

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 2023.

2023 updates:

SSAP No. 21R – Collateral for Loans - Adopted revisions address inconsistencies in the collateral guidance between SSAP No. 20 and SSAP No. 21. The revisions to SSAP No. 21R clarify that the acceptable invested asset collateral for collateral loans must qualify as admissible invested assets as referenced in SSAP No. 20 and provide audit transition guidance for equity collateral from entities in the scope of SSAP No. 48. Effective immediately.

SSAP No. 25 – Affiliate Reporting Clarification - Adopted revisions clarify that an affiliate investment includes any invested asset held by a reporting entity that is issued by an affiliated entity, or that includes the obligation of an affiliated entity. Effective immediately.

SSAP No. 100 – Fair Value Measurement of Restricted Securities - ASU 2022-03 was adopted with modifications to align statutory language in the relevant SSAPs. This agenda item does not include GAAP disclosures on sale restrictions. However, it specifies that items restricted from sale would be classified as restricted assets under SSAP No. 1 and would be subject to admittance considerations under SSAP No. 4. Effective immediately.

SSAP No. 34 – Interest Income Disclosure - Adopted revisions add new disclosures of gross, non-admitted, and admitted income due and accrued; the amount of deferred interest; and the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance. To calculate the cumulative PIK interest, the guidance clarifies that paydowns and disposals are first applied to any PIK interest included in the principal balance, or the practical expedient of subtracting original principal from current principal, with the resulting PIK interest not less than \$0. Effective year-end 2023.

SSAP No. 30R – Unaffiliated Common Stock and SSAP No. 32R – Preferred Stock - Adopted revisions clarify that investments with residual interests are to be reported on Schedule BA on the dedicated residuals reporting line. These revisions are reflected in the annual statement instructions. Effective year-end 2023.

SSAP No. 43R and SSAP No. 48– Residual Tranches - Adopted revisions clarify that securities with residual characteristics should be reported on Schedule BA regardless of their security structure, including whether they are ABS. Effective year-end 2023.

SSAP No. 43R – Collateralized Loan Obligations (CLOs) Financial Modeling - Financial modeling guidance has been revised to include CLOs and to clarify that CLOs are not captured as legacy securities. CLOs not financially modeled, with a credit rating by an NAIC CRP, can use the filing exempt process. Otherwise, CLOs will be reported with an NAIC designation of 5.B and included in the General Interrogatory. Effective January 1, 2024.

SSAP No. 26R and No. 43R – Principles-Based Bond Definition - Adopted revisions define a bond as a security structure representing a creditor relationship with a fixed schedule. The creditor relationship must be in substance, not just in legal form. Qualifying structures are either issuer obligations or asset-backed securities (ABS). Issuer obligations will be reported on Schedule D Part 1, Section 1 and ABS will be reported on Schedule D Part 1, Section 2. ABS are no longer allowed to be reported as short-term or cash equivalent. Debt securities that do not qualify as bonds will be reported on Schedule BA. Effective January 1, 2025.

SSAP No. 2R – Short Term Investments - Adopted revisions further restrict the investments that are permitted for cash equivalent and short-term reporting. The revisions would limit bond investments to issuer credit obligations that qualify under SSAP No. 26R and exclude all Schedule BA assets and mortgage loans from being reported as short-term assets on either Schedule DA or Schedule E Part 2. Effective January 1, 2025.

Int 20-01 – Interest Rate Reform - Modified to extend the expiration date for referencing Libor in financial contracts to December 31, 2024.

Annual reporting updates:

Note 7 instructions and illustrations were revised to reflect the changes to SSAP No. 34 to disclose additional data about accrued income due, deferred interest, and PIK interest. Effective year-end 2023.

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Note 8 revisions include a new disclosure paragraph, illustration, and three electronic-only columns to Schedule DB related to derivatives with excluded components. Additionally, the code “%” in Schedule DB now indicates a derivative has excluded components. Effective year-end 2023.

The Principles-Based Bond Definition project, effective 2025, will include the following schedule updates:

- › Split Schedule D Part 1 into two sections - Section 1 ICO and Section 2 ABS
- › Add new columns to Schedule D Part 1 Sections 1 and 2, e.g., payment due at maturity which includes principal, interest and balloon payments due at maturity, investment characteristics, aggregate deferred interest, paid in kind interest, overcollateralization percentage, etc.
- › Modify reporting categories of these reports, e.g. Summary Investment Schedule, Summary By Country, Schedule DL to be in line with Schedule D Part 1 Sections 1 & 2
- › Modify reporting categories of these reports, e.g. Notes 20A(1) to reflect the two main bond categories, i.e. ICO and ABS
- › Add four columns to Schedule D Verification Between Years for ICO, ABS, Preferred Stocks and Common Stocks.
- › Remove Schedule D Part 1A Section 2
- › Strike down “Section 1” from Schedule D Part 1A Section 1
- › Ban ABS from reporting on Schedule DA or Schedule E Part 2
- › Add four types of deposit to the closed option list for Column 1 on Schedule E Part 3
- › Modify instructions to line 1 on Asset page to include ABS with maturity dates of one year or less
- › Add Agency and Sovereign Jurisdiction to Schedule D Parts 1, 3 through 5
- › Remove Legal Entity Identifier from General Interrogatories Line 29.06
- › Remove column “Legal Entity Identifier” from all investment schedules except for Schedule DB
- › Change column “Code” to “Restricted Asset Code” and remove the symbol codes
- › Move column “Foreign Code” from the printed view to an electronic-only column
- › Add column “Investment Characteristics” to Schedule A and Schedule D Part 2 Section 2
- › Move column “Investments Involving Related Parties” from last electronic column to the first electronic column for all investment schedules that have this column
- › Add columns “Declared but Unpaid Dividends” and “Undeclared Cumulative Dividends” to Schedule D Part 2 Section 1

On-going Projects and Discussions (2024 and beyond):

Exposed revisions to SSAP No. 21R to capture debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26 or SSAP No. 43R and are in scope of SSAP No. 21R.

Exposed revisions to SSAP No. 93 propose to adopt with modification ASU 2023-02 to expand the scope beyond low-income housing tax credits to all qualifying tax credit investments that are made primarily for the purpose of receiving federal tax credits. Additionally, there are exposed revisions to SSAP No. 94R to include all state and federal tax credits allocated to or purchased by a reporting entity.

Exposed Revisions to SSAP No. 34 – Investment Income Due and Accrued, SSAP No. 48 – Joint Ventures, Partnerships and Limited Liability Companies, SSAP No. 93 – Low-Income Housing Tax Credit Property Investments, and SSAP No. 94R – Transferable and Non-Transferable State Tax Credits as part of a project to expand tax credit guidance.

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