

Statutory Accounting Changes

• In this issue of 'Perspectives', we offer a summary of the National Association of Insurance Commissioners' (NAIC) Statutory Investment Accounting and Securities Valuation Office (SVO) Changes for 2022.

2022 updates:

• Statement of Statutory Accounting Principles (SSAP) No. 24 – Government Assistance: ASU 2021-10 added a new disclosure increasing transparency by enhancing the identification of Government Assistance. The disclosure includes the type of assistance received, the entity's accounting for the assistance, and the effects of the assistance in financial statements.

• SSAP No. 86 – Effective Hedges: ASU 2021-20 reviewed the issue that debt investments are often reported at fair value under U.S. GAAP but are reported at amortized cost under SAP. This concept clarifies that the determination of effective hedges should be consistent between U.S. GAAP and SAP.

• SSAP No. 48 – Valuation of Minority Ownerships: ASU 2022-02 retained and clarified the option for insurers with minority ownerships, generally required to have a U.S. GAAP financial statement audit, to be audited on a U.S. Tax Equity Basis.

• SSAP No 25 and No 43R – Related Party Reporting: Agenda updates were implemented to clarify the definition of affiliates and to implement a new related party reporting requirement, effective December 31, 2022. The new requirement is outside of current reporting requirements and will be reported in a new column on the year end investment schedules which reports the following information via the following codes:

1. Related Party direct credit exposure
2. 50% or more of related party direct credit exposure
3. Less than 50% of related party direct credit exposure
4. In-substance related party exposure
5. Exposure not included in 1-4
6. No related party exposure

• This new column will be electronic only, titled "Investments involving related parties" and will require every investment security to have a number assigned to it. The agenda item is not intended to change to what is reported as affiliated or unaffiliated investments.

Annual reporting updates:

• Following last year's RBC Factor updates, Ref #2022-11BWG updates Asset Valuation Reserve (AVR) factors for long and short-term bonds, and there are now 19 breakpoint prices for determining NAIC designation categories for financially modelled structured securities. The IMR amortization table was also updated, [tables published here](#). The NAIC reiterates that AVR/IMR updates always lag one year behind RBC factor updates.

• Effective year-end 2022, RMBS/CMBS securities issued after 2012 will use the "intrinsic price" method, which will be based on the modeled loss for each CUSIP regardless of carrying value. Legacy securities will retain the prior treatment. The purpose of this change is so all insurers will now carry the same CUSIP at the same rating, and there will no longer be an artificial disincentive to purchase MBS at premium (>100) prices.

• Ref #2022-21BWG and Ref #2022-23BWG adds a new section of categories "Residual Tranches or Interests" to Schedule BA Parts 1, 2, and 3.

• Ref #2022-01BWG and Ref #2021-24 SAPWG add a new general interrogatory (Questions 38 and 39) to the annual blanks requiring the disclosure of cryptocurrencies directly held or permitted for the remittance of premiums. Note that this update does not include any statutory accounting

revisions related to cryptocurrencies or change INT 21-01 which states that directly held cryptocurrencies do not meet the definition of cash and should be classified as non-admitted assets.

- Ref #2022-02BWG adds four new electronic-only columns to Schedule D Part 6-1. This update is to ensure Sub-1 and Sub-2 filings are submitted by the insurers and to identify if the reported value differs from the NAIC approved value.
- SVO changes to the Purposes & Procedures Manual
 - The P&P Manual definition of Principal Protected Securities (PPS) has been changed to include language on alternate securities. The definition now clarifies that alternate PPS securities will also be ineligible for the SVO's filing exempt process.
 - An amendment was also adopted to clarify that the SVO can assign NAIC Designations to investments which it does not think are eligible for Schedule D or BA reporting so long as it has the methodology to do so.
 - Stemming from the RBC factors changes adopted last year the SVO added technical updates to the P&P Manual that clarifies language and references to NAIC Designation Categories.

Schedule updates:

- Unaffiliated certificates of deposit will be added to Schedule D Parts 1 and 5, Schedule D Part 1A Sections 1 and 2, Schedule D Summary by Country and Summary Investment Schedule.
- Removal of unaffiliated certificates of deposit from Schedule DA Part 1 was adopted by the BWG (editorial change) on May 25, 2022. This asset type should not be reported as short-term bonds on Schedule DA Part 1 pursuant to SSAP No. 2R.
- Exchange traded funds will be added to Schedule D Part 2 Section 2, Part 5, Schedule D Summary by Country, and Summary Investment Schedule.
- Bond mutual funds will be removed from Schedule D Part 1, Schedule D Part 1A Section 2, Schedule DA Part 1, and Schedule E Part 2.
- Mutual funds, unit investment funds, and closed-end funds will be split into the following two categories on Schedule D Part 2 Section 2 and 5, and Schedule D Summary by Country.
 - Designations assigned by the SVO
 - Designations not assigned by the SVO
- The “\$” code is removed from Schedule D Part 1 column 3.
- The number of characters will be expanded from 7 to 10 in the investment line categories for the following annual reports (2020-35BWG):
 - Schedule D Parts 1, 2 Sections 1 and 2, 3, 4 and 5
 - Schedule DA Part 1
 - Schedule E Part 2
- Addition of a new electronic column, Investments Involving Related Parties, to the following annual reports (2021-22BWG):
 - Schedule B Parts 1 through 3
 - Schedule BA Parts 1 through 3
 - Schedule D Parts 1, 2 Sections 1 and 2, 3 through 5
 - Schedule DA Part 1
 - Schedule DB Parts A Sections 1 and 2, B Sections 1 and 2, D Sections 1 and 2
 - Schedule E Part 2

On-going Projects and Discussions (2023 and beyond):

- Following this year's changes around RMBS/CMBS securities, the VOS Task Force exposed a memo calling for an internal modeling of CLOs as well as extended Designation Categories 6.A, 6.B and 6.C. The potential change to ratings methodology of CLOs will be discussed and open for industry comments in 2023.
- The Securities Valuation Office (SVO) has identified a lack of transparency in the FE feed, which the bulk of NAIC designations go through. The Private Letter Ratings process has provided visibility and identified issues within the FE process, and the SVO is working on further updates that would provide transparency and better reflect credit risk. The main proposal gaining traction is adding additional market-data fields for bond investments to the annual statement instructions.

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