Statutory Accounting Update

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Effective 1/1/2017:

- Statement of Statutory Accounting Principles (SSAP) No. 26 and 43R updated to clarify how investment income and gain/loss should be calculated when a bond is called, with new disclosure to report investment income received as a result of a prepayment or acceleration fee (i.e., Consideration [Call Price] – Par = Income and Par – Book Adjusted Carry Value = Gain/loss). The new accounting treatment increases what had previously been reported in income and decreases what had previously been reported in realized gain/loss for calls above par.

Effective 12/31/2017:

- Revisions to SSAP No. 2R to reclassify money market mutual funds (MMMFs) from short term investments to cash equivalents and require all MMMFs be reported at fair value (allowing NAV as a practical expedient) on Schedule E part 2 instead of Schedule DA Part 1. Exempt MMMFs no longer will be included on Schedule D Part 1A or Quarterly D Part 1B (2018). No change in RBC charges.
- Annual Schedule D Part 1 electronic column changes:
    - ➢ Reduced the number of collateral types reported from 21 to 10
    - ➢ Capital structure code #4 changed from "Other" to "Not Applicable"
- New annual and quarterly interrogatory to certify self-designated 5* securities meet the guidelines set forth in the Purposes and Procedures Manual, replaces the SVO filing requirement for securities that fall under the 5* criteria.
- Revisions to SSAP No. 26R to clarify the scope of the statement and other matters, as follows:
    - ➢ Bond definition - adopts the Generally Accepted Accounting Principles (GAAP) definition of a security used in Financial Accounting Standards Board (FASB) Codification Topic 320 and 860: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has specific characteristics.
    - ➢ Equity and fund investments, such as mutual funds and exchange-traded funds (ETFs), do not meet the definition of bonds.
    - ➢ Certain bond mutual funds and ETFs identified in the Purposes and Procedures Manual of the NAIC Investment Analysis Office remain within the scope of the statement but have explicit guidance:
        - o Fair value – valued and reported at fair value (net asset value as a practical expedient); or
        - o Systematic value – if the bond mutual fund or ETF qualifies – and the reporting entity elects to use the documented systematic value approach – the investment is valued and reported at the systematic value, which is similar to amortized cost.
    - ➢ Adds a definition of "security," "non-bond", and "fixed-income" within the statement.
    - ➢ Only U.S. Treasury Inflation Indexed Securities (TIPS) are eligible for recording the inflation adjustment as an unrealized gain. All other inflation securities must be carried at amortized cost without adjustment.

Effective 2018:

- Bond ETFs may be valued at systematic value or fair value. The valuation method election must be made by 12/31/2017 and tagged on the annual statement. The election is irrevocable.
- A new line will be added to Schedule D Verification to report prepayment income from callable bonds, with an update to Consideration

reported on Schedule D Verification and Schedule D Part 4, starting Q1 2018.

On-going Projects and Discussions (2018 and beyond):

- Insurers may be required to use Filing Exempt (FE) ratings from the SVO instead of calculating the rating based on market data, with a new Reporting Exception (RE) suffix used if a discrepancy is found.
- SAPWG proposed amendment to SSAP No. 100 to specify when NAV is allowed to be used as fair value.
- Risk Based Capital Working Group (RBCWG) is likely to increase the number of corporate bond factor categories from 6 to 20, targeting 2018 for implementation.
- SAPWG/SVO has proposed that insurers submit a mid-year electronic only data filing for Schedule D investments detailing CUSIP, par value, book/adjusted carrying value and fair value as part of the Q2 filing due each August 15.
- SAPWG reviewing credit losses to prevent GAAP to SAP differences in recognition of impairment when FASB Accounting Standards Update (ASU) 2016-13[1] goes into effect for public business entities January 1, 2020 – significant changes expected.

[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

IMPORTANT INFORMATION

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