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Statutory Accounting Principles (E) Working Group

Virtual Meeting

February 25, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Feb. 25, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Richard Russell (AL); Kim Hudson (CA); William Arfanis and Micheal Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Notice of Extended Exposure of Agenda Item 2023-23

Bruggeman discussed agenda item 2023-23: Current Expected Credit Losses (CECL). Wil Oden (NAIC) stated that on Aug. 13, 2024, the Working Group exposed a draft issue paper documenting pre-CECL U.S. generally accepted accounting principles (GAAP) impairment guidance for historical purposes. The comment deadline was initially set for Nov. 8, 2024, but was extended to Dec. 16, 2024.

Interested parties requested more time to ensure accurate descriptions of U.S. GAAP practice versus statutory accounting. On Dec. 19, 2024, the Working Group chair extended the comment period to May 2, 2025, allowing more review time post-2024 year-end statutory filings and the NAIC Spring National Meeting. No further action is needed at this time.

1. Adopted Non-Contested Positions
2. Agenda Item 2024-16

Bruggeman directed the Working Group to agenda item2024-16: Repacks and Derivative Instruments. Julie Gann (NAIC) stated that on Dec. 17, 2024, the Working Group exposed proposed annual statement instructions to clarify that held debt securities sold to a special purpose vehicle (SPV) and then reacquired with added derivative components should be reported as a disposal and reacquisition in the investment schedules. The Blanks (E) Working Group will also expose a related proposal sponsored by the Working Group. She stated that interested parties had no comments on this item.

Malm made a motion, seconded by Hudson, to adopt agenda item 2024-16 (Attachment 1) and indicated support for the Blanks (E) Working Group proposal to clarify the disposal and acquisition reporting for investments that are transferred to an SPV and then reacquired with derivative wrappers or components. The motion passed unanimously.

1. Agenda Item 2024-22

Bruggeman directed the Working Group to agenda item 2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards. Oden stated that agenda item 2024-22 was drafted in response to *Accounting Standards Update (ASU) 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards*, which was issued by the Financial Accounting Standards Board (FASB) to clarify the application of stock compensation guidance on profits interest and similar awards. He stated that profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the company. Oden stated that this ASU was drafted to help companies determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation, or other Topics).

Hudson made a motion, seconded by Clark, to adopt the revisions as exposed, which adopt with modification ASU 2024-01,within *Statement of Statutory Account Principles (SSAP) No. 104—Share-Based Payments* (Attachment 2). The motion passed unanimously.

1. Agenda Item 2024-25

Bruggeman directed the Working Group to agenda item 2024-25: SSAP No. 16 Clarifications*.* Jake Stultz (NAIC) stated that on Nov. 17, 2024, the Working Group moved this item to the active listing, categorized it as a statutory accounting principle (SAP) clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC). He stated that interested parties agreed with the updated references in this agenda item.

Hudson made a motion, seconded by Sherman, to adopt the revisions, as exposed, to clarify the references to the U.S. GAAP ASC (Attachment 3). The motion passed unanimously.

1. Review of Comments on Exposed Items
2. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item2022-14: Tax Credits Project*.* Oden stated that on Aug. 13, 2024, the Working Group exposed draft *Issue Paper No. 170—Tax Credits Project,* providing a historical record detailing the revisions and discussion for the adopted revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits*. Oden stated that since its last exposure, the issue paper was updated for additional developments in the Tax Credits Project. He stated that the comment deadline was extended from Nov. 8, 2024, to Dec. 16, 2024. He stated that interested parties had no comments on the initially exposed draft or the new updated revisions that were recommended by NAIC staff to be made on the issue paper.

Travis made a motion, seconded by Bartlett, to adopt the exposed draft of Issue Paper 170, including additional minor updates proposed by NAIC staff (Attachment 4). The motion passed unanimously.

1. Agenda Item 2024-10

Bruggeman directed the Working Group to agenda item2024-10: SSAP No. 56 Book Value and Separate Accounts.Gann stated that the Working Group first exposed updated revisions to *SSAP No. 56—Separate Accounts* at the 2024 Summer National Meeting. She stated that, at the 2024 Fall National Meeting, the Working Group exposed updated revisions to reflect key comments received by the American Council of Life Insurers (ACLI) with a comment period that ended Jan. 31, 2025. She stated that additional comments received have been incorporated into the documents.

Gann provided the following summary of the comments received:

* In paragraph 24, guidance was simplified to refer to paragraph 18 instead of explaining the contracts in scope. She stated that all revisions were tracked, with the new edit being a single line shaded in paragraph 24.
* An effective date of Jan. 1, 2026, was proposed to allow companies to modify their memorandum of understanding to conform to the new statutory accounting guidance without needing a prescribed or permitted practice.
* Two additional comments were received from interested parties regarding paragraphs 34.c. and 39.f. The comments suggested that the additional disclosures in the original version were unnecessary or duplicative. Gann stated that NAIC staff disagrees, believing the disclosures would benefit state insurance regulators. She stated that the disclosures are similar, one in the general account and one in the separate account, identifying contracts with an inherent or ultimate guarantee back to the general account.

Bruggeman asked whether the Working Group needed to re-expose the edits to paragraphs 22 and 24. He stated that the edits enhance clarity, and the intent remains the same. He said he would not ask for an additional exposure unless someone wanted to do an exposure for those edits.

Gann stated that she had heard informal comments stating that exposure was unnecessary.

Brad Caprari (Prudential Financial), speaking on behalf of interested parties, stated that they did not feel an additional exposure was needed. Rose Albrizio (Equitable), speaking on behalf of interested parties, agreed with Caprari’s comment.

Clark made a motion, seconded by Hynes, to adopt revisions to SSAP No. 56 with an effective date of Jan. 1, 2026, with early adoption permitted (Attachment 5). The motion passed.

The revisions clarify the measurement method guidance and prescribe guidance for how transfers to/from the general account and separate account shall be recognized. The revisions were adopted with limited changes from the prior exposure, as detailed below:

• Paragraph 22 was revised to incorporate language for the treatment of Interest maintenance reserve (IMR), referring to the language in paragraphs 20 and 21.

• Paragraph 24 was revised to exclude contracts captured in paragraph 18 instead of referring to products that would be captured as separate accounts products under U.S. GAAP.

* Paragraph 49 was added to incorporate the effective date language.

1. Agenda Item 2024-23

Bruggeman directed the Working Group to agenda item2024-23: Derivative Premium Clarifications. Oden stated that the Working Group exposed this agenda item at the 2024 Fall National Meeting and proposed revisions to *SSAP No. 86—Derivatives* to clarify two issues: 1) to clarify language regarding financing premiums; and 2) clarify the calculation of realized losses in relation to derivative premium. He stated that interested parties provided comments on the proposal. Bruggeman suggested that the proposed revisions for Issue 2 (calculation of realized losses in relation to derivative premium) be captured in the discussion of *Ref #2024-15: ALM Derivatives*. Oden stated that NAIC staff agreed with industry on this point as the Working Group’s ongoing discussions on IMR and asset-liability management (ALM) derivatives may significantly impact the treatment of derivative premium costs when calculating realized losses. He stated that NAIC staff recommended the Working Group adopt the exposed revisions to SSAP No. 86 related to financing premium (Issue 1). He stated that the revisions recommended for adoption only included the revisions recommended for financing premium. Oden stated that NAIC staff also recommended that the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium costs be combined with agenda item 2024-15.

Bruggeman stated it was exposed as a change but only related to the financing premium. He asked whether the revisions to paragraph 63.h.i. are also related to the issue and will be considered part of agenda item 2024-15.

Oden stated that the track changes would be related to the financing premium and that the last sentence is to clarify that for the purpose of this statement, sometimes financing premiums are called unpaid or deferred premiums. He stated that the edits are to clarify that they may be called different things, but unpaid or deferred premiums are still financing premiums. He stated that every edit was related to the finance and premium changes and that items related to clarifying the calculation of realized losses when deferred premium costs are not included in this recommended adoption.

Hudson made a motion, seconded by Travis, to adopt SAP clarification revisions to SSAP No. 86 (Attachment 6) and the annual statements related to financing premium (Issue 1).The motion passed unanimously. The Working Group also directed NAIC staff to incorporate the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium (Issue 2) into agenda item 2024-15: ALM Derivatives for further consideration. The rationale for this movement was based on discussions with interested parties, where it was noted that there are several complicating factors when trying to clarify this calculation but also that the main concern on the inclusion of derivative premium costs in the calculation of realized losses was that it could be capitalized into IMR and deferred.

1. Agenda Item 2024-24

Bruggeman directed the Working Group to agenda item2024-24: Medicare Part D – Prescription Payment Plan. Robin Marcotte (NAIC) stated that, at the 2024 Fall National Meeting, the Working Group exposed the tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. She stated that the Working Group also directed notice of the exposure to the Health Insurance and Managed Care (B) Committee and the Health Risk-Based Capital (E) Working Group and directed NAIC staff to coordinate the annual statement blanks proposals and develop disclosures for future discussions. Marcotte stated that the Medicare prescription payment plan (MPPP) is a new program that offers Medicare Part D enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments over the course of the year instead of all at once at the pharmacy counter.

INT 24-02 was developed with input from health industry representatives and provides statutory accounting and reporting guidance for aspects of MPPP. Key components of the MPPP guidance include the following:

* Allows admitted asset treatment for receivables from MPPP participants that are less than 90 days overdue with reporting on the health care receivables asset line.
* MPPP recoverables from participants which are more than 90 days overdue based on program billing requirements are nonadmitted.
* MPPP recoverables are also subject to impairment analysis.
* Uncollectible receivables from MPPP participants that are written off are reported as a Medicare prescription claims expense.

Marcotte stated that interested parties indicated that they supported the comment letter from AHIP and the Blue Cross Blue Shield Association (BCBSA), which provided extensive comments. She stated that NAIC staff recommended a shortened exposure until March 5, 2025, to allow for discussion of the updated INT 24-02 and the previously exposed (unchanged) minor edits to INT 05-05 at the 2025 Spring National Meeting. She stated that most of the revisions AHIP and the BCBSA suggested have been incorporated, with a few additional clarifications. She stated that the revisions do not change the key accounting provisions. She stated that NAIC staff request comments relating to the methodology of recording a contract claim expense. She stated that the comments received suggested that it be optional, and while NAIC staff agree that it is not the only way to do it, the illustration does not work without it. So, comments are requested regarding whether there is an alternative preferred methodology.

Marcotte stated that a disclosure Form A will be included in the 2025 Spring National Meeting materials and a related blanks proposal on the disclosures.

Tom Finnell (AHIP) stated that AHIP is supportive of the exposure and appreciates the NAIC staff’s engagement in reviewing additional terminology revisions. He stated that many of the changes are not substantive and that the key substantive conclusions are that assets are admitted subject to admission and impairment testing and, when written off, go to claims costs. He stated that AHIP had no comments on those points and is happy with them. He said AHIP supports the suggestion to re-expose it for a brief period. He stated that, regarding the last item about alternative accounting methods, AHIP consulted its companies, and they are supportive of the version in the INT 24-02. He stated that AHIP will not propose an alternative option.

Bruggeman stated that the INT 24-02 is for a unique program to help apply statutory accounting. He stated that providing the example at the end was an ideal way to ensure consistency across the industry. He stated that, if that seems to be working, he favors a short exposure period of about eight days so the Working Group can review it again at the 2025 Spring National Meeting and finalize it for the industry. He stated that this program started in January 2025, and industry wants as much direction as possible for first-quarter reporting.

Hudson made a motion, seconded by Hynes, to re-expose the revised INT 24-02: *Medicare Part D Prescription Payment Plans* and the previously exposed minor edits to INT 05-05*: Accounting for Revenues Under Medicare Part D Coverage* for a shortened comment period ending on March 5 to allow for discussion at the 2025 Spring National Meeting. In addition, the NAIC staff was directed to continue with the blanks proposals on this topic with the goal of incorporation into the 2025 annual statement instructions.

1. Agenda Item 2024-27

Bruggeman directed the Working Group to agenda item2024-27: Issue Papers in the Statutory Hierarchy. Gann stated that on Dec. 17, 2024, the Working Group exposed revisions to classify issue papers as Level 5 of the statutory hierarchy. She stated that, currently, they are not in the statutory hierarchy. Gann stated that comments were received in response to the bond definition guidance, inquiring whether issue papers should be named in the hierarchy. She stated that NAIC staff agreed and proposed Level 5 placement, indicating they can be followed as guidance but should be subsequent to all other adopted statutory accounting guidance. She stated that issue papers are not updated after initial adoption; therefore, any subsequent revisions should be considered more pertinent or authoritative than the original issue paper guidance. Gann stated that comments from interested parties suggested placing them in Level 4, but NAIC staff still recommend Level 5. She stated that NAIC staff recommend the revisions detailed in the *Accounting Practices and Procedures Manual (*AP&P), including the Preamble, the introduction to Appendix E - Issue Papers, the guidance titled “How to Use this Manual,” and the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, to incorporate issue papers in Level 5.

Bruggeman supported the NAIC staff's logical thought process in settling on Level 5. He noted that this made a lot of sense, especially when incorporating CECL, an old U.S. GAAP topic, into an issue paper. He stated that, at that time, issue papers did not exist in the hierarchy. He stated that placing them in Level 5, like non-authoritative U.S. GAAP guidance and literature, seemed the most appropriate.

Hudson stated that California supports placing issue papers in Level 5.

Keith Bell (Travelers Companies Inc. – Travelers), representing interested parties, stated that the placement of the issue papers in the statutory accounting hierarchy is unclear as to the intent. He stated that, additionally, interested parties were concerned that the change might undercut the statutory accounting framework by placing a deliberative body of work that the Working Group produced, which provides the basis for many of the various SSAPs, at the bottom of the hierarchy. He stated that historically, the statutory hierarchy was put in place when statutory accounting was codified and was based on the U.S. GAAP hierarchy that existed at that time, which came from *Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles” in the Independent Auditor's Report*. He stated that the hierarchy was intended to provide guidance when there is conflicting guidance from different sources.

Bell stated that, in the updated background materials for the meeting, it was noted that some users perceived the site issue paper guidance as authoritative, particularly once the issue paper had been posted on the NAIC website, even though the guidance had been replaced by more recent statutory accounting guidance. He stated that, in reviewing the wording in the preamble, the guidance in paragraph 42 is clear that if there is a conflict between the guidance and the levels of the hierarchy, the preparer, regulator, or auditor should follow the treatment specified by the source and the higher level. He stated that if companies or others are misapplying this guidance, that risk will continue no matter the level at which issue papers are placed. He stated that interested parties believe the issue papers fit well in Level 4, along with the SAP Preamble and the statement of concepts. He stated that the rationale for that placement is that it provides the conclusions for all of the SSAPs and the guidance that ended up in the SSAPs, analogous to the basis of conclusions that the FASB used to include in its financial accounting standards. Bell stated that the recent examples of why they think this is appropriate are, as previously cited, the bond issue paper, CECL, and, more recently, the adoption today of Issue Paper No. 170. He stated that interested parties thought a better approach to address the concerns included in the materials was to include the issue papers in Level 4 and add a note to Level 4 of the table emphasizing that more recent SSAPs may supersede certain guidance in the issue papers. He stated that this would also address the problem of having to update an issue paper every time a change to an SSAP is adopted.

Bruggeman stated that issue papers previously were not defined anywhere, and placing them in Level 4 with comments seems to overlook the established hierarchy. He stated that if the issue paper is a historical record of what happened, especially during codification, many of these issue papers are almost identical to the adopted SAPs. He stated that if the SAP was amended later, the issue paper would not always be updated, particularly within several years of the effective date of codification. He stated that issue papers were meant to document the historical context, especially moving from the old life and health and property/casualty (P/C) books into codification.

Bell stated that no matter which level they are placed in, it would be helpful to add a note under the table to point out that the issue papers may have obsolete guidance in relation to more recent SSAPs.

Gann stated that an editorial note could be prepared for future discussion to clarify that the issue papers may be out of date. Bell stated that there is currently nothing in the notes that addresses the issue papers because the issue papers were not included there previously.

Bruggeman stated that the Working Group should keep issue papers in Level 5 for now and not try to wordsmith anything on the call. He stated that they could look at it afterward and, if necessary, provide an update at the 2025 Spring National Meeting and discuss it briefly at that time if warranted.

Hudson made a motion, seconded by Walker, to adopt the exposed revisions to classify issue papers in Level 5 of the statutory hierarchy (Attachment 7). The motion passed unanimously.

1. Agenda Item 2024-28

Bruggeman directed the Working Group to agenda item2024-28: Holders of Capital Notes. Gann stated that on Dec. 17, 2024, the Working Group exposed revisions to *SSAP No. 41—Surplus Notes* to incorporate changes clarifying capital note references and guidance. She stated that, although capital notes were previously included in SSAP No. 41, there was not much discussion on these instruments and that the focus was primarily on surplus notes. She stated that, with the principle-based bond definition and clarification of certain instruments, updating the definitions and guidance for capital notes was deemed necessary.

Gann stated that the Working Group exposed revisions and received some comments from interested parties, with most edits being minor. First, there was a question regarding paragraph 9.a. of SSAP No. 41, which addresses the admittance of surplus notes and capital notes based on equity limits. She stated that when NAIC staff reviewed this, it did not make sense in the accounting guidance since there were no admittance limits on equity items. Whether this guidance was specific to identifying limits according to state investment laws was considered. She stated that, with the exposure, NAIC staff recommended two options: deleting the paragraph entirely or incorporating proposed revisions to reference state investment laws. She stated that today, NAIC staff recommend deleting paragraph 9.a., consistent with comments received from interested parties and feedback from state insurance regulators who support the deletion. Gann stated that if the Working Group chooses not to delete paragraph 9.a., NAIC staff recommend leaving it unchanged and not incorporating the proposed edits, as the comments indicate these do not align with state investment laws. She stated that the Working Group would need to revisit this paragraph in a separate agenda item to tailor it correctly to refer to the original intent. Gann stated that, additionally, there are edits to paragraphs 18.c. and 21 as recommended by interested parties. She stated that paragraph 21 was a disclosure exposed with edits deemed no longer necessary, as the disclosure would be challenging to complete. She stated that interested parties noted that paragraph 18.c. was similar in this regard, and NAIC staff agreed. She stated that NAIC staff proposed deleting paragraph 18.c. and adding a reference to related parties in paragraph 21. Gann stated that all these disclosures are narrative only and are not data captured. Gann stated that the last comments received related to paragraph 9.b., which addresses non-admittance if a surplus note or capital note is no longer paid. She stated that the guidance was revised to clarify that capital notes should be non-admitted if payments for principal or interest are halted. She stated that interested parties did not support this language but that NAIC staff believed it should be retained under the concept of conservatism. Gann stated that the guidance already indicates that once payment resumes, the capital note can be admitted again. She stated that non-admittance would only occur when payment is halted under paragraph 9.b. She stated that NAIC staff recommend adopting the exposed edits to SSAP No. 41 with the deletion of paragraph 9.a. and the edits to paragraphs 18.c. and 21. She stated that NAIC staff do not recommend changes to the exposed edits for paragraph 9.b.

Bruggeman stated that the proposal essentially moves paragraph 18.c. into paragraph 21, which eliminates some redundancy. He stated that regarding paragraph 9.b., non-admitting rather than doing an other temporary impairment, which would be a write-down, provides more flexibility. He stated that if payments resume, a write-down cannot be reversed. However, non-admittance is conservative and offers flexibility, as once the principal or interest payments resume, the value can be restored accordingly. He stated that it is up to the Working Group to determine how many capital notes are out there and the significance of the regulatory authority to halt principal and interest payments. He also noted that the original paragraph 9.a., part of the original books, was carried over into SSAP No. 41 without much comment during the codification process. Bruggeman stated that if it is causing issues and not serving a purpose, it makes sense to delete it.

Mike Reis (Northwestern Mutual), representing interested parties, stated that they found it onerous to not admit the capital notes if interest was paused for a year or two. He mentioned that he understood the rationale but wanted to make this note.

Clark stated that this approach is consistent with the treatment of surplus notes, which was used as a rationale for scoping these similar instruments. He mentioned that trying to measure an other-than-temporary impairment (OTTI) when a state insurance regulator is exercising their discretion on whether to allow payments to continue would be difficult to do reliably. He stated that, from a company perspective, they are not evaluating the entity's financial strength or collateral values but rather trying to predict regulatory decisions. This is why non-admittance likely makes sense for this type of investment.

Clark made a motion, seconded by Sherman, to adopt SAP clarification revisions to *SSAP No. 41—Surplus Notes* (Attachment 8). The motion passed with limited changes from the exposure.

Comments reviewed are included in Attachment 9.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Hearing/03 - Meeting Minutes 02-25-25.docx