

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 2021.

Effective 2021:

- Statement of Statutory Accounting Principles (SSAP) No. 25 clarifies that related parties under GAAP or SEC reporting would also be related under SAP; non-controlling ownership over 10% is a related party, regardless of any disclaimer on control or affiliation; disclaimer of control does not eliminate classification as a "related party"; and rejects several GAAP VIE standards.
- SSAP No. 26R revised to clarify that the accounting and reporting of investment income and capital gain/loss of bonds retired early by tender offer will be applied similarly to calls.
- SSAP No. 26R revised to clarify the assessment of other than temporary impairment (OTTI) of a bond shall be based on the current, modified contractual terms.
- SSAP No. 26R adopted revisions that perpetual bonds with call features would use the yield-to-worst amortization method and be reported at amortized cost; perpetual preferred bonds without call features are to be reported at fair value.
- SSAP No. 32R adopted revisions to move preferred stock warrants into SSAP No. 32R and out of SSAP No. 86 and require such warrants to be reported at fair value.
- SSAP No. 32R adopted revisions that preferred stock shall be reported at effective call price if it is currently exercisable or announced that the security will be called/redeemed; fair value not to exceed effective call price.
- SSAP No. 43R clarifies that government sponsored enterprise (GSE) and real estate investment mortgage investment conduit (REMIC) issued by Fannie Mae and Freddie Mac are in the scope of this SSAP.
- SSAP No. 43R clarifies that the treatment of residual tranches, which are characterized as "non-rated", should be reported on Schedule BA as "Other long-term investments" at the lower of cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses.
- INT 21-01: Accounting for Cryptocurrencies adopted interpretation that directly held cryptocurrencies do not meet the definition of cash and should be classified as non-admitted assets.

Temporary Interpretations (INT) for Statutory Accounting

- INT 20-03 Extension: Trouble Debt Restructuring (TDR) Due to Covid-19 provides guidance that a loan modification is not necessarily a TDR within SSAP No. 36 provided that the loan was current (no more than 30 days past due) prior to December 31, 2019, extended through the earlier of January 1, 2022 or 60 days after the Covid-19 national emergency ends.
- INT 20 – 07 Extension: Trouble Debt Restructuring of Certain Debt Investments Due to Covid-19 provides practical expedients to evaluate if loan modification is insignificant and therefore no further assessment needed as a TDR, extended through the earlier of January 1, 2022 or 60 days after the Covid-19 national emergency ends.

Annual reporting updates:

- RBC factors for bonds updated from 6 to 20 to align with NAIC designation categories, bonds size factors also updated from 4 to 5 threshold groups, and hybrid securities moved from the Equity Asset page to the Bond Asset page.
- The Structured Securities Group (SSG) will provide single NAIC designation categories for non-legacy (issued after 2012) financially modeled structured securities and continue to provide breakpoint prices for legacy (issued prior to 2013) financially modeled structured securities. Non-modeled structured securities will follow the FE process.

- Morningstar acquired DBRS and combined the two credit rating symbols, resulting in a decrease of NAIC Credit Rating Providers to 8 from 9.
- New category line added to Schedule E part 2 for qualified cash pools.
- Report collateral-type data in Schedule D part 1, column 26 for all RMBS, CMBS, and LBSS securities regardless of reporting category.
- New disclosure to include the number of tender offer securities disposed and acceleration fee income generated.
- New line number inserted at the beginning of the footnote rows to distinguish between line numbers and designation categories for Schedule BA part 1, D part 1, D part 2, and E part 2.
- Remove the line category and reference to the NAIC Bond Fund List from the investment schedule instructions and blank.
- Schedule BA part 1 & 2, lines 07, 08, 15, 16, & 45 are expected to have an NAIC designation category and admin symbol. NAIC designation categories may be reported for the remaining lines if assigned by the SVO or rated by an NAIC Credit Provider(s).

Effective 2022:

- Lines added to Schedule D, DA, DL, and E part 2 for unaffiliated certificates of deposit and exchange traded funds; additional line categories added to the Summary of Investment Schedule, Summary by Country, Schedule D part 1A, effective Q1 2022

On-going Projects and Discussions (2022 and beyond):

- SSAP No. 43R to address regulatory concerns, especially with securitizations done with equity-like investments that become "transformed" into debt securities. For investments that would no longer qualify for Schedule D-1, NAIC staff believes that these assets will likely be captured on Schedule BA, earliest possible effective date 2024.

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