



PERSPECTIVES, JANUARY 2020

Statutory Accounting Changes

In this issue of 'Perspectives', we offer a summary of the National Association of Insurance Commissioner's (NAIC) Statutory Investment Accounting and Securities Valuation Office Changes for 2019.

Effective 2019:

- Statement of Statutory Accounting Principles (SSAP) No. 43R updated to eliminate the Modified FE process in determining NAIC designation for securities not financially modeled.
- SSAP No. 43R revised to no longer allow the use of weighted average to report NAIC designation at the CUSIP level. Modeled securities with different designations by lot are required to report the lots separately or in aggregate at the lowest rating.
- SSAP No. 26R revised for situations where the consideration received from a callable bond is less than par, with the portion of consideration that is a prepayment penalty and/or acceleration fee reported as investment income, provided that the reporting entity has a process in place to identify prepayment penalties or acceleration fees. If the consideration received is also less than book adjusted carrying value, the entire difference is reported as investment income.
- A limited scope exception to SSAP No. 26R and 43R for security exchanges as part of the Freddie Mac Single Security Initiative, as it requires the continuation of the amortized cost basis of the security surrendered instead of fair value with realized gains and losses recognized.
- SSAP No. 30R revised to clarify that assets pledged to Federal Home Loan Bank on behalf of an affiliate should be non-admitted.
- Revisions to the definition of common stock in SSAP No. 30R to include non-publicly traded or restricted common stock, closed-end funds, and unit-investment trusts.

Annual reporting updates:

- The administrative symbol of "NR", or not rated, changed to "ND", or not defined.
- Preferred stock prefixes P & RP removed from NAIC designation and new line numbers added to report perpetual and redeemable preferred stocks on Schedule D Part 2 Section 1.
- New categories added to Schedule D and the Summary of Investment Schedule for SEC-registered closed-end funds and unit investment trusts.
- NAIC designation column added to Schedule D Part 2, Section 2 for mutual funds with an SVO-assigned designation.
- Instructions added to Schedule D Parts 4 and 5 for determining realized gains and losses for called bonds when consideration received is less than par or less than par and book adjusted carry value.
- New categories added to Schedule D and the Summary of Investment Schedule for unit-investment trusts and closed-end funds
- Footnote removed from Note 20A (1) to disclose transfers between hierarchy level 1 and level 2 for items reported at fair value.
- Categories and line numbers updated in the Summary of Investment Schedule to be more consistent with current investment schedule classifications.

Effective 2020:

- The Investment Risk-Based Capital Working Group (IRBCWG) adopted a proposal to increase the number of RBC categories for bonds to 20 by using credit rating default probabilities of NAIC CRPs.
- A new NAIC Designation Modifier will be added to NAIC Designation in Schedules D, DL, and BA to reflect the RBC factor granularity, effective YE 2020.
- New category added to Schedules D, DA, DL, and E for unaffiliated certificates of deposits, effective Q1 2020.

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On-going Projects and Discussions (2020 and beyond):

- Exposed revision to SSAP No. 32R to improve the definition of preferred stock as redeemable or preferred.
- Exposed revision to SSAP No. 103R to eliminate the reporting of wash sale transactions if the sale and repurchase of a security occurs in the same reporting period.
- Exposed revision to SSAP No 43R to eliminate financial modeling in determining the final NAIC designation for residential and commercial mortgage-backed securities.
- SAPWG reviewing credit losses to limit GAAP to SAP differences in recognition of impairment when FASB Accounting Standards Update (ASU) 2016-13 went into effect for public business entities January 1, 2020. Further discussion on this item continues with the NAIC working on a new draft issue paper.

¹ ASU 2016-13 – Financial Instruments – GAAP Credit Losses (Topic 326): New impairment guidance for financial instruments will replace the current “incurred loss” model with a forward-looking “expected loss” model for estimating credit losses

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