No. 106 for the ACA section 9010 disclosure is to address consistency issues noted within the 2014 annual filings. Some reporting entities incorrectly reported an impact on Authorized Control Level (ACL). The impact of the risk-based capital sensitivity test in the risk based capital formula determines the effect on Total Adjusted Capital only. Staff has also prepared a related annual statement blanks proposal to clarify this in the annual statement note.

- The second section addresses a few references to INTs and their effective dates that were not included in the SSAPs’ Effective Date and Transition sections when the INTs were incorporated into the SSAP. Additionally, with the nullification of some INTs that were related to GAAP pronouncements, the GAAP literature was not listed under Relevant Literature.

- The third section moves paragraphs to keep the overall format of the SSAPs in line with other SSAPs. The edits within this agenda item do not propose to change any guidance. These revisions are merely placement changes.

**Existing Authoritative Literature:**

See various excerpts in Appendix A.

**Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG:** None

**Staff Recommendation:**

It is staff’s recommendation that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to various SSAPs as detailed in Appendix A.

**Staff Review Completed by:**

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Appendix A:

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| SSAP No. 43R: | **Structured Notes—Securities Acquired for a Specified Investment Strategy**  
48. To achieve certain strategic investment results, structured securities may be issued in combination with other structured securities as a unit or a pair. One strategy involves the purchase of two structured securities with opposite interest rate reset provisions. Under that strategy, the fixed coupon rate or maturity date for each structured security would be determined shortly after issuance depending on movements in market interest rates. Following that reset date, the resulting yields on each of the structured securities will move in opposite directions; however, the average yield of the two securities will generally reflect the market yield of the combined instruments in effect on the issuance date. In situations when structured securities are issued in combination with other structured securities as a unit or a pair, each structured security shall be accounted for separately in accordance with the appropriate SSAP. The guidance in paragraph 8 of SSAP No. 103 on the accounting for transfers of entire financial assets or group of entire financial assets that qualify as sales shall be applied to each structured note security upon transfer. |
| SSAP No. 100: | **SCOPE OF STATEMENT**  
1. This statement defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.  
**SUMMARY CONCLUSION**  
1. This standard applies under other accounting pronouncements that require or permit fair value measurements, but this standard does not require any new fair value amendments. However, the application of this standard may change current practice. This standard does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of this standard.  
**Scope**  
2. This standard applies under other statutory accounting pronouncements that require or permit fair value measurements, except as follows:  
   a. This standard does not eliminate the practicality exceptions to fair value measurements in accounting pronouncements within the scope of this standard.  
   b. This standard does not apply under SSAP No. 22—Leases (SSAP No. 22) and other accounting pronouncements that address fair value measurements for purposes of lease... |
classification to measurement under SSAP No. 22. This scope exception does not apply to assets acquired or liabilities assumed in a business combination that are required to be measured at fair value under SSAP No. 68—Business Combinations and Goodwill (SSAP No. 68), regardless of whether those assets and liabilities are related to leases. This standard does not apply to share-based payment transactions captured within SSAP No. 104R—Share-Based Payments (SSAP No. 104R).

Definition of Fair Value

3. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

SSAP No. 106

9. b. Additionally, for annual reporting periods ending on or after December 31, 2014, the disclosure in paragraph 9.a. is expanded to include information on the amounts reflected in special surplus in the data year.

   i. The reporting entity shall disclose the amount of premium written for the current year that is the basis for the determination of the section 9010 fee assessment to be paid in the subsequent year (net assessable premium). Prior year amounts shall also be included for comparative purposes;

   ii. Reporting entities shall provide information regarding the nature of the assessment, the estimated amount of the assessment payable in the upcoming year (current and prior year) and the amount of assessment paid (current and prior year), and;

   iii. The disclosure shall also provide the Total Adjusted Capital (before and after adjustment as reported in its estimate of special surplus applicable to the 9010 fee) and Authorized Control Level (in dollars) before and after adjustment (as reported in its estimate of special surplus applicable to the 9010 fee) to reflect the fee as of the annual reporting date as if it had been reported on the balance sheet date. The disclosure shall also provide a statement as to whether an RBC action level would have been triggered had the fee been reported as of the balance sheet date.

SSAP No. 107

CONCLUSION

2. Specific terms included in Appendix A are unique to these programs and should not be applied to other aspects of statutory accounting. The required payments to the programs by reporting entities are described as “contributions” in the program literature but are referred to in this guidance as assessments for clarity. Amounts redistributed by the programs back to reporting entities are termed “payments” by the programs. These “payments” are recoverables / receivables for the reporting entity and are termed program distributions or receivables (to the reporting entity) in this guidance. The reporting of payable or receivable amounts in this guidance is from the perspective of the reporting entity. This statement...

3. This statement establishes statutory accounting principles for the risk-sharing provisions of the ACA. The manner in which these provisions are applied in the determination of the medical loss ratios (MLR) and rebates may be different from these as the MLR calculations are based on the ACA Section 2718(b).

**Effective Date and Transition**

60. This statement is effective for years ending on or after December 15, 2014. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. Risk-sharing provisions guidance was previously reflected within INT 13-04: Accounting for the Risk-Sharing Provisions of the Affordable Care Act and was effective January 1, 2014. Upon adoption of this SSAP, INT 13-04 was nullified. Disclosures in paragraphs 57 and 58 were adopted in SSAP No. 35R—Guaranty Fund and Other Assessments, but were moved to this SSAP prior to publication.

### Appendix D Introduction

The NAIC Codification of Statutory Accounting Principles Working Group by the Statutory Accounting Principles (E) Working Group (SAPWG) (Statutory Accounting Principles as of January 1, 2000) addressed all GAAP pronouncements included in categories a, b, and c issued through 1996, during the initial drafting of the SSAPs, as well as the AICPA Accounting Interpretations included in Category D. This working group is now called the Statutory Accounting Principles (E) Working Group (SAPWG).

To assist users in tracing pre-codification GAAP standards to the FASB Codification, Appendix D – GAAP Cross-Reference to SAP includes the Topic and Subtopic for all pre-codification GAAP standards that have been included in the FASB Codification. This FASB Codification reference does not reflect GAAP guidance adopted for statutory accounting. Only the guidance detailed in specific SSAPs or Interpretations shall be utilized in determining the GAAP guidance adopted, adopted with modification, or rejected for statutory accounting. Items noted with “Not Explicitly Included in Codification” are no longer included in the FASB Cross Reference tool. The information may have been included in a subsequent revision or removed.

| SSAP No. 5R, para. 39 | The guidance in paragraph 10 related to when a judgment is considered rendered was originally contained in INT 04-05: Clarification of SSAP No. 5R Guidance on when a Judgment is Deemed Rendered and was effective September 12, 2004. The guidance for guarantees included within paragraphs 16-25 and 30-32 shall be applicable to all guarantees issued or outstanding as of December 31, 2011. Thereafter, disclosure of all guarantees shall be annually reported, with interim reporting required for new guarantees issued, and/or existing guarantees when significant changes |
are made. Guidance in paragraph 37 was previously reflected within *INT 08-06: FSP EITF 00-19-2, Accounting for Registration Payment Arrangements* and was effective September 22, 2008.

| SSAP No. 6 | 15. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. The guidance in the footnote to paragraph 6 was originally contained within *INT 02-02: SSAP No. 6 and Billing of Premium Before Effective Date* and was effective March 18, 2002. The guidance in the footnote to paragraph 9 was originally contained within *INT 01-01: Application of SSAP No. 6 Paragraph 9.a. to de minimus Receivable Balances of Group Accident and Health Policies* and was effective March 26, 2001. Guidance in Appendix A—Nonadmittance of Premium Receivables (Paragraph 9.a.) was originally included in *INT 99-27: Nonadmitting Installment Receivables* and was effective December 6, 1999. |
| SSAP No. 15 | 29. This statement adopts the following pronouncements:

   m. *FASB Emerging Issues Task Force No. 02-15: Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are Within the Scope of FASB Statement No. 84.*

   (Other subparagraphs omitted to save space.)

| SSAP No. 15 | 31. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. The guidance in paragraph 8 related to who initiates an offer was previously included in *INT 04-07: EITF 02-15: Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are Within the Scope of FASB Statement No. 84* and was effective September 12, 2004. The guidance in paragraphs 12 and 13 was originally contained within *INT 00-08: EITF 98-5: Accounting for Convertible Securities with Beneficial Conversion Features or Continently Adjustable Conversion Ratios* and was effective September 11, 2000. The guidance in paragraphs 14 and 15 was originally contained within *INT 00-10: EITF 98-14: Debtor’s Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements* and was effective June 12, 2000. The guidance in paragraph 18 was originally contained within *INT 04-15: EITF 03-7: Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to be Settled in Stock (Instrument C of Issue No. 90-19)* and was effective December 5, 2004. Guidance in paragraph 19 was previously included within *INT 08-08: Balance Sheet Presentation of Funding Agreements Issued to a Federal Home Loan Bank* and was effective for periods beginning March 15, 2009. Guidance in paragraphs 20-21 related to FHLB agreements and borrowings was initially effective January 1, 2014. |
| SSAP No. 17 | 9. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. Guidance reflected in paragraph 2 was previously included in INT 08-04: FASB Emerging Issues Task Force No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* and was originally effective May 31, 2008. Guidance reflected in paragraph 3 was originally included in INT 99-18: EITF 97-13: *Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation* and was effective October 4, 1999. |
| SSAP No. 32 | 34. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. The guidance in paragraphs 23-26 was previously included within SSAP No. 99—*Accounting for Securities Subsequent to an Other-Than-Temporary Impairment* and was effective for reporting periods beginning on January 1, 2009, and thereafter, with early adoption permitted. In 2010, the guidance from SSAP No. 99 was incorporated within the impacted standards, with SSAP No. 99 superseded. The original impairment guidance included in this standard, and the substantive revisions reflected in SSAP No. 99 are retained for historical purposes within Issue Paper No. 131. The guidance in paragraphs 2 and 3 to SSAP No. 32 was originally superseded Jan. 1, 2005, by guidance included in SSAP No. 88—*Investments in Subsidiaries, Controlled and Affiliated Entities, A replacement of SSAP No. 46*, and then subsequently reflected in SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*. In 2011, the guidance related to preferred stock of SCAs from SSAP No. 97 was incorporated into this statement and revised to reflect a definition of preferred stock. The original guidance included in this statement, and the substantive revisions reflected in SSAP No. 88 and SSAP No. 97 (including the title change already reflected in SSAP No. 32) are retained for historical purposes within Issue Paper Nos. 32 and 118. Guidance in paragraph 17 was originally contained in INT 99-29: *Classification of Step-Up Preferred Stock* and was effective December 6, 1999. |
| SSAP No. 37 | 26. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management’s best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors (SSAP No. 3)*. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance related to unamortized amounts included in IMR was originally contained within INT 99-04: *Recognition of Prepayment Penalties Upon Adoption of Codification* and was effective March 8, 1999. |
### SSAP No. 40

33. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Correction of Errors. Guidance in paragraph 8 was originally contained in INT 99-16: EITF 97-11: Accounting for Internal Costs Relating to Real Estate Property Acquisitions and was effective October 4, 1999. Guidance in paragraph 15 was originally contained in INT 99-25: Accounting for Capital Improvements and was effective December 6, 1999. Guidance in paragraphs 17-19 was previously included within SSAP No. 77—Real Estate Sales and was effective for years beginning January 1, 2002. The original guidance included in this standard from SSAP No. 77 is retained for historical purposes in Issue Paper No. 106. Guidance related to EITF 06-8 referenced in paragraph 28 was incorporated from INT 08-02: EITF 06-8: Applicability of the Assessment of a Buyer’s Continuing Investment under FASB Statement No. 66 for Sales of Condominiums and was effective for periods beginning May 31, 2008. The guidance reflected in paragraph 28 adopting EITF 07-6: Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause was incorporated from INT 08-07: EITF 07-6, Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause, and was effective September 22, 2008.

### SSAP No. 53

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Correction of Errors. The guidance in paragraph 5 was originally contained within INT 01-23: Prepaid Legal Insurance Premium Recognition and was effective June 11, 2001. The guidance reflected in paragraph 12, incorporated from INT 02-11: Recognition of Amounts Related to Earned but Unbilled Premium, was effective September 10, 2002. The guidance reflected in paragraph 14, incorporated from INT 05-06: Earned but Uncollected Premium, was effective December 3, 2005. The guidance in paragraph 18, incorporated from INT 99-23: Disclosure of Premium Deficiency Reserves was effective December 6, 1999.

### SSAP No. 55

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. Guidance reflected in paragraphs 67.c., 78.b. and 89, incorporated from SSAP No. 85, is effective for years ending on and after Dec. 31, 2003. The guidance incorporated into paragraphs 1, 6.c.ii., 7.d. and 9.b.vi. was originally included in INT 03-17: Classification of Liabilities from Extra Contractual Obligation Lawsuits, and was initially effective March 10, 2004. The guidance in paragraph 5 was previously included in INT 02-21: Accounting for Prepaid Loss Adjustment Expenses and Claim Adjustment Expenses effective for reporting periods ending on or after December 31, 2006. Guidance in paragraph 12 related to conservatism and adverse deviation was originally contained in INT 01-28: Margin for Adverse Deviation in Claim Reserve and was effective October 16, 2001. The guidance in paragraph 14
related to coordination of benefits was originally contained within INT 00-31: Application of SSAP No. 55 Paragraph 12 to Health Entities and was effective December 4, 2000. The guidance reflected in footnote 1, incorporated from INT 06-14: Reporting of Litigation Costs Incurred for Lines of Business in which Legal Expenses Are the Only Insured Peril, was effective June 2, 2007.

**SSAP No. 68**

21. This statement is effective for years beginning January 1, 2001. The provisions of this statement shall be applied to all business combinations entered into on or after January 1, 2001. Goodwill that had been written off prior to the effective date of this statement is prohibited from being restored for purposes of applying the provisions of this statement. The guidance in paragraphs 4-6 was previously included within SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88 and was effective for reporting periods ending on and after December 31, 2007. In 2011, the guidance related to goodwill included in SSAP No. 97 was incorporated into this statement. The original guidance included in this standard, and the substantive revisions reflected in SSAP No. 97 are retained for historical purposes within Issue Paper No. 118. Guidance reflected in paragraph 1, incorporated from INT 03-16: Contribution of Stock, was effective December 7, 2003. Guidance reflected in paragraph 3, incorporated from INT 99-10: EITF No. 97-8: Accounting for Contingent Consideration Issued in a Purchase Business Combination, was effective June 7, 1999.

**SSAP No. 72**

29. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance in paragraph 18 was originally contained within INT 99-01: Accounting for Tax Benefits of Operating Losses and Tax Credits in Quasi-Reorganizations and was effective March 8, 1999. The guidance in paragraph 19 was originally contained within INT 00-12: EITF 99-4, Accounting for Stock Received from the Demutualization of a Mutual Insurance Company and was effective June 12, 2000.

**SSAP No. 95**

Relevant Literature

32. This statement continues the rejection of paragraph 16 of Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins and Emerging Issues Task Force No. 96-4, Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners.

33. This statement nullifies INT 99-21: EITF No. 98-7, Accounting for Exchanges of Similar Equity Method Investments.

    Subsequent paragraphs will be renumbered.

**SSAP No. 103**

125. This standard shall be effective for years beginning on and after January 1, 2013 (effective date) and shall be applied prospectively. This statement must be applied as of the beginning of the reporting entity’s first
3. Placement Changes

<table>
<thead>
<tr>
<th>Effective Date and Transition</th>
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<tr>
<td>SSAP No. 16R:</td>
</tr>
<tr>
<td>17. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance in paragraph 12 was originally contained within INT 04-13: EITF 03-5: Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software and was effective December 5, 2004.</td>
</tr>
<tr>
<td>18. EDP equipment and operating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or three years. Nonoperating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or five years.</td>
</tr>
</tbody>
</table>

Relevant Literature

1917. The revisions to this Statement, adopted in October 2010, result from incorporating previously adopted statutory accounting guidance from SSAP No. 17, SSAP No. 79, SSAP No. 81, SSAP No. 82 and SSAP No. 87 into this Statement. Revisions to incorporate the previously adopted statutory accounting guidance within this SSAP shall not be considered new statutory accounting guidance. This Statement also adopts with modification ASU 2009-14, which revises the previous GAAP guidance adopted under SSAP No. 81. The GAAP revisions adopted within ASU 2009-14 are considered nonsubstantive and are effective immediately.

2018. This Statement references GAAP guidance in accordance with the current FASB Codification. The references to the FASB Codification are intended to reflect the previously adopted pre-codification GAAP guidance as communicated within SSAP No. 17, SSAP No. 81 and SSAP No. 82:

a. The pre-codification GAAP guidance reflected within SSAP No. 17 and incorporated within paragraph 8 through reference to the FASB ASC 985-20 includes:
**Attachment K**

Ref #2015-09

<p>| | |</p>
<table>
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<tbody>
<tr>
<td>i.</td>
<td><strong>FASB Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed</strong> was adopted with the exception of paragraphs 5 and 6 and paragraphs 8-11. Those paragraphs were rejected to preclude the capitalization of software development costs.</td>
</tr>
<tr>
<td>ii.</td>
<td><strong>FASB Emerging Issues Task Force No. 96-14, Accounting for Costs Associated with Modifying Computer Software for the Year 2000</strong> was adopted. This guidance was not included within the FASB Codification as it is considered no longer technologically helpful.</td>
</tr>
<tr>
<td>b.</td>
<td>The pre-codification GAAP guidance reflected within SSAP No. 81 and incorporated within paragraph 9 through reference to the FASB ASC 985-605 includes:</td>
</tr>
<tr>
<td>i.</td>
<td><strong>AICPA Statement of Position 97-2, Software Revenue Recognition</strong> paragraphs 6-91 was adopted with certain modifications.</td>
</tr>
<tr>
<td>ii.</td>
<td><strong>AICPA Statement of Position 98-9, Modification of SOP 97-2 Software Revenue Recognition, With Respect to Certain Transactions</strong> paragraphs 6-8 was adopted. (Note: The adopted paragraphs reflect all of the changes to SOP 97-2.)</td>
</tr>
<tr>
<td>iii.</td>
<td><strong>FASB Emerging Issues Task Force No. 00-3, Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware</strong> was adopted in its entirety.</td>
</tr>
<tr>
<td>iv.</td>
<td><strong>AICPA Statement of Position 98-4, Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition</strong> was considered not applicable because the effective date was inconsistent with SSAP No. 81.</td>
</tr>
<tr>
<td>c.</td>
<td>The pre-codification GAAP guidance reflected within SSAP No. 82 and incorporated within paragraphs 10 and 11 through reference to the FASB ASC 350-40 includes:</td>
</tr>
<tr>
<td>i.</td>
<td><strong>AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use</strong> paragraphs 11-42 and paragraph 93 were adopted with modification.</td>
</tr>
<tr>
<td>ii.</td>
<td><strong>FASB Emerging Issues Task Force No. 00-2, Accounting for Web Site Development Costs</strong> was adopted in its entirety.</td>
</tr>
</tbody>
</table>

2119. SSAP No. 16, SSAP No. 17 and SSAP No. 79 were effective for years beginning January 1, 2001. SSAP No. 81 and SSAP No. 82 were effective for years beginning January 1, 2002. SSAP No. 87 was effective for years beginning on and after January 1, 2004. Transition guidance from the initial adoption of these SSAPs has expired and is not duplicated within this
Effective Date and Transition

20. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance in paragraph 12 was originally contained within INT 04-13: EITF 03-5: Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software and was effective December 5, 2004.

21. EDP equipment and operating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or three years. Nonoperating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or five years.
To: Commissioner David Mattax, Chair of the Capital Adequacy (E) Task Force

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Restricted Asset RBC Charge for Assets on Deposit with State

Date: March 28, 2015

With the clarifying revisions adopted for identifying restricted assets, NAIC staff has received several questions regarding the classification of “assets on deposit with states for benefit of all policyholders” as a restricted asset. Although there is generally agreement that these assets meet the definition of a restricted asset, and should be classified as such, by classifying these assets as restricted, the reporting entity incurs an additional RBC charge. As the purpose of states’ requiring assets on deposit is to provide protection to policyholders, questions have been received whether these assets should be classified as restricted, with a corresponding RBC charge. In reviewing this issue, and preliminary information from regulators, the Statutory Accounting Principles (E) Working Group believes that these assets meet the definition of restricted assets, and obtaining information about the full nature of restricted assets provides beneficial information. Rather than removing these assets from the restricted asset classifications and disclosures, it has been suggested that a referral be provided to the Capital Adequacy (E) Task Force with a request that they re-evaluate whether a separate “restricted asset” RBC charge is needed for assets held on deposit with the state for the benefit of all policyholders. As these assets are included in the reporting entity’s investment schedules, these assets already receive RBC assessments based on the nature of the asset.

Thank you for considering this referral. Please contact SAPWG staff, Julie Gann if you have any questions or would like additional information.

Cc: Julie Gann, Robin Marcotte, Jane Barr, Lou Felice
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To: Statutory Accounting Principles (E) Working Group  
From: Julie Gann (NAIC Staff)  
Re: Discussion – Inclusion of Security Definition in SSAP No. 26  
Date: December 17, 2014

This memorandum details proposed revisions to include a definition to the term “security” within the definition of a bond in SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities.

Proposal: Incorporate the GAAP definition of a security, as it is used in FASB Codification Topic 320: Investments – Debt and Equity Securities, and Topic 860: Transfers and Servicing:

Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

This definition is already included in SSAP No. 37—Mortgage Loans, paragraph 2.

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. (A security is a share, participation, or other interest in property or in an enterprise of the issuer or an obligation of the issuer that (a) either is represented by an instrument issued in bearer or registered form, or if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer, (b) is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (c) either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations).

Rationale – Staff does not see a regulatory reason to define “security” differently between GAAP & SAP.

Impact: By incorporating the definition of a security in SSAP No. 26, it will be clear that some investments within scope of SSAP No. 26 do not meet the definition of a bond. Although the inclusion of these investments will be subsequently considered under the investment project, for this discussion topic, it is proposed that the guidance in SSAP No. 26 be divided between those items that meet the explicit definition of a bond, and investments that have been previously decided to be reported as bonds. Consideration should subsequently occur on whether the GAAP security definition should be included in the AP&P Manual master glossary for all references within the Manual. If this definition is supported for SSAP No. 26, staff will identify all of the SSAPs and references that would be impacted and present this info for subsequent Working Group discussion.
Proposed Revisions to SSAP No. 26 – Include Security Definition

Bonds, Excluding Loan-Backed and Structured Securities

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for bonds and fixed-income investments specifically identified to be within the scope of this statement.

2. This statement excludes:
   a. Loan-backed and structured securities. These investments are addressed in SSAP No. 43R—Loan-Backed and Structured Securities.
   b. Bonds that meet the definition in paragraph 3, but have a maturity date of one year or less from the date of acquisition. These investments are addressed in SSAP No. 2—Cash, Drafts and Short-Term Investments.
   c. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in SSAP No. 37—Mortgage Loans and SSAP No. 39—Reverse Mortgages.

SUMMARY CONCLUSION

2-3. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:
   a. U.S. Treasury securities,
   b. U.S. government agency securities,
   c. Municipal securities, and
   d. Corporate bonds,
   d.Convertible debt bonds, including mandatory convertible debt bonds as defined in paragraph 9.

NOTE: Other items currently included in SSAP No. 26 will be subsequently discussed. The intent of this memo is simply to consider including the definition for a “security”.

1 This SSAP adopts the GAAP definition of a security as it is used in FASB Codification Topic 320 and 860:
   Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:
   a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
   b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
   c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.
This memo discusses the proposal for a “contractual amount of principle due” for SSAP No. 26 investments for Working Group consideration under the investment classification project.

**Proposal:** This item proposes to incorporate guidance to require all SSAP No. 26 investments to have a “contractual amount of principal due,” with concurrent consideration of new guidance for “funds”. Although a preliminary draft SSAP for “funds” has been proposed based on existing guidance, it is recommended that the Working Group complete a full assessment of “funds” to review the variety of items that can be captured within this definition and consider statutory accounting guidance for all types.

**Rationale:** The following elements support the consideration of revised accounting treatment:

- **Existing statutory accounting guidance has resulted in “funds” being captured throughout various investment schedules. This process has resulted in a lack of transparency and makes it difficult to assess the amount of “funds” held as investments. (Existing guidance allows some mutual funds and ETFs to be classified as bonds, common stock or preferred stock based on SVO assessment.)

- **SSAP No. 26 uses an amortized cost measurement. The bond investment schedule (D - Part 1) is not conducive to the reporting of “funds” or other items that do not have an amortized cost. Without a contractual amount of principal due, there is no actual “amortized cost” for fund investments. As such, the “amortized cost” reported is a calculated amount determined by the reporting entity and is not consistently determined.

- **The rationale for the current process of including “funds” in different schedules was based on the assessed risk of the funds. (For example, allocating funds based on credit quality, market risk, redemption process, underlying investments, etc.) This process was supported as a lower-risk investment was deemed to warrant a lower RBC charge. (This proposal suggests that lower RBC charges – if appropriate – are feasible with a collective reporting process as different types of investments would be coded separately. Furthermore, having similar investments reported together, but bifurcated by type, will assist regulators in understanding the extent of investments.

- **Some concerns with moving “funds” into a single SSAP/schedule are based on the expectation that funds previously in scope of SSAP No. 26 will no longer be considered “bonds” for state investment purposes. Per info from some states, mutual funds or ETFs classified as bonds for reporting do not result in those items being considered bonds under state investment guidelines. If some states do allow such funds to be considered “bonds” within their guidelines, this is still possible with the proposed coding of investments within a new schedule. In short, recognition in accounting and reporting does not impact state investment law limitation requirements.

**Impact:** By requiring all SSAP No. 26 investments to have a “contractual amount of principle due”, ETF’s and mutual funds would be eliminated from the scope of SSAP No. 26. Additionally, this requirement would prevent future inclusion of other “fund” investments from being classified as bonds. This memo also proposes consideration of new accounting and reporting guidance for “funds”.

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www.naic.org
Proposed Revisions to SSAP No. 26 – Contractual Amount of Principle Due
(Note – The Proposed Revisions from the Security Definition memo are shown as Accepted Changes.)

Bonds

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for bonds and fixed-income investments specifically identified to be within the scope of this statement.

2. This statement excludes:
   a. Loan-backed and structured securities. These investments are addressed in SSAP No. 43R—Loan-Backed and Structured Securities.
   b. Bonds that meet the definition in paragraph 3, but have a maturity date of one year or less from the date of acquisition. These investments are addressed in SSAP No. 2—Cash, Drafts and Short-Term Investments.
   c. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in SSAP No. 37—Mortgage Loans and SSAP No. 39—Reverse Mortgages.

SUMMARY CONCLUSION

3. Bonds shall be defined as any securities\(^1\) representing a creditor relationship, whereby there is a contractual amount of principle due with a fixed schedule for one or more future payments. This definition includes:
   a. U.S. Treasury securities,\(^{(\text{INT 01-25})}\)
   b. U.S. government agency securities,
   c. Municipal securities, and
   d. Corporate bonds
   e. Convertible bonds, including mandatory convertible bonds as defined in paragraph 9,
   f. Exchange Traded Funds, which qualify for bond treatment, as identified in the Purposes and Procedures Manual of the NAIC Investment Analysis Office, and

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\(^{1}\) This SSAP adopts the GAAP definition of a security as it is used in FASB Codification Topic 320 and 860: Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

   a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

   b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

   c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.
Proposed New SSAP – Accounting for Funds

Investments in Funds

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in Mutual Funds\(^2\) and Exchange Traded Funds\(^3\). Other types of fund investments (e.g., closed-end funds, hedge funds, and unit investment trusts that are not ETFs) are not specifically addressed within statutory accounting guidance and pursuant to SSAP No. 4 are considered nonadmitted assets.

NOTE: The scope of this SSAP has been limited to funds currently addressed within statutory accounting principles. It is proposed that subsequent consideration occur on other types of funds not currently addressed. This proposal should not imply that all other funds should be admitted; however, staff suggests that clear guidance and direction for the different types of funds would eliminate confusion and improve consistency. Other types of funds for future discussion include: closed-end investment companies, unit investment trusts, hedge funds, and investments in “trust funds” that do not currently fit within the confines of SSAP No. 48.

SUMMARY CONCLUSION

2. A mutual fund is a type of investment company that pools money from many investors and invests the money in stocks, bonds, money-market instruments, other securities, or even cash. Per the SEC, some characteristics of mutual funds include:

a. Investors purchase shares in the mutual fund from the fund itself, or through a broker for the fund, and cannot purchase the shares from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market. The price that investors pay for mutual fund shares is the fund’s approximate net asset value (NAV) per share plus any fees that the fund may charge at purchase, such as sales charges, also known as sales loads.

b. Mutual fund shares are "redeemable." This means that when mutual fund investors want to sell their fund shares, they sell them back to the fund, or to a broker acting for the fund, at their current NAV per share, minus any fees the fund may charge, such as deferred sales loads or redemption fees.

c. Mutual funds generally sell their shares on a continuous basis, although some funds will stop selling when, for example, they reach a certain level of assets under management.

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\(^2\) A mutual fund is legally known as an open-end company.

\(^3\) Exchange traded funds (ETFs) are investment companies that are legally classified as open-end companies or Unit Investment Trusts (UITs). For the scope of this statement, UITs that are not ETFs are currently excluded. Additionally, although potentially formed as an open-end company, because of the limited redeemability of ETF shares, ETFs are not considered to be - and may not call themselves - mutual funds.
d. The investment portfolios of mutual funds typically are managed by separate entities known as "investment advisers" that are registered with the SEC. In addition, mutual funds themselves are registered with the SEC and subject to SEC regulation.

e. There are many varieties of mutual funds, including index funds, stock funds, bond funds, and money market funds. Each may have a different investment objective and strategy and a different investment portfolio. Different mutual funds may also be subject to different risks, volatility, and fees and expenses. (Fees reduce returns on fund investments.)

3. Exchange-traded funds, or ETFs, are investment companies that are legally classified as open-end companies or Unit Investment Trusts (UITs), but that differ from traditional open-end companies and UITs in the following respects:

a. ETFs do not sell individual shares directly to investors and only issue their shares in large blocks that are known as "Creation Units."

b. Investors generally do not purchase Creation Units with cash. Instead, they buy Creation Units with a basket of securities that generally mirrors the ETF’s portfolio. Those who purchase Creation Units are frequently institutions.

c. After purchasing a Creation Unit, an investor often splits it up and sells the individual shares on a secondary market. This permits other investors to purchase individual shares (instead of Creation Units).

d. Investors who want to sell their ETF shares have two options: (1) they can sell individual shares to other investors on the secondary market, or (2) they can sell the Creation Units back to the ETF. In addition, ETFs generally redeem Creation Units by giving investors the securities that comprise the portfolio instead of cash.

e. An ETF will have annual operating expenses and may also impose certain shareholders fees.

4. Investments in mutual funds and ETFs meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement.

Acquisitions and Sales

5. At acquisition, mutual funds and exchange traded funds shall be reported at their cost, including brokerage and other related fees. Acquisitions and dispositions shall be recorded on the trade date.

Balance Sheet Amount

6. Investments in mutual funds shall be valued at fair value. Exchange traded funds shall be valued at… (Valuation is currently subject to Working Group discussion. No proposed language at this time.)

7. For reporting entities required to maintain an Asset Valuation Reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus.
Impairment

8. For any decline which is determined to be other than temporary (INT 06-07) the mutual fund shall be written down to fair value as the new cost basis and the amount of the write down shall be accounted for as a realized loss. For those reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Subsequent fluctuations in fair value shall be recorded as unrealized gains or losses. Future declines in fair value which are determined to be other than temporary shall be recorded as realized losses. A decline in fair value which is other than temporary includes situations where a reporting entity has made a decision to sell a security at an amount below its carrying value. (This guidance will be subsequently considered for ETFs based on the valuation approach.)

Income

9. Dividends shall be recorded as investment income on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of the dividend. Dividends received as additional shares of the mutual fund or ETF (e.g., ETF coupons used to acquire additional shares of the ETF) shall be reported at the fair value / NAV of the mutual fund or ETF as of the date of receipt.

10. For reporting entities required to maintain an AVR, the accounting for realized capital gains and losses on sales of mutual funds or ETFs shall be in accordance with SSAP No. 7. For reporting entities not required to maintain an AVR, realized gains and losses on sales of mutual funds or ETFs shall be reported as realized gains/losses in the statement of operations.

11. If fees and expenses of mutual funds and ETFs are not netted with the return of investment (e.g., ETF shareholder fees), such costs shall be expensed when incurred.

Reporting

12. Mutual funds shall be reported separately from ETFs on the investment schedule (Schedule D – Part 7) and by type of mutual fund:
   a. Index Fund
   b. Stock Fund
   c. Bond Fund
   d. Bond Fund on the NAIC SVO Bond List
   e. Money Market Fund
   f. Money Market Fund on the NAIC SVO Class 1 List
   g. Money Market Fund on the NAIC SVO U.S. Direct Obligations / Full Faith and Credit Exempt List

13. ETFs shall be reported separately from mutual funds on the investment schedule (Schedule D – Part 7) and by type of ETF:
   a. Index Fund
   b. Index Fund - on the NAIC SVO Bond List
Disclosures

14. The following disclosures regarding mutual funds and ETFs shall be made in the financial statements:

a. A description, as well as the amount, of mutual funds and ETFs not under the exclusive control of the reporting entity (e.g., restricted) and the nature of the restriction.

b. For each balance sheet presented, all mutual funds and ETFs (separately) in an unrealized loss position for which other-than-temporary declines in value have not been recognized:
   i. The aggregate amount of unrealized losses (that is, the amount by which cost or exceeds $ fair value / NAV $, and
   ii. The aggregate $ fair value / NAV $ of mutual funds or ETFs with unrealized losses.

c. The disclosures in (i) and (ii) above should be segregated by mutual funds and ETFs that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.

d. As of the most recent balance sheet presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

Effective Date and Transition

15. This statement is effective for __________. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

REFERENCES

Other

• Purposes and Procedures Manual of the NAIC Investment Analysis Office

Relevant Issue Papers

• Issue Paper No._____ —Investment Classification Project

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4 Leveraged or inverse ETFs seek to achieve a daily return that is a multiple or an inverse multiple of the daily return of a securities index. An important characteristic of these ETFs is that they seek to achieve their stated objectives on a daily basis, and their performance over longer periods of time can differ significantly from the multiple or inverse multiple of the index performance over those longer periods of time.

5 ETFs that pursue active management strategies and publish their portfolio holdings on a daily basis.
To: Statutory Accounting Principles (E) Working Group  
From: Julie Gann (NAIC Staff)  
Re: ETF – Financial Data Summary as of Year-End 2013 – No Company Specific Data  
Date: February 2, 2015

**Staff Overview:** This memorandum details the accounting for ETFs approved for “bond” or “preferred stock” reporting by the SVO as of Dec. 31, 2013. Per the analysis within, this memo highlights the inconsistencies that currently exist with the reporting of ETFs.

**Staff Observations:**

By requiring a fair value measurement method (or Net Asset Value - NAV - as a practical expedient) for all ETFs at this time, in most instances, the individual company impact would be negligible to the reporting company and would result with companies consistently reporting these assets at a publicly-traded value which represents the amount available for policyholder claims. *(Although there are a limited number of companies that would have a significant surplus impact, such situations would likely be best individually addressed by the respective domiciliary regulator. The assessment of the appropriate accounting should likely be determined without considering the impact to those limited companies.)*

Additionally, it is noted that the benefits from acquiring an approved ETF may be driven more by the RBC impact (lower RBC charge) then in the valuation approach. *(It is recognized that if ETFs are reported at fair value (or NAV), there could be fluctuation changes based on market factors.)*

ETFs Creation Units trade at the intraday value of the portfolio and shares trade at a negotiated price on an exchange trade – but the fact that an institution can do either means there is a possibility of arbitrage – i.e., buy and sell whichever is higher in price – the Creation Unit or the equivalent number of shares. This mechanism means the price of ETFs usually trade at or near the NAV per share of the ETF. This stable relationship between the ETF price and NAV per share of the ETF minimizes any arbitrage opportunity that might exist between holding the ETF shares versus the Creation Unit basket of securities.

**Characteristics of ETFs:**

- These assets are bought and sold at net asset value (NAV)
- There is no maturity date, but there is a ready market whenever the insurer wants to sell
- There is no contractual amount of principal due

As an additional note, by incorporating statutory accounting guidance to require fair value for ETFs (or NAV as a practical expedient), the guidance would comply with the IAIS Insurance Core Principle for valuation (ICP 14). This ICP specifically identifies that historical cost is not consistent with a “current economic valuation approach”. *(Amortized cost is as an acceptable measurement if adjusted to reflect future cash flows and with an adequacy or impairment test, however, without a maturity date or a contractual amount of principal due, an “amortized cost” does not exist for ETFs.)*

Staff also notes that the information on the ETFs reported on Schedule D (either as bonds or preferred stock) was often difficult to locate using the current regulatory tools, and having all of these ETF collectively reporting on a single schedule, with appropriate codes and categories, would improve the regulator’s ability to review and analyze the information.
BOND ETFs – Overview:

- 468 ETF Investments at 142 Companies
- 116 Companies consistently reported Actual Cost as the BACV (384 ETFs).
- 21 Companies consistently reported Fair Value as the BACV (76 ETFs).
- 3 Companies did not report either Actual Cost or Fair Value as the BACV (3 ETFs).
- 2 Companies both Actual Cost and Fair Value matched the BACV (5 ETFs).

Financial Impact – 116 Companies that Use Actual Cost as BACV:

- From reviewing the list of investments, at least two ETFs were reported at Actual Cost when the guidelines in SSAP No. 26 would have required a Fair Value measurement pursuant to the NAIC designation. (P/C entity with ETF that has an NAIC 4 designation in which fair value was less than the reported amount.)

- For most (87) companies that use Actual Cost as the BACV, moving to Fair Value would have a negligible impact on Surplus. (Surplus impact of 0.00% to 0.43%. Only 23 of these 87 companies had a surplus impact of 0.10% or greater.) Additionally, moving to Fair Value would result in a surplus benefit for 18 of these 87 companies.

- For 11 companies that use Actual Cost as the BACV, moving to Fair Value would have a surplus impact of approximately 0.50% to less than 1%. For three of these companies, moving to Fair Value would result in a surplus benefit.

- For 18 companies that use Actual Cost as the BACV, moving to Fair Value would have over a 1.00% impact to surplus. (Two of these companies would have a positive impact.) In reviewing the reasons for this impact the cause varies by company. In some situations it is due to a wide variation between actual cost and fair value, but in others, it is because the ETFs reported at BACV comprise a large portion of the total invested assets and/or the company’s overall surplus.

The following 18 companies utilize Actual Cost as the BACV, and a movement to Fair Value would equal or exceed 1% of Surplus. (For two, the impact would improve surplus.) These companies are domiciled in 10 states and are included in 10 groups. These companies are divided between different lines of business: 6 property/casualty, 8 life, accident and health, and 4 health. From the detail below, the difference to reflect Fair Value varies significantly by company. However, in comparison to the each respective company’s surplus, the percentage impact may reflect 1% or more of surplus:

<table>
<thead>
<tr>
<th>Difference to Reflect FV</th>
<th>Surplus</th>
<th>Surplus Impact %</th>
<th>LOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>845,868</td>
<td>2,783,599</td>
<td>30.39%</td>
<td>P/C</td>
</tr>
<tr>
<td>827,856</td>
<td>4,652,781</td>
<td>17.79%</td>
<td>P/C</td>
</tr>
<tr>
<td>2,492,545</td>
<td>15,675,410</td>
<td>15.90%</td>
<td>Health</td>
</tr>
<tr>
<td>559,694</td>
<td>4,659,392</td>
<td>12.01%</td>
<td>LAH</td>
</tr>
<tr>
<td>801,616</td>
<td>8,224,554</td>
<td>9.75%</td>
<td>LAH</td>
</tr>
<tr>
<td>263,970</td>
<td>3,428,979</td>
<td>7.70%</td>
<td>LAH</td>
</tr>
<tr>
<td>315,066</td>
<td>27,921,158</td>
<td>1.13%</td>
<td>LAH</td>
</tr>
</tbody>
</table>
The following 11 companies utilize Actual Cost as the BACV, and a movement to Fair Value would have a 0.50% to less-than 1.0% impact to surplus. Similar to the information above, the difference to reflect Fair Value varies significantly by company.

<table>
<thead>
<tr>
<th>Difference to Reflect FV</th>
<th>Surplus</th>
<th>Surplus Impact %</th>
<th>LOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>75,498</td>
<td>8,369,217</td>
<td>0.90%</td>
<td>Health</td>
</tr>
<tr>
<td>14,362</td>
<td>2,103,404</td>
<td>0.68%</td>
<td>P/C</td>
</tr>
<tr>
<td>7,813</td>
<td>1,399,059</td>
<td>0.56%</td>
<td>P/C</td>
</tr>
<tr>
<td>(17,036)</td>
<td>3,464,501</td>
<td>-0.49%</td>
<td>P/C</td>
</tr>
<tr>
<td>(826,775)</td>
<td>124,022,621</td>
<td>-0.67%</td>
<td>Fraternal</td>
</tr>
<tr>
<td>(35,242)</td>
<td>7,563,237</td>
<td>-0.47%</td>
<td>Health</td>
</tr>
<tr>
<td>1,911,655</td>
<td>290,682,523</td>
<td>0.66%</td>
<td>LAH</td>
</tr>
<tr>
<td>985,889</td>
<td>217,993,912</td>
<td>0.45%</td>
<td>LAH</td>
</tr>
<tr>
<td>8,059,990</td>
<td>1,644,001,743</td>
<td>0.49%</td>
<td>LAH</td>
</tr>
<tr>
<td>483,649</td>
<td>51,320,514</td>
<td>0.94%</td>
<td>LAH</td>
</tr>
<tr>
<td>227,324</td>
<td>47,394,667</td>
<td>0.48%</td>
<td>Health</td>
</tr>
</tbody>
</table>

**Financial Impact – 21 Companies that Use Fair Value as BACV:**

- For 9 of the companies that use Fair Value as BACV, the percentage of the ETFs represent a significant portion of their Total Bonds, Total Invested Assets or Total Surplus. However, the impact of the fluctuation changes in fair value are already reflected in surplus.

- For 10 of the 21 companies, all of the ETFs were required to be held at lower of cost or Fair Value based on the NAIC designation and the type of insurer.

- For 11 of the 21 companies that consistently use Fair Value as BACV, the NAIC designation would allow an amortized cost measurement under SSAP No. 26.

**Financial Impact – 3 Companies Did Not Report Either Fair Value or Actual Cost:**

- For the 3 companies whose BACV did not agree to either Fair Value or Actual Cost, these companies reported amortization in column 13. For 2 of the companies, a rate of interest and maturity date were included in Schedule D. (Although these are two separate companies they are
in the same group, and the ETFs were purchased in September 2003, with the same maturity date of 7/15/2049.) The other company (ETF purchased August 2004) did not include any information regarding the rate of interest or a maturity date in the Schedule D.

- For these 3 companies, reporting at Fair Value would have a negligible impact of surplus. (Surplus impact of 0.05%, 0.04% and 0.01%.)

Financial Impact – 2 Companies Whose BACV Equaled Both Fair Value and Actual Cost:

- For 1 of the companies whose BACV equaled both the reported Fair Value and Actual Cost, the company reported an unrealized valuation decrease in column 12. Staff is uncertain how an unrealized valuation decrease would be reported if there has been no change to Fair Value from Actual Cost. (This ETF was purchased September 2013 and has an NAIC designation of 1.)

- For 1 of the companies whose BACV equaled both the reported Fair Value and Actual Cost, no adjustments to BACV was reported. The ETF was purchased September 2013.

PREFERRED STOCK ETFs – Overview:

- 33 Investments at 26 Companies
- 9 Companies reported Actual Cost as BACV (10 ETFs).
- 16 Companies reported Fair Value as BACV (22 ETFs).
- 1 Company did not report either Actual Cost or Fair Value as BACV (1 ETF).
- For all of the Companies noted, the percentage of the Preferred Stock ETF represents a notable amount (if not 100%) of their preferred stock portfolio.

Financial Impact – 9 Companies that Use Actual Cost as BACV:

- From reviewing the list of investments, all of the preferred stock investments reported at Actual Cost had an NAIC 2 designation.
- For 8 companies that use Actual Cost as the BACV, moving to Fair Value would have a negligible impact on Surplus. (Surplus impact between 0.00% to 0.09%.)
- For 1 company that uses Actual Cost as the BACV, moving to Fair Value would have a surplus impact of 0.85%.

Since only 9 companies use Actual Cost for their Preferred Stock ETFs, all are listed below:

<table>
<thead>
<tr>
<th>Difference to Reflect FV</th>
<th>Surplus</th>
<th>Surplus Impact %</th>
<th>LOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>24,870</td>
<td>2,939,877</td>
<td>0.85%</td>
<td>Life</td>
</tr>
<tr>
<td>639,124</td>
<td>24,414,082,083</td>
<td>0.02%</td>
<td>Life</td>
</tr>
<tr>
<td>29,452</td>
<td>598,382,993</td>
<td>0.00%</td>
<td>Life</td>
</tr>
<tr>
<td>1,708</td>
<td>28,910,294</td>
<td>0.01%</td>
<td>Life</td>
</tr>
<tr>
<td>25,833</td>
<td>30,264,889</td>
<td>0.09%</td>
<td>Life</td>
</tr>
<tr>
<td>130,233</td>
<td>217,993,912</td>
<td>0.06%</td>
<td>Life</td>
</tr>
<tr>
<td>26,111</td>
<td>1,102,396,535</td>
<td>0.00%</td>
<td>Life</td>
</tr>
<tr>
<td>194,701</td>
<td>1,550,069,872</td>
<td>0.01%</td>
<td>Life</td>
</tr>
<tr>
<td>9,165</td>
<td>347,851,794</td>
<td>0.00%</td>
<td>Health</td>
</tr>
</tbody>
</table>
Financial Impact – 16 Companies that Use Fair Value as BACV:

- For 14 companies, the ETF had NAIC designations of 1 or 2.

- For 2 companies, the ETF had an NAIC 3 designation. (These were property/casualty companies; in compliance with the provisions of SSAP No. 32 that require a lower of cost, amortized cost or fair value measurement method.)

Financial Impact – 1 Company Did Not Report Either Fair Value or Actual Cost:

- For the 1 company whose BACV did not agree to either Fair Value or Actual Cost, this company reported an unrealized valuation change decrease of 7,154. (No amortization was recorded.) This ETF was acquired on Dec. 6, 2013 (25 days prior to year-end). The actual cost for this ETF was noted as 99,047, with a fair value of 204,555 and a BACV of 212,713. Staff is uncertain how the reported value for this ETF increased 215% from actual cost, with a resulting BACV that exceeds fair value 25 days after acquisition.

<table>
<thead>
<tr>
<th>Actual Cost</th>
<th>Fair Value</th>
<th>BACV</th>
<th>Unrealized</th>
<th>Total Change in BACV</th>
</tr>
</thead>
<tbody>
<tr>
<td>99,047</td>
<td>204,555</td>
<td>212,713</td>
<td>(7,154)</td>
<td>(7,154)</td>
</tr>
</tbody>
</table>
This page intentionally left blank.
This memo provides definitions for debt-like investments that are outside of the bond definition proposed in SSAP No. 26. This memorandum seeks first to clarify definitions of these investments, and request whether other terms should be defined, so that discussion on the appropriate statutory accounting guidance can subsequently occur.

1. **Loan Participations – Based on U.S. GAAP**

   A loan participation is defined as a transaction in which a single lender makes a large loan to a borrower and subsequently transfers (sells) undivided interests in the loan to other entities. Transfers by the originating lender may take the legal form of either assignments or participations. The transfers are usually on a nonrecourse basis, and the originating lender continues to service the loan. The participating entity may or may not have the right to sell or transfer its participation during the term of the loan, depending on the terms of the participation agreement. Reporting entities shall account for loan participations within the guidelines of this statement if the participation agreement provides the reporting entity with the right to sell or transfer its participation during the term of the loan. Loan Participations can be made on a pari-passu basis (where each participant shares equally) or a senior subordinated basis (senior lenders get paid first and the subordinated participant gets paid if there are sufficient funds left to make a payment).

   *(Note – The term “Bank Participations” is intended to be replaced by “Loan Participations”.)*

2. **Loan Syndication – Based on U.S. GAAP**

   A loan syndication is defined as a transaction in which several lenders share in lending to a single borrower. Each lender loans a specific amount to the borrower and has the right to repayment from the borrower. Separate debt instruments exist between the debtor and the individual creditors participating in the syndication. Each lender in a syndication shall account for the amounts it is owed by the borrower. Repayments by the borrower may be made to a lead lender that then distributes the collections to the other lenders of the syndicate. In those circumstances, the lead lender is simply functioning as a servicer and shall not recognize the aggregate loan as an asset. A loan syndication arrangement may result in multiple loans to the same borrower by different lenders. Each of those loans is considered a separate instrument.

3. **To Be Announced (TBA) Securities** – TBA means “to be announced” and refers to a transaction in an Agency-Pass-Through Mortgage Backed Security where the parties agree that the seller will deliver to the buyer an Agency Pass-Through Mortgage-Backed Security of a specified face amount and coupon from a specified Agency or Government-Sponsored Enterprise program representing a pool (or pools) of mortgages that are not specified by a unique pool number. (An Agency Pass-Through Mortgage-Backed Security means a mortgage-backed security issued by an Agency or a Government-Sponsored Enterprise, for which the timely payment of principal and interest is guaranteed by an Agency or a Government-Sponsored Enterprise, representing ownership interests in
a pool or pools of residential mortgage loans with the security structured to “pass through” the principal and interest payments made by the mortgagees to the owners of the pool(s) on a pro rata basis.\) (Source – SEC / FINRA)

4. **Hybrids** – The term “hybrid” - as it is used by the SEC - is not intended to reference particular securities, but instead is a generic term to reference broad groups of securities that have debt and equity-like features. In addition to depository shares and trust-preferred securities, the term “hybrid” security also includes convertibles.

Pursuant to SSAP No. 4—Assets and Nonadmitted Assets, nonadmitted assets include assets specifically identified in the AP&P Manual as a nonadmitted asset, or not specifically identified in the AP&P Manual as an admitted asset. This guidance was originally included for statutory accounting to allow for review and assessment of assets before they were afforded value in statutory accounting statements. To be consistent with this premise, it is recommended that the different types of securities within this broad “hybrid” category be explicitly defined. After a specific review of the investments, the Working Group may conclude on the appropriate SSAP placement.

(Additionally, U.S. GAAP does not define “hybrid security”. The only related definition under U.S. GAAP is “hybrid instrument” and that represents a contract that embodies both an embedded derivative and a host contract.)

The following definition for Hybrid Securities is currently included within the A/S Instructions:

> Securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations and/or which are recognized as regulatory capital by the issuer’s primary regulatory authority. Hybrid securities are designed with characteristics of debt and equity and are intended to provide protection to the issuer’s senior note holders. **Hybrid securities products are sometimes referred to as coupon securities.**

**Examples of hybrid securities include Trust Preferreds, Yankee Tier 1s (with and without coupon step-ups) and debt-equity hybrids (with and without mandatory triggers).** This specifically excludes surplus notes, which are reported in Schedule BA, subordinated debt issues, which have no coupon deferral features; and “traditional” preferred stocks, which are reported in Schedule D Part 2, Section 1. With respect to preferred stock, traditional preferred stocks include, but are not limited to a) U.S. issuers that do not allow tax deductibility for dividends; and b) those issued as preferred stock of the entity or an operating subsidiary, not through a trust or a special purpose vehicle.

Per the recommendation above, the following securities are proposed to be defined:

**A. Trust-Preferred Securities:** Trust-preferred securities have been issued by banks for a number of years due to favorable regulatory capital treatment. Various trust-preferred structures have been developed involving minor differences in terms. Under the typical structure, a bank holding company first organizes a business trust or other special-purpose entity. **This trust issues two classes of securities: common securities, all of which are purchased and held by the bank holding company, and trust-preferred securities, which are sold to investors.** The trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The bank holding company makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust-preferred securities to the investors. The subordinated debentures have a stated maturity and may include an embedded call option. **Most trust-preferred securities are subject to a mandatory redemption upon the repayment of the debentures.** Under the provisions of Topic 810, a bank or holding company that sponsored a structure described in the preceding paragraph shall not
consolidate the trust because the trust is a variable interest entity (VIE) and the bank or holding company is not the primary beneficiary of that VIE. (Source – U.S. GAAP – 942-810-55-1 & 2)

B. **Yankee Bond:** No explicit definition of a “Yankee” bond was found on the SEC or U.S. GAAP website. However, from other sources, this was routinely defined as a bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Yankee bonds are often issued in tranches.

C. **American Depository Receipts:** The stocks of most foreign companies that trade in the U.S. markets are traded as American Depository Receipts (ADRs) issued by U.S. depositary banks. Sometimes the terms “ADR” and “ADS” (American Depositary Share) are used interchangeably. An ADR is actually the negotiable physical certificate that evidences ADSs (in much the same way a stock certificate evidences shares of stock), and an ADS is the security that represents an ownership interest in deposited securities (in much the same way a share of stock represents an ownership interest in the corporation). ADRs are the instruments actually traded in the market. Each ADR represents one or more shares of a foreign stock or a fraction of a share. If you own an ADR you have the right to obtain the foreign stock it represents, but U.S. investors usually find it more convenient to own the ADR. The price of an ADR corresponds to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares. (Source – SEC)

D. **Zero Coupon Bond:** Zero coupon bonds are bonds that do not pay interest during the life of the bonds. Instead, investors buy zero coupon bonds at a deep discount from their face value, which is the amount a bond will be worth when it "matures" or comes due. When a zero coupon bond matures, the investor will receive one lump sum equal to the initial investment plus the imputed interest, which is discussed below. The maturity dates on zero coupon bonds are usually long-term—many don’t mature for ten, fifteen, or more years. These long-term maturity dates allow an investor to plan for a long-range goal, such as paying for a child’s college education. With the deep discount, an investor can put up a small amount of money that can grow over many years. Investors can purchase different kinds of zero coupon bonds in the secondary markets that have been issued from a variety of sources, including the U.S. Treasury, corporations, and state and local government entities. Because zero coupon bonds pay no interest until maturity, their prices fluctuate more than other types of bonds in the secondary market. In addition, although no payments are made on zero coupon bonds until they mature, investors may still have to pay federal, state, and local income tax on the imputed or "phantom" interest that accrues each year. Some investors avoid paying tax on the imputed interest by buying municipal zero coupon bonds (if they live in the state where the bond was issued) or purchasing the few corporate zero coupon bonds that have tax-exempt status. (Source – SEC)

5. **Convertible Securities** – A security that is convertible into another security based on a conversion rate. For example, convertible preferred stock that is convertible into common stock on a two-for-one basis (two shares of common for each share of preferred). (Source – US GAAP)

A "convertible security" is a security—usually a bond or a preferred stock—that can be converted into a different security—typically shares of the company's common stock. In most cases, the holder of the convertible determines whether and when to convert. In other cases, the company has the right to determine when the conversion occurs. In a conventional convertible security financing, the conversion formula is generally fixed - meaning that the convertible security converts into common stock based on a fixed price. The convertible security financing arrangements might also include caps or other provisions to limit dilution (the reduction in
earnings per share and proportional ownership that occurs when, for example, holders of convertible securities convert those securities into common stock). By contrast, in less conventional convertible security financings, the conversion ratio may be based on fluctuating market prices to determine the number of shares of common stock to be issued on conversion. A market price based conversion formula protects the holders of the convertibles against price declines, while subjecting both the company and the holders of its common stock to certain risks. Because a market price based conversion formula can lead to dramatic stock price reductions and corresponding negative effects on both the company and its shareholders, convertible security financings with market price based conversion ratios have colloquially been called "floorless", "toxic," "death spiral," and "ratchet" convertibles. (Source – SEC)

Staff Note – Staff is aware that there are different structures of “convertible securities.” A separate project to review and define the different convertible structures is proposed.
Issue: Holders of Surplus Notes

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
<th>P/C</th>
<th>Life</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Issue or SSAP</td>
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Description of Issue:
Questions have been received on the current guidance for the holders of surplus notes within paragraph 10 of SSAP No. 41—Surplus Notes. This agenda item proposes to clarify this guidance for consistency purposes. Particularly, this agenda item proposes to clarify the application of the guidance in paragraph 10a and 10b to the paragraph 10 “hanging paragraph” guidance. In addition, it asks questions regarding whether the valuation method used for surplus notes designated at NAIC 1 for holders of surplus notes should always be amortized cost, or if the hanging paragraph which introduces a “lessor of value” threshold was intended to possibly reduce amortized cost if the outstanding face value is less. Questions have arisen as to what aspects of paragraph 10 this guidance is intended to apply. In reviewing older guidance (and Issue Paper No. 41—Surplus Notes), the placement of this paragraph has not changed and it appears to be applicable to the entire paragraph 10 (not just paragraph 10.b.). Hanging paragraph to paragraph 10:

Capital or surplus debenture(s) must not be valued in excess of the lesser of the value determined above or amortized cost and are to be reported as other invested assets. If the notes are issued by an entity which is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital, then the valuation is at zero, notwithstanding any previous payments of interest and/or principal. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity investments in the issuer held directly or indirectly by the holder of the capital or surplus note. If the calculated value (after application of paragraph 10.b.i.(b)) is less than the outstanding face value, then that amount shall be accounted for as a nonadmitted asset.

In discussing the hanging paragraph issue, questions were raised on whether the threshold guidance in paragraphs 10b is still applicable and if it should be reconsidered.

<table>
<thead>
<tr>
<th>10a.i – Rated Notes</th>
<th>Valuation Guidance</th>
<th>Questions</th>
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<tbody>
<tr>
<td>If notes have been rated by an NAIC CRP and have an NAIC 1 designation, then amortized cost shall be used.</td>
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1. As 10a prescribes amortized cost, the hanging paragraph is confusing as the first sentence includes a “lower of” threshold. It has been noted that outstanding face value could be less than amortized cost. As such, the question is whether the hanging paragraph guidance is intended to compare amortized cost to amortized cost? Or should the “lessor of” concept from the hanging paragraph be applied as well? Compared amortized cost compared to the outstanding face value.

For example, Face = 70, AC = 80
| 10b.i(a) – Non-Rated Notes | If notes are not CRP rated and/or have an NAIC designation equivalent of 2-6, **at outstanding face value**, notwithstanding payments of interest and principle. | 2. The hanging paragraph guidance requires the lower of outstanding face value or amortized cost. Should this difference be reflected as a non-admitted asset, or an unrealized loss?  
**Face = 80, AC = 90** |
| --- | --- | --- |
| 10.b.i(b) – Non-Rated Notes | **Valuation is calculated by applying a statement factor to the outstanding face amount.** The determined amount is next compared to amortized cost and the lesser amount is the value. If the determined amount is less than outstanding face value, then “that” amount is nonadmitted. | 3. If amortized cost is less than the calculated value from use of the statement factor to the outstanding face value, what amount should be nonadmitted?  
Per the hanging paragraph, the amount between the calculated amount using the statement factor to the outstanding face value should be nonadmitted. If the first sentence of the hanging paragraph is used, with this scenario, then amortized cost should be the amount reported. As such, using the scenario below, the current guidance would result with only $20 nonadmitted. Is the additional $10 (between amortized cost and the calculated amount) also intended to be nonadmitted, or should it be accounted for differently – such as an unrealized loss?  
**Face = 100, Calculated = 80, AC = 70** |
| 10.b.i(b) – Non-Rated Notes | **Valuation is calculated by applying a statement factor to the outstanding face amount.** The determined amount is next compared to amortized cost and the lesser amount is the value. If less than outstanding face value, then “that” amount is nonadmitted. | 4. If amortized cost is greater than the calculated value from use of the statement factor to the face value, then the calculated amount is used. Using the hanging paragraph, the nonadmitted portion would be the amount between the calculated amount and the outstanding face value. There does not seem to be a question on this existing guidance unless a different interpretation exists.  
**Face = 100, Calculated = 80, AC = 90** |
| 10.b.i(b) – Non-Rated Notes | **Valuation is calculated by applying a statement factor to the outstanding face amount.** The determined amount is next compared to amortized cost and the lesser amount is the value. If less than outstanding face value, then “that” amount is nonadmitted. | 5. If amortized cost is greater than the face amount (and calculated amount from use of the statement factor). Using the hanging paragraph, the nonadmitted portion would be the amount between the calculated amount using the statement factor and the outstanding face value. There does not seem to be a question on this existing guidance unless a different interpretation exists.  
**Face = 100, Calculated = 80, AC = 110** |
Existing Authoritative Literature:

- **SSAP No. 41—Surplus Notes** establishes SAP for issuers and holders of surplus notes. This agenda item is specific to the guidance for holders of surplus. *(Paragraph 8, which applies to the issuers of surplus notes, is included to highlight the reference to discounts or premiums.)*

8. **Discount or premium**, if any, shall be reported in the balance sheet as a direct deduction from or addition to the face amount of the note. Such discount or premium shall be charged or credited to the statement of operations concurrent with approved interest payments on the surplus note and in the same proportion or percentage as the approved interest payment is to the total estimated interest to be paid on the surplus note.

Holders of Capital or Surplus Notes *(bolding for emphasis)*

9. Investments in capital or surplus notes meet the definition of assets as defined in **SSAP No. 4—Assets and Nonadmitted Assets** and are admitted assets to the extent they conform to the requirements of this statement.

10. Capital or surplus notes shall be accounted for in accordance with **SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities** (SSAP No. 26). Holders of capital or surplus notes shall value their investment as follows:

   a. **Rated Notes**
      
      i. If the notes have been rated by an NAIC credit rating provider (CRP) and have a designation equivalent of NAIC 1, then amortized cost shall be used. If the notes are rated and monitored by two NAIC CRPs, the lowest of the ratings shall be assigned. In case of notes rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings will be ordered according to their NAIC equivalents and the rating falling second lowest will be selected, even if that rating is equal to that of the first lowest.
      
      ii. The *Purposes and Procedures Manual of the NAIC Securities Valuation Office* contains a listing of NAIC equivalent CRP designations as well as a listing of insurers that meet the requirements of paragraph 10.a.i.

   b. **Non-Rated Notes**
      
      i. If the notes are not CRP rated or have an NAIC designation equivalent of NAIC 2 through 6, then value as follows:

      (a) **At its outstanding face value**, notwithstanding the payment of interest and/or principal, when the notes were issued by a reporting entity whose capital and surplus (excluding surplus notes included therein) is greater than or equal to the greater of 5% of its admitted assets (excluding separate accounts) or $6,000,000. The valuation shall be calculated using the most recently filed statutory financial statements of the entity that issued the notes;

      (b) By applying a “statement factor” to the outstanding face amount of the capital or surplus notes, notwithstanding the payment of interest and/or principal when the notes were issued by a reporting entity whose capital and surplus (excluding surplus notes included therein) is less than or equal to the greater of 5% of its admitted assets (excluding separate accounts) or $6,000,000. The “statement factor” is equal to the total capital and surplus, including surplus notes, less the greater of 5% of admitted assets (excluding separate accounts) or $6,000,000 divided by
the capital or surplus notes. The valuation should be calculated using the most recently filed statutory financial statements of the entity that issued the notes. **Should the result of the “statement factor” yield a product less than zero, the capital or surplus notes shall be carried at zero and not a negative amount.**

**Capital or surplus debenture(s) must not be valued in excess of the lesser of the value determined above or amortized cost** and are to be reported as other invested assets. If the notes are issued by an entity which is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital, then the valuation is at zero, notwithstanding any previous payments of interest and/or principal. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity investments in the issuer held directly or indirectly by the holder of the capital or surplus note. If **the calculated value (after application of paragraph 10.b.i.(b)) is less than the outstanding face value, then that amount shall be accounted for as a nonadmitted asset.**

11. A holder of a surplus note must value the note at zero in any period in which the issuer of the note is under regulatory action. Once the issuer is no longer under regulatory action, the holder values the note according to the guidance in paragraph 10.a. or 10.b. as appropriate.

12. Only interest that has been approved by the issuer’s domiciliary commissioner shall be accrued as income by a holder of surplus notes in a manner consistent with SSAP No. 26.

**Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, 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 SAPWG:** None

**Convergence with International Financial Reporting Standards (IFRS):** Not applicable

**Staff Recommendation:**
Staff recommends that this item be moved to the nonsubstantive active listing with comments requested on the following proposals:

1) Revise the existing language to clarify the applicability of the hanging paragraph to all of paragraph 10 (to avoid future questions) and incorporate clarifying language so that the lower of standard for the holders of surplus notes is clear.

2) Although the existing guidance in paragraph 10a indicates use of the amortized cost standard, with the “lesser of” concept in the hanging paragraph, and as outstanding face value could be less than amortized cost, should the guidance be modified to clearly the intended valuation approach. If amortized cost is the value that should always be used for these, staff would recommend that paragraph 10a be exempted from the “lesser of” concept in the hanging paragraph to avoid future questions.

**Possible Values for Consideration by the Working Group:**

- **10A - Rated Notes** – Continue using amortized cost, or clarify that the “lesser of” concept was intended to not allow an amount greater than the outstanding face amount. (This may be perceived as a new concept, but questions have arisen as why amortized cost would be allowed under the “lesser of” concept if the outstanding face value is a lower amount.)
• 10b.i.(a) - NonRated – Continue with the lower of amortized cost or the outstanding face amount, but incorporate language to identify if there is an element that should be nonadmitted, as the hanging paragraph currently only addresses paragraph 10.b.i.b. Or, clarify whether this difference intended to be an unrealized loss.

• 10.b.i.(b) - Non–Rated – Continue with the lower of amortized cost or calculated value with statement factor which reduces the outstanding face amount, but incorporate language to make this clearer. Also, provide guidance on whether an unrealized loss should be recognized if amortized cost is less than the calculated amount by applying the statement factor.

(Note – If there is support to reassess the SSAP No. 41 statement factor guidance per #2 below, it is recommended that these clarification revisions be deferred until that assessment is complete.)

3) Review/revise the thresholds for applying the “statement factor”.

In reviewing Issue Paper No. 41—Surplus Notes (finalized in 1998), the threshold guidance for 5% and $6,000,000 of admitted assets, currently in paragraphs 10.b.i(a) and 10.b.i(b) of SSAP No. 41, was pulled from Section 7: Procedures for Vesting Surplus Debentures of the SVO Purposes and Procedures Manual. This guidance has subsequently been removed from that publication, with reference only to the AP&P Manual. Since it has been 16 years since that guidance was reviewed as part of the issue paper adoption, staff requests comments on whether those thresholds should be re-evaluated and/or if different parameters should be established on determining the value for these surplus notes.

Information on existing surplus notes and comments on the following points specifically requested:

a. Whether the 5% / $6M thresholds in paragraph 10.b.i.(b) still reflect appropriate criteria thresholds for use/determination of a statement factor.

b. Comments on a proposal to eliminate the statement factor guidance from 10.b.i(a) and 10.b.i(b), and instead require all surplus notes to be: 1) rated with a CRP equivalent of an NAIC 1, or 2) submitted to the SVO for an appropriate NAIC designation and statement value factor to determine the admitted asset value for reporting purposes.

Staff Review Completed by:
Julie Gann - July 21, 2014

Status:
On August 16, 2014, the Statutory Accounting Principles (E) Working Group moved this item to the nonsubstantive active listing and exposed this agenda item requesting comments on the examples and proposals to clarify the existing surplus notes guidance and whether to revise the thresholds used when applying a statement factor for valuation of surplus notes.

On November 16, 2014, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft revisions to clarify existing guidance related to non-rated surplus notes and surplus notes with a designation below an NAIC 1. In addition the Working Group affirmed that surplus notes with an NAIC 1 designation should be carried at amortized cost, and not the lesser of amortized cost or outstanding face value.
March 2015 – Revised Staff Recommendation and Proposed Revisions:

After considering interested parties’ comments, and reviewing the Schedule BA reporting process for surplus notes, staff is recommending that the Working Group move this to the substantive active listing and expose proposed revisions to SSAP No. 41. (Staff notes that by moving this to the substantive active listing, an Issue Paper will be needed. However, staff would suggest that the Working Group first expose these proposed revisions in the agenda item, and then move forward with a subsequent Issue Paper.) The revisions reflect the following elements:

1) Surplus notes with a CRP rating equivalent to an NAIC 1 shall be reported at amortized cost.

2) Surplus notes that are not rated by a CRP, or have a CRP rating that is anything other than NAIC 1 shall be reported at the lower of amortized cost or fair value. This proposed guidance eliminates the concept of reporting the surplus note at “outstanding face value” or a calculated amount based on a “statement factor”. Staff believes the prior guidance in SSAP No. 41 for determining which method to use is outdated, and the reporting process on Schedule BA does not encompass these concepts. (There is no column for par or outstanding face value on Schedule BA. Additionally, if the statement factor is used, it is not possible on Schedule BA to identify the calculation and the resulting amount.) By using the lower of amortized cost or fair value for everything other than NAIC 1, the measurement method is consistent with the SAP method for other lower-quality debt-like investments, and the highest possible value reported would reflect an amount the reporting entity should be able to obtain if they sold the surplus note (FV). Staff recognizes that for some surplus notes, the amount currently reported (if using a statement factor) may be increased with these revisions. As this would only happen in situations in which amortized cost is greater than the fair value, and the surplus note is not an NAIC 1, staff does not have concerns with this increase in value. As previously noted, since fair value is the amount that would be received if selling the surplus note under, staff is not concerned with fair value being the amount recognized.

3) The previous guidance in SSAP No. 41 seemed to commingle when changes in the value for surplus notes should impact unrealized losses or be nonadmitted. With the proposed revisions, valuation changes (e.g., fair value fluctuations, or moving from amortized cost to fair value) would result in unrealized changes. The other aspects that impact the value of surplus notes (such as if the issuer is under regulatory action) would result in a nonadmission of the surplus notes. Staff believes these concepts are similar to other statutory accounting guidance, and would assist with ensuring consistent application of the principles.

SSAP No. 41—Surplus Notes – Proposed Revisions:

Holders of Capital or Surplus Notes

9. Investments in capital or surplus notes meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement. Additionally, the amount admitted is specifically limited to the following two provisions:

9.a. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity instruments in the issuer held directly or indirectly by the holder of the capital or surplus note.

b. The surplus note shall be nonadmitted if issued by an entity that was subject to any order of liquidation, conservation, rehabilitation or any company action level event.
based on its risk-based capital, at any time during the reporting period. Subsequent to this nonadmittance, if the issuer was not under any regulatory action at any time during the reporting period, the holder may admit the surplus note at the value determined under paragraph 11.

10. Capital or surplus notes shall be valued in accordance with SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities (SSAP No. 26). Holders of capital or surplus notes shall value their investment as follows: in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by CRP ratings. If the notes are rated and monitored by two NAIC CRPs, the lowest of the ratings shall be assigned. In case of notes rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings will be ordered according to their NAIC equivalents and the rating falling second lowest will be selected, even if that rating is equal to that of the first lowest.

11. If the capital or surplus note has been rated by an NAIC credit rating provider (CRP) and has a designation equivalent of NAIC 1\(^1\), then amortized cost shall be used. If the capital or surplus note is not CRP rated or has an NAIC designation equivalent of NAIC 2 through 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

9—

a. Rated Notes

i. If the notes have been rated by an NAIC credit rating provider (CRP) and have a designation equivalent of NAIC 1, then amortized cost shall be used. If the notes are rated and monitored by two NAIC CRPs, the lowest of the ratings shall be assigned. In case of notes rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings will be ordered according to their NAIC equivalents and the rating falling second lowest will be selected, even if that rating is equal to that of the first lowest.

ii. The Purposes and Procedures Manual of the NAIC Securities Valuation Office contains a listing of NAIC equivalent CRP designations as well as a listing of insurers that meet the requirements of paragraph 10.a.i.

c. Non-Rated Notes

ii. If the notes are not CRP rated or have an NAIC designation equivalent of NAIC 2 through 6, then value as follows:

(c) At its outstanding face value, notwithstanding the payment of interest and/or principal, when the notes were issued by a reporting entity whose capital and surplus (excluding surplus notes included therein) is greater than or equal to the greater of 5% of its admitted assets (excluding separate accounts) or $6,000,000. The valuation shall be calculated using the most recently filed statutory financial statements of the entity that issued the notes;

(d) By applying a “statement factor” to the outstanding face amount of the capital or surplus notes, notwithstanding the payment of interest and/or principal when the notes were issued by a reporting entity whose capital and surplus (excluding surplus notes included therein) is less than or equal to the greater of 5% of its admitted assets (excluding separate accounts) or $6,000,000. The “statement factor” is equal to the total capital and surplus, including surplus notes, less the greater of 5% of

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\(^1\) The Purposes and Procedures Manual of the NAIC Securities Valuation Office contains a listing of NAIC equivalent CRP designations as well as a listing of insurers that meet the requirements of paragraph 11.
admitted assets (excluding separate accounts) or $6,000,000 divided by the capital or surplus notes. The valuation should be calculated using the most recently filed statutory financial statements of the entity that issued the notes. Should the result of the “statement factor” yield a product less than zero, the capital or surplus notes shall be carried at zero and not a negative amount.

Capital or surplus debenture(s) must not be valued in excess of the lesser of the value determined above or amortized cost and are to be reported as other invested assets. If the notes are issued by an entity which is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital, then the valuation is at zero, notwithstanding any previous payments of interest and/or principal. The admitted asset value of a capital or surplus note shall not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity investments in the issuer held directly or indirectly by the holder of the capital or surplus note. If the calculated value (after application of paragraph 10.b.i.(b)) is less than the outstanding face value, then that amount shall be accounted for as a nonadmitted asset.

10. A holder of a surplus note must value the note at zero in any period in which the issuer of the note is under regulatory action. Once the issuer is no longer under regulatory action, the holder values the note according to the guidance in paragraph 10.a. or 10.b. as appropriate.

12. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

9.13. Accrued interest income by a holder of surplus notes for any period shall only consist of interest collected during the period, and Only interest that has been approved by the issuer’s domiciliary commissioners shall be accrued as income by a holder of surplus notes in a manner consistent with SSAP No. 26.

9.
Issue: Medicare Advantage and Medicare Part D Risk Adjustment Premium Receivables and Payables

Check (applicable entity):

<table>
<thead>
<tr>
<th>Modification of existing SSAP</th>
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</table>

Description of Issue:

Centers for Medicare and Medicaid Services (CMS) adjusts capitation payments to Medicare Advantage plans and Medicare Part D plans according to the predicted health status of each beneficiary. Such health status is supported by data from health care providers as well as, for Medicare Part D plans, based on comparing costs predicted in the Insurance reporting entity’s annual bids to actual prescription drug costs. The reporting entity collects claim and encounter data from providers. Claim and encounter records are used to document the reporting entity’s medical records with CMS twice each year. CMS then determines the risk score and payment amount for each enrolled member based on the health care data submitted and member demographic information.

Because of the adjustment process, statutory statements commonly contain receivables or payables reflecting Medicare risk adjustment data that the reporting entity has collected but not yet submitted to CMS. These Medicare risk adjustment receivables and payables are normally settled by CMS in the third quarter of year.

Questions have been received regarding the appropriate lines of the annual statement to report Medicare risk adjustment receivables and payables. This is because of different interpretations regarding the annual statement instructions and the statutory accounting guidance. In addition, this agenda item asks questions regarding whether the current reporting indicated in the statement of statutory accounting principles is the reporting that is desired by the regulators.

Medicare Risk Adjustment Receivables

Depending upon the interpretation of the reader, an argument can be made that Medicare risk adjustment Receivables can be reported in the Asset (page 2), lines 15.1, 15.2, 15.3, 24 or 25. Note that the Assets page in the various annual statement types is the same.

15. Premiums and considerations:
   15.1 Uncollected premiums and agents’ balances in the course of collection
   15.2 Deferred premiums, agents’ balances and installments booked but deferred and not yet due (including $………. earned but unbilled premiums) .................
   15.3 Accrued retrospective premiums................................
24. Health care ($………. ) and other amounts receivable ....
25. Aggregate write-ins for other-than-invested assets ..........

The annual statement instructions indicate to include on line 24, Health care ($………. ) and other amounts receivable “other amounts receivable under government insured plans” (among other items) and makes reference to SSAP No. 84—Certain Health Care Receivables and Receivables Under Government Insured Plans (SSAP No. 84) is referred to in the annual statement instructions for guidance.

Medicare risk adjustment receivables seem to fit within the definition of “other government insured plans” which would suggest reporting with Health Care Receivables on Line 24. However, the annual
statement instructions for line 24 also include a statement to exclude “Premiums receivable for government insured plans reported on Lines 15.1, 15.2 or 15.3.” This is where the confusion arises. Is page 2, line 24- Health Care and other amounts receivable the appropriate line to report Medicare risk adjustment receivables or is only the line to report Medicare risk adjustment receivables not reported elsewhere?

Medicare Risk Adjustment Payables

As with the issue described above for Medicare risk adjustment receivables, annual statement reporting guidance is also subject to misinterpretation for Medicare risk adjustment payables. Medicare risk adjustment payables could be reported on the Health Annual Statement Blank Liabilities page 3, line 4 for aggregate policy reserves or line 23 aggregate write-ins for other liabilities, depending upon the interpretation of the reader.

The Medicare risk adjustment payable would be appropriately reported on page 3, line 4 if the associated receivable were determined to be an “accrued retrospective premium.” In this case, the associated payable would be “reserve for rate credits.” If the Medicare risk adjustment payable were considered a contract subject to redetermination or an item for which there is not preprinted line, it could be reported on the liabilities page 3, line 23 – Aggregate Write-ins for other Liabilities.

4. Aggregate health policy reserves, including the liability of $........ for medical loss ratio rebate per the Public Health Service Act
23. Aggregate write-ins for other liabilities (including $......... current)

Existing Authoritative Literature:

SSAP No. 54—Individual and Group Accident and Health Contracts provides (bolding added for emphasis):

Contracts Subject to Redetermination
27. This statement also applies to other contracts which are subject to redetermination such as Federal (and State) Groups - subject to rate adjustments through audits by the Office of Personnel Management (OPM). Reporting entities are required to give Federal Groups the lowest rates that are being charged to similar groups.

28. Amounts due from insureds or subscribers and amounts due to insureds or subscribers under contracts subject to redetermination meet the definitions of assets and liabilities as set forth in SSAP No. 4—Assets and Nonadmitted Assets and SSAP No. 5R, respectively.

29. Contract redeterminations shall be estimated based on the experience to date. The method used to estimate the liability shall be reasonable based on the reporting entity's procedures, and consistent among reporting periods. An examination of contract requirements in relation to the rates being charged and the current status of applicable audits (e.g., OPM, Centers for Medicare and Medicaid Services (or such other name that this entity shall be known as) and other Federal, state or government department) is a common method used to estimate such contract redeterminations.

30. Premium adjustments for contracts subject to redetermination are estimated for the portion of the policy period that has expired and shall be considered an immediate adjustment to premium. Accrued premium adjustments shall be recorded as a write-in for other-than-invested assets, with a corresponding entry to premiums; accrued return premium adjustments shall be recorded as a liability with a corresponding entry to premiums.
31. If, in accordance with SSAP No. 5R, it is probable that the additional premium adjustment is uncollectible, any uncollectible premium shall be written off against operations in the period the determination is made and the disclosure requirements outlined in SSAP No. 5R shall be made.

32. Premium adjustments for contracts subject to redetermination shall be determined and billed or refunded in accordance with the policy provisions or contract provisions. If such premiums are not billed in accordance with the policy provisions or contract provisions, or the policy provisions or contract provisions do not address the due date of such premiums, the accrual shall be nonadmitted. This is consistent with the guidance for audit premiums established in SSAP No. 6.

SSAP No. 84. Paragraph 23 provides (bolding added for emphasis):

Amounts Receivable Under Government Insured Plans

23. Amounts receivable under government insured plans, including amounts over 90 days due that qualify as accident and health contracts in accordance with SSAP No. 50—Classifications and Definitions of Insurance or Managed Care Contracts in Force shall be admitted assets. Amounts receivable under government insured plans include but are not limited to receivables under Medicare, Medicaid and similarly funded government insured plans. Evaluation of the collectibility of amounts receivable under government insured plans shall be made periodically. If in accordance with SSAP No. 5R, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed here and in SSAP No. 47—Uninsured Plans, paragraph 11.c. Refer to INT 05-05: Accounting for Revenues Under Medicare Part D Coverage for additional information and definitions of terms specifically related to Medicare Part D business.

INT 05-05: Accounting for Revenues Under Medicare Part D Coverage provides the following high level accounting for the Medicare Part D program (bolding added for emphasis):

INT 05-05 Discussion

3. The attached appendix provides a listing of terms to which CMS ascribes a specific meaning. This list has been enhanced to include other terms in order to facilitate consistent application for accounting and the NAIC’s Risk Based Capital formula. It should be noted that the terms included in the attached appendix are for the most part defined by CMS. Consequently, the term ‘reinsurance payment’ does not represent actual reinsurance as defined by SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance (SSAP No. 61R).

4. The Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP’s outlined below:

a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include ‘Reinsurance Payments’ and ‘Low Income Subsidy (cost-sharing portion)’. These funds are paid by the Government for a portion of claims above the out-of-pocket threshold or relate to PDP payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low-income beneficiaries.

b. Specific funds received by the PDP Sponsor from either the Medicare Part D enrollee or the government as payment for Standard Coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include ‘Direct Subsidy’, ‘Low Income Subsidy (premium portion)’, ‘Beneficiary Premium (standard coverage portion)’, ‘Part D Payment Demonstration’ and ‘Risk Corridor Payment Adjustment’. The funds noted
above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.

c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54. These funds include ‘Beneficiary Premium (supplemental benefit portion)’, as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in 4.a. and 4.b.

5. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed in SSAP No. 84, paragraph 23 and SSAP No. 47, paragraph 11.c., respectively.

Asset Annual statement instructions provide the following (bolding added for emphasis):

Line 15.1 – Uncollected Premiums and Agents’ Balances in Course of Collection

Include:

Direct and group billed uncollected premiums.

Amounts collected but not yet remitted to home office.

Accident and health premiums due and unpaid.

Life insurance premiums and annuity considerations uncollected on in-force business (less premiums on reinsurance ceded and less loading).

Title insurance premiums and fees receivable.

Do not deduct: For Property/Casualty and Title companies:

Ceded reinsurance balances payable.

Exclude:

Receivables relating to uninsured accident and health plans and the uninsured portion of partially insured accident and health plans.

Line 15.2 – Deferred Premiums, Agents’ Balances and Installments Booked but Deferred and Not Yet Due

Include:

Receivable amounts not yet due.

Life insurance premiums and annuity considerations deferred on in-force business (less premiums on reinsurance ceded and less loading).

For Property/Casualty companies:

Earned but unbilled premiums.

Deduct: For Property/Casualty companies:

Reinsurance assumed premiums received after the effective date of the contract but prior to the contractual due date. Refer to SSAP No. 62R, Property and Casualty Reinsurance, for accounting guidance.
Exclude: Ceded reinsurance balances payable.

Line 15.3 – Accrued Retrospective Premiums

Include: Accrued retrospective premiums on insurance contracts.

Refer to SSAP No. 66, Retrospectively Rated Contracts, for accounting guidance and nonadmission criteria.

Direct Accrued Retrospective Premiums:

For Property/Casualty companies:

If retrospective premiums are estimated by reviewing each retrospectively rated risk, report on Line 15.3 the gross additional retrospective premiums included in the total reserve for unearned premiums.

If retrospective premiums are estimated through the use of actuarially accepted methods applied to aggregations of multiple retrospectively rated risks in accordance with filed and approved retrospective rating plans and the result of such estimation is net additional retrospective premiums, report on Line 15.3 the net additional retrospective premiums included in the total reserve for unearned premiums.

Line 24 Health Care and Other Amounts Receivable

Include: Bills Receivable – Report any unsecured amounts due from outside sources or receivables secured by assets that do not qualify as investments.

Amounts due resulting from advances to agents or brokers – Refer to SSAP No. 6, Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers, for accounting guidance.

Health Care Receivables – Include pharmaceutical rebate receivables, claim overpayment receivables, loans and advances to providers, capitation arrangement receivables and risk sharing receivables from affiliated and non-affiliated entities. Refer to SSAP No. 84, Certain Health Care Receivables and Receivables Under Government Insured Plans, for accounting guidance.

Other amounts receivable under government insured plans, including undisputed amounts over 90 days due that qualify as accident and health contracts are admitted assets. Refer to SSAP No. 84, Certain Health Care Receivables and Receivables Under Government Insured Plans, and SSAP No. 50, Classification and Definitions of Insurance or Managed Care Contracts In Force, for accounting guidance.

Exclude: Pharmaceutical rebates relating to uninsured plans that represent an administrative fee and that are retained by the reporting entity and earned in excess of the amounts to be remitted to the uninsured plan. These amounts should be reported on Line 17.
Health Annual Statement Instructions for the Liabilities lines 4 and 23

Line 4 – Aggregate Health Policy Reserves

Include: Aggregate reserves for accident and health policies from Underwriting and Investment Exhibit, Part 2D, Line 8, Column 1.

Exclude: Reserves relating to uninsured plans and the uninsured portion of partially insured plans.

Refer to SSAP No. 54, Individual and Group Accident and Health Contracts, for accounting guidance.

Inset amount should be the accrued amount for the medical loss ratio rebate as provided for in Section 2718(b)(1)(A) of the Public Health Service Act net of reinsurance. Per SSAP No. 66, retrospective premium adjustments shall be estimated based on the experience to date.

Inset amount should equal Note 24, Retrospectively Rated Contracts & Contracts Subject to Redetermination, Line 24D(12), Column 5.

Detail of Write-ins Aggregated at Line 23 for Other Liabilities

List separately each category of liabilities for which there is no pre-printed line on Page 3.

Include: Uncashed drafts and checks that are pending escheatment to a state.

Interest paid in advance on mortgage loans, rents paid in advance and retroactive reinsurance amounts, if any.

Servicing liabilities as described in SSAP No. 94R103, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

Unearned compensation for employee stock ownership plan stock options issued and stock purchase and award plans. Refer to SSAP No. 12, Employee Stock Ownership Plans and SSAP No. 43104, Share-Based Payments Stock Options and Stock Purchase Plans, for accounting guidance.

Amount recorded as required by the additional minimum liability calculation with a description of “additional pension liability.” See SSAP No. 89102, Accounting for Pensions, A Replacement of SSAP No. 89, for guidance.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
See existing authoritative literature section.

Information or issues (included in Description of Issue) not previously contemplated by the SAPWG:
Recommended Party:
AGI Services
John Humphries
Tyrone, GA 30290

NAIC Staff Review Completed by:
Robin Marcotte
July 2014

Recommended Conclusion or Future Action on Issue:
Request that the Statutory Accounting Principles (E) Working Group consider this issue and directly address the proper accounting for Medicare risk adjustment receivables and payables to ensure consistent reporting.

NAIC Staff Recommendation:
Staff notes that INT 05-05: Accounting for Revenues Under Medicare Part D Coverage (INT 05-05) provides high level guidance for the Medicare Risk Adjustment program which directs the user to either SSAP No. 66 for retrospectively rated contracts (which are loss sensitive) or to SSAP No. 54 for contracts which are not retrospectively rated.

Staff’s understanding is that the patient encounter data provides information on health conditions which are used to determine Medicare Part D and Medicare Advantage risk scores. These scores are used to indicate the likelihood of higher claims. Staff noted that referring to the guidance in SSAP No. 54 is appropriate because the contracts are subject to redetermination. Further SSAP No. 54 explicitly notes:

29...An examination of contract requirements in relation to the rates being charged and the current status of applicable audits (e.g., OPM, Centers for Medicare and Medicaid Services (or such other name that this entity shall be known as) and other Federal, state or government department) is a common method used to estimate such contract redeterminations.

30. Accrued premium adjustments shall be recorded as a write-in for other-than-invested assets, with a corresponding entry to premiums; accrued return premium adjustments shall be recorded as a liability with a corresponding entry to premiums.

SSAP No. 54 is higher on the statutory hierarchy than the annual statement instructions and therefore, takes precedence. SSAP No. 54 provides an explicit reference that receivables and payables for contracts subject to redetermination are reported in aggregate write-ins for other than invested assets. In the annual statement, this would require receivable reporting on the Assets page, line 25. aggregate write-ins for other-than-invested assets and implies payable reporting in Liabilities page, line 23. aggregate write-ins for other liabilities.

For both the receivables and payables, reporting in the aggregate write-in lines highlights the amounts. However, as these amounts directly relate to premium, some argument could be made for considering including these amounts in premium receivable. Possible annual statement lines for future consideration include the option of changing the line and the instructions for assets line 15.3 Accrued retrospective premiums to include premium from contracts subject to redetermination.

The reference to SSAP No. 54 is also consistent with the guidance that is in INT 13-04: Accounting for the Risk-Sharing Provisions of the Affordable Care Act (INT 13-04). It should be noted that the risk adjustment program in the Affordable Care Act bears many similarities to the Medicare risk adjustment program.
1. **Reporting** - While the required aggregate write in reporting is clearly indicated in SSAP No. 54, staff requests Working Group discussion on whether that is still the desired reporting of contracts subject to redetermination?
   
   a. If different reporting is desired given the increasing amounts that will be reported in these lines, the Working Group should move this item to the nonsubstantive active listing and staff directed to draft additional guidance for SSAP No. 54. In addition, related blanks proposals may need to be developed.
   
   b. If the current aggregate written reporting is preferred to be maintained, staff recommends that staff be directed to draft a clarifying blanks proposal for submission to the Blanks (E) Working Group.

2. **More guidance for Medicare**

   Staff notes that INT 05-05 omits the Medicare part D risk adjustment program from its glossary and recommends that the glossary be updated to add an explicit reference to the program. In addition, other aspects of INT 05-05 could be updated to be more specific. **Staff recommends the Working Group request input or provide direction on whether there is need for more accounting guidance on the Medicare Part D and Medicare Advantage programs.**

   **Status:**
   On August 16, 2014, the Statutory Accounting Principles (E) Working Group moved this item to the nonsubstantive active listing and requested comments on if the current required reporting guidance in SSAP No. 54 should be revised. The SSAP No. 54 guidance requires receivables from amounts related to contracts subject to redetermination to be reported in aggregate write-ins for other than invested assets amounts. The contracts subject to redetermination guidance includes balances resulting from Medicare Part D and Medicare Advantage and the risk adjustment program under the Affordable Care Act. In addition, comments on whether there is a need for more accounting guidance on the Medicare Part D and Medicare Advantage programs was also requested.

   On **November 16, 2014**, the Statutory Accounting Principles (E) Working Group directed staff to work with Working Group members and industry to develop a recommendation on the reporting for contracts subject to redetermination including amounts resulting from Medicare Part D and Medicare Advantage, and risk adjustment receivables under the ACA. In addition, related reporting guidance is to be developed for the Blanks (E) Working Group. The Working Group also approved a joint referral to the Health Actuarial (B) Task Force and the Life Actuarial (A) Task Force to clarify inclusion in the Statement of Actuarial Opinion regarding the receivables and payables from these amounts.

   **Update for Spring National Meeting discussion:**

   In 2015, staff met with Working Group representatives from Ohio, Connecticut, Michigan and Texas and industry representatives from AHIP, BCBSA and United Healthcare to develop recommendations. Interim discussions noted a concern that contracts subject to redetermination should be reflected as direct adjustments to written premium when accrued as opposed to going through change in unearned and reserve and reserve for rate credits. This issue will be addressed primarily in the annual statement instructions for the sub schedules.

   **It is recommended that the Working Group expose proposed revisions to SSAP No. 54, paragraph 30 shown below. It should be noted that this recommendation would apply to all contracts subject to redetermination. In addition, an annual statement blanks proposal will be submitted to the Blanks (E) Working Group. A summary of the recommendations regarding annual statements reporting is detailed in the following pages.**
30. Premium adjustments for contracts subject to redetermination are estimated for the portion of the policy period that has expired and shall be considered an immediate adjustment to premium. Accrued premium adjustments shall be recorded as a write-in for other-than-invested assets in premium and considerations receivable, with a corresponding entry to written premiums. Accrued return premium adjustments shall be recorded as a liability with a corresponding entry to written premiums. The annual statement liability lines will vary by the type of annual statement reporting entity files. Managed care/accident and health reporting entities report as aggregate health policy reserves; life and accident and health reporting entities report as aggregate reserves for accident and health contracts; property and casualty reporting entities report as aggregate write-ins for liabilities.

Annual Statement Reporting

Asset – All annual statement types as this is a “common” page

Line 15.3 Accrued retrospective premium the recommendation is to modify the line name and include insets to permit separate tracking.

Recommendation:

15. Premiums and considerations:
   15.1 Uncollected premiums and agents’ balances in the course of collection
   15.2 Deferred premiums, agents’ balances and installments booked but deferred and not yet due (including $……….. earned but unbilled premiums) ..............
   15.3 Accrued retrospective premiums ($_____ ) and contracts subject to redetermination ($______)

Liability / Revenue

Health Recommended reporting:
- Liabilities - line 4 - Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act ($______)
- Sub Schedule - Underwriting And Investment Exhibit Part 2d – Aggregate Reserve For Accident And Health Contracts Only – line 5 - Aggregate write-ins for other policy reserves
- Statement of Revenue - line 2 Net Premium Income (written premium)

The instructions for Page 4, Line 22, Increase in reserves for life and accident and health contracts should be revised/clarified to specifically exclude changes in reserves for Risk Adjustment liabilities since the changes in Risk Adjustment liabilities are reported on Page 4, Line 2, Net premium income. Today, all of the changes in U&I Part 2D reserves, except for changes in reserves for rate credits, are reported on Page 4, Line 19.

Life Recommended reporting:
- Liabilities - Line 2 - Aggregate Reserves for Accident and Health Contracts, (including ___ Modco Reserves)
- Sub Schedule - Exhibit 6, Aggregate Reserves for Accident and Health Contracts, Line 6, Aggregate Write-ins for Reserves
- Summary of Operations – Line 1- Premium and annuity considerations for life and accident and health contracts

The instructions for Page 4, Line 19, Increase in aggregate reserves for life and accident and health contracts should be revised/clarified to specifically exclude changes in reserves for Risk Adjustment Liabilities since the change in Risk Adjustment liabilities are reported on Page 4, Line 1, Premiums and annuity considerations for life and accident and health contracts. Today, all of the changes in Exhibit 6 reserves, except for changes in reserves for rate credits, are reported on Page 4, Line 19.
In addition, the instructions for Exhibit 1, Part 1 of the blue blank should be clarified to include changes in risk adjustment receivables/payables in the deferred and accrued lines, similar to the current instructions for changes in reserves for rate credits.

**Property and Casualty Recommended reporting:**
- Statement of Income- Direct Premiums Earned
- Liabilities - line 1 –Losses
- Liabilities Line 25 Aggregate Write –ins for liabilities
Spring 2015 - Review of GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff has prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item’s potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on each of the issues. Regardless of the Working Group’s election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section IV of the Preamble to the Accounting Practices and Procedures Manual must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175805074609](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175805074609)

<table>
<thead>
<tr>
<th>Exposed FASB Accounting Standards Updates</th>
<th>Comment Deadline &amp; Initial Staff Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions</td>
<td>Comment Deadline has passed. Exposure is not applicable to statutory accounting.</td>
</tr>
<tr>
<td>(2) Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)</td>
<td>Comment Deadline has passed. Review ASU under the SAP Maintenance Process</td>
</tr>
<tr>
<td>(3) Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies</td>
<td>February 17, 2015 Staff: No comment letter believed to be necessary. Review ASU under the SAP Maintenance Process</td>
</tr>
<tr>
<td>(5) Derivatives and Hedging (Topic 815): Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives</td>
<td>April 30, 2015 Staff: No comment letter believed to be necessary. Exposure is not applicable to statutory accounting.</td>
</tr>
</tbody>
</table>
1. Proposed ASU - Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions  
Comment Deadline has passed

**Information from FASB Exposure Draft:**
This proposed Update would provide accounting guidance on how to present historical earnings per unit for periods before the date of a dropdown transaction that occurs after formation of a master limited partnership. The amendments in this proposed Update would specify that, for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction would be allocated entirely to the general partner interest. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method also would be required.

**Staff Review and Commentary:**
Comment deadline has passed. Staff does not believe this exposure warrants review and assessment as it is not applicable to statutory accounting.

2. Proposed ASU – Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)  
Comment Deadline has passed

**Information from FASB Exposure Draft:**
This proposed ASU would address the diversity in practice related to how certain investments measured at net asset value with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. Currently, Topic 820, Fair Value Measurement, permits a reporting entity, as a practical expedient, to estimate the fair value of certain investments that calculate net asset value per share using the net asset value of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date.

The amendments in this proposed Update would remove the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient. The proposed amendments also would remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Rather, those disclosures would be limited to investments for which the entity has elected to estimate the fair value using that practical expedient.

**Staff Review and Commentary:**
Comment deadline has passed. Staff recommends review of the ASU under the SAP maintenance process.

3. Proposed ASU – Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies  
Comment Deadline: February 17, 2015

**Information from FASB Exposure Draft:**
Current Securities and Exchange Commission (SEC) guidance requires a feeder fund that is regulated under the Investment Company Act of 1940 to provide the financial statements of its master fund along with its own financial statements. The amendments in this proposed Update would require similar
presentation for all feeder funds not regulated under the Investment Company Act of 1940, resulting in increased consistency and transparency into the master fund in all master-feeder arrangements.

Additionally, current GAAP requires an investment company that is not regulated under the Investment Company Act of 1940 to disclose certain information about investments held by investee funds whose fair values exceed 5 percent of the reporting investment company’s net assets. The amendments in this proposed Update would require those disclosures to be provided by investment companies that are regulated under the Investment Company Act of 1940, resulting in increased consistency and transparency into investee funds held by all investment companies.

**Staff Review and Commentary:**
Staff does not believe this exposure warrants review and assessment during the comment period, and recommends review of the ASU under the SAP maintenance process.

   *Comment Deadline: May 29, 2015*

**Information from FASB Exposure Draft:**
The Board is issuing this proposed Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The Board proposes to eliminate the exception in GAAP that prohibits recognizing current and deferred income tax consequences for an intra-entity asset transfer until the asset or assets have been sold to an outside party. Consequently, this proposal requires that an entity recognize the current and deferred income tax consequences of an intra-entity asset transfer when the transfer occurs.

**Staff Review and Commentary:**
Staff does not believe this exposure warrants review and assessment during the comment period, and recommends review of the ASU under the SAP maintenance process.

5. **Proposed ASU – Derivatives and Hedging (Topic 815) - Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives**
   *Comment Deadline: April 30, 2015*

**Information from FASB Exposure Draft:**
The Board is issuing this proposed Update to increase the transparency and usefulness of the information provided in the notes to financial statements about hybrid financial instruments that contain bifurcated embedded derivatives.

Currently, Topic 815, Derivatives and Hedging, does not require that an entity provide information that explicitly links bifurcated embedded derivatives (that are measured at fair value) with their related host contracts (that may be measured at amortized cost, fair value, or another measurement attribute depending on applicable accounting literature). In effect, users of financial statements often see only the bifurcated embedded derivative and related host contract disclosed separately, and they do not have the ability to trace one back to the other. Although bifurcated embedded derivatives are required to be measured separately from their host contracts under current generally accepted accounting principles (GAAP), the embedded derivatives and their related host contracts represent one legal contract. The amendments in this proposed Update would require an entity to disclose information that links each bifurcated embedded derivative to its related host contract, which would provide users of financial statements with decision-useful information that reflects the overall economics and cash flows for the entire hybrid financial instrument.
Staff Review and Commentary:
Staff does not believe this exposure warrants review and assessment during the comment period as exposure is not applicable to statutory accounting. (Currently under SAP, embedded derivatives are not separated from the host contract.)

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The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Dec. 11, 2014. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kim Hudson (CA); Linda Sizemore (DE); Stewart Guerin (LA); Judy Weaver (MI); Steve Johnson (PA); Jamie Walker (TX); David Smith (VA); and Tom Houston (WI).

1. **Voted to Expose Agenda Item 2014-23**

Mr. Johnson made a motion, seconded by Mr. Hudson, to move agenda item 2014-23 from the substantive active listing to the nonsubstantive active listing and to expose revisions to the *Statement of Statutory Accounting Principles (SSAP) No. 69—Statement of Cash Flows* and the Annual Statement Instructions pertaining to the cash flow worksheets, as discussed during the Fall National Meeting, for a comment period ending Jan. 16, 2015. The motion passed.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

G:\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2015\Spring\Meeting\MT - SAPWG 12-11-14 evote Cash FlowTPR.docx
The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Dec. 12, 2014. The following Working Group members participated: Dale Bruggeman, Chair (OH); Jim Armstrong, Vice Chair (IA); Kim Hudson and Tomoko Stock (CA); Linda Sizemore (DE); Eric Moser (IL); Stewart Guerin (LA); Judy Weaver (MI); Deborah Stone (NH); Stephen Wiest (NY); Steve Johnson (PA); Doug Slape (TX); and Tom Houston (WI).

1. **Public Hearing: Reviewed Comments on Exposed Items**
   
   a. **Agenda Item 2013-17**

   Mr. Bruggeman directed the Working Group to agenda item 2013-17: Single Member and Single Asset LLCs, Underlying Asset is Real Estate, noting that this item included the exposed Issue Paper No. 149—Wholly-Owned Single Real Estate Property Held in an LLC (Issue Paper No. 149) and Statement of Statutory Accounting Principles (SSAP) No. 40R—Real Estate Investments – Revised (SSAP No. 40R). Mr. Bruggeman noted that the proposed guidance would classify wholly owned real estate owned through a limited liability company (LLC) that meet certain criteria as assets within the scope of real estate guidance, with an effective date of Jan. 1, 2015. Mr. Bruggeman noted that there is the possibility of future changes to this topic by the investment classification project.

   John Bauer (Prudential Financial) summarized interested parties’ comments, which are supportive of the adoption of Issue Paper No. 149 and the revisions to SSAP No. 40R, with the Jan. 1, 2015, effective date.

   Ms. Weaver made a motion, seconded by Mr. Hudson, to adopt Issue Paper No. 149 and substantively revised SSAP No. 40R to move wholly owned single-asset real estate in an LLC meeting certain criteria to be within the scope of SSAP No. 40R as exposed. The motion passed unanimously. Additionally, the Working Group directed NAIC staff to prepare an annual financial statement blanks proposal to reflect this change within the 2015 investment schedules.

   b. **Agenda Item 2014-12**

   Mr. Bruggeman directed the Working Group to agenda item 2014-12 on SSAP No. 107—Accounting for the Risk-Sharing Provisions of the Affordable Care Act (SSAP No. 107). Mr. Bruggeman noted SSAP No. 107 provides accounting guidance and disclosure requirements for the three federal Affordable Care Act (ACA) risk-sharing provisions known as risk adjustment program, transitional reinsurance program and temporary risk corridors program, which took effect in 2014. The proposed SSAP No. 107 permits admission of receivables for the risk adjustment and risk corridors programs, if the estimates are based on conservatism and sufficiency of data including all available information, including legal changes to the programs. SSAP No. 107 has a proposed effective date of years ending on or after Dec. 15, 2014.

   Max McGee (America’s Health Insurance Plans—AHIP) summarized the joint letter from AHIP and the Blue Cross and Blue Shield Association indicating agreement with the contents of SSAP No. 107 and support for adoption of the statement.

   Ms. Weaver made a motion, seconded by Mr. Hudson, to adopt SSAP No. 107 as exposed. The motion passed with Iowa noting opposition.

2. **Adopted Editorial Changes to the Accounting Practices and Procedures Manual**

   Mr. Bruggeman noted that, with the renaming of the NAIC’s New York office, the publication formerly known as the Purposes and Procedures Manual of the NAIC Securities Valuation Office has been renamed as the Purposes and Procedures Manual of the NAIC Investment Analysis Office. Technical edits to update the publication’s name in the Accounting Practices and Procedures Manual are recommended (Preamble; SSAP Nos. 2, 25, 26, 30, 32, 36, 41, 43R, 68, 97, 103 and 105; the Glossary; Appendix B Introduction and INT 06-02; and Appendix F).
Mr. Bruggeman noted this name change will occur in all locations, except in Appendix A-785 Credit for Reinsurance as it reflects excerpts from a model law. NAIC staff proposes a drafting note in Appendix A-785 stating that the *Purposes and Procedures Manual for the Securities Valuation Office* has been renamed the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*; however, the model law at this time still refers to the earlier publication. On a motion from Mr. Hudson, seconded by Mr. Guerin, the Working Group unanimously adopted editorial changes as described to update the *Accounting Practices and Procedures Manual*.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.
The Restricted Asset (E) Subgroup of the Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Feb. 18, 2015. The following Subgroup members participated: Tomoko Stock, Chair (CA); Jim Armstrong (IA); Stewart Guerin (LA); Jim Everett (NY); Dale Bruggeman (OH); Jamie Walker (TX); and Tom Houston (WI).

1. Discussed Collateral Asset Restrictions/Collateral Guidance

Ms. Stock said the purpose of the call was to discuss repurchase and reverse repurchase agreements through three separate memorandums prepared by NAIC staff. Ms. Stock noted that the first staff memorandum addresses collateral guidance, and proposes revisions to SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 103) to restrict admittance of repurchase agreements to the extent that related collateral qualifies as admitted assets. Additionally, the memorandum proposes revisions to update the collateral percentages by type of repurchase agreement. Although the overall accounting method for repurchase transactions is under Subgroup discussion, Ms. Stock recommended that these revisions be considered initially to improve the existing SSAP No. 103 guidance until the Subgroup finalizes an overall recommendation for repurchase transactions.

Julie Gann (NAIC) noted that verbal comments were received pertaining to the new paragraph regarding cash collateral on reverse repurchase transactions. She advised that the commenters had agreed to send additional information regarding these transactions to improve the guidance. As no comments or questions were raised by Subgroup members or other regulators on the memorandum, Ms. Stock invited comments from interested parties. Bill Moretti (MetLife Investments) advised that the collateral percentages only pertain to Treasuries and agency collateral and there is a multitude of other asset classes that can be used in repo transactions, which vary in risk and contain different percentage haircuts. Mr. Moretti advised implementing something similar to the Basel III guidance, which distinguishes the different asset classes and their respective haircuts. Ms. Gann posed a question to the industry, asking if the percentages included in the memorandum would be considered the lowest amounts for collateral haircuts. Mr. Moretti indicated these would be the lowest amounts, but different asset classes could contain higher haircut percentages. Greg Hendler (Genworth), representing the American Council of Life Insurers (ACLI), suggested that the language be revised to clarify which party is the transferee (receiving the cash) and which party is the transferor (pledging the securities), as this will assist in the clarification of how repo agreements are defined. Ms. Gann agreed with this recommendation and asked for the industry to provide comments for this proposed revision, as well as comments detailing the Basel III guidance.

Mr. Everett inquired whether Solvency II addresses the collateral questions and if the Subgroup would be considering provisions similar to the Office of the Comptroller of the Currency (OCC), the Federal Reserve or the FDIC on repo-type transactions. Ms. Stock indicated that additional research would be conducted, as part of the longer-term project, on Solvency II and the collateral requirements of the Fed.

Ms. Gann recommended that the Subgroup consider immediate revisions to the existing collateral guidance in SSAP No. 103 to add admitted asset requirements and update the collateral percentages by type of repurchase agreement. She suggested that the proposed revisions pertaining to cash collateral—as well as consideration of different asset classes, Basel III, Solvency II and the collateral requirements at the Fed—be addressed as part of the broader repurchase agreement project. Mr. Houston and Mike Monahan (ACLI) supported the approach recommended by Ms. Gann.

2. Discussed Short-Term Transactions

Ms. Stock noted that the staff memorandum prepared for this agenda item presents the overall results of the state survey conducted to obtain information on whether repurchase agreements should be limited to short-term transactions, or whether long-term repo agreements should be permitted. Per the results of the survey, there is not enough interest to consider a model law change to allow long-term repurchase agreements. As such, the memo proposes draft language, for inclusion in SSAP No. 103, to clarify that repurchase agreements must be short-term agreements to be allowed as admitted assets within statutory accounting guidance. As no comments or questions were raised by Subgroup members or other regulators on the memorandum, Mr. Monahan asked how many states prohibit repurchase transactions exceeding one year. Ms. Gann advised...
that 19 jurisdictions had specific model law guidance preventing long-term repo transactions (defined as transactions exceeding 365 days). She also advised that within the survey, the states were asked if they have not adopted model law guidance because the Accounting Practices and Procedures Manual guidance effectively limits these transactions, and she noted that she believed some states also responded affirmatively to this question. Ms. Gann stated that as staff receives a lot of questions regarding the short-term restriction for repurchase agreements, she would suggest that these revisions also be included within the immediate revisions to SSAP No. 103. Ms. Stock agreed with moving forward with this clarification.

3. Discussed Accounting Method for Repurchase Agreements

Ms. Stock noted that the staff memo prepared for this agenda item presents options for the Subgroup to consider in determining how to move forward with the accounting for repo agreements. Specifically, it provides details on the options to derecognize assets transferred under these agreements, and the existing secured borrowing approach. As no comments or questions were raised by Subgroup members or other regulators on the memorandum, Ms. Stock invited comments from interested parties. Mr. Monahan advised that collateralized financing transactions, including repo agreements, have been closely examined by domestic and international accounting and financial regulators over the years. These parties have recognized that accounting for these transactions on the balance sheet provides useful information for assessing the financial condition of an entity and consistently prohibits companies from “derecognizing” the assets in these transactions to ensure a transparent view of the entity assets. He advised that if a proposal to derecognize the assets is adopted, it would cause significant divergence at a time when transparency is of growing importance.

Mr. Hendler requested that before divergence from gross accounting is proposed, the regulators first understand the reasons why transferred assets under repurchase agreements were determined to be retained on the balance sheet and why other regulators believe this “gross up” approach provides the best information. Further, Mr. Hendler noted, a number of potential issues would need to be considered if derecognition of assets subject to repo transactions were to occur:

- Identifying the credit risk exposure for the assets no longer reported on the balance sheet.
- SSAP No. 103 contains comprehensive guidance for derecognition of financial assets that universally applies to several types of transactions. Derecognizing assets subject to repos would be implementing an exception, when other economically similar transactions would be treated differently.
- Potential fair value measurement when transferred assets are repurchased, which would be inconsistent with the amortized concept currently within statutory accounting. Additionally, it could create volatility in RBC and cause insurers to look into other financing transactions that are economically similar, but that do not result in a fair value measurement.
- Derecognition of assets could lead to repos being recorded as derivative contracts. This could potentially result in restrictions and inability to use repos based on characterization as a derivative.

Mr. Hendler and Mr. Monahan indicated that they strongly believe that changing the accounting for repos, particularly with regards to a derecognition method, would be the wrong approach for statutory accounting.

4. Discussed Next Steps

Based on the discussion of the staff memorandums, Ms. Gann recommended that the items identified as possible immediate revisions to SSAP No. 103 be included in a separate document, with a Subgroup e-vote to consider exposing the document for public comment. Ms. Stock directed NAIC staff to move forward with this approach. Further, Ms. Gann asked the Subgroup for direction on the remaining agenda items. Ms. Stock suggested that the staff memorandum on the accounting method for repurchase agreements be posted to the Subgroup’s Web page to allow for additional comments from interested parties. Specifically, Ms. Stock requested comments on why the current accounting method is sufficient for regulatory purposes, as the regulators are looking for the reporting method that protects policyholders and captures the risks of repos. Mr. Monahan stated support for an additional 30-day public comment period before any further decision is made by the Subgroup. Ms. Stock agreed and directed NAIC staff to move forward with this approach.

Having no further business, the Restricted Asset (E) Subgroup adjourned.
Restricted Asset (E) Subgroup
E-Vote
February 24, 2015

The Restricted Asset (E) Subgroup of the Statutory Accounting Principles (E) Working Group conducted an e-vote that concluded Feb. 24, 2015. The following Working Group members participated: Tomoko Stock, Chair (CA); Jim Armstrong (IA); Stewart Guerin (LA); Judy Weaver (MI); Jim Everett (NY); Dale Bruggeman (OH); and Tom Houston (WI).

1. Voted to Expose Proposed Revisions to SSAP No. 103

Mr. Guerin made a motion, seconded by Mr. Bruggeman, to expose limited revisions to SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities for a 10-day public comment period ending March 6, 2015. These limited revisions will require collateral received and the “purchased securities” under repurchase or reverse repurchase agreements to meet the requirements to be considered admitted assets under statutory accounting. The revisions also update the minimum collateral percentages for the type of repurchase agreement and incorporate clarification guidance on the short-term restrictions. The motion passed.

Having no further business, the Restricted Asset (E) Subgroup adjourned.
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