PERSPECTIVES, JANUARY 2021

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 2020.

Effective 2020:

- Statement of Statutory Accounting Principles (SSAP) No. 2R revised to restrict the classification of affiliated bonds, affiliated and non-affiliated loan-backed and structured securities, and investments that would be captured on Schedule BA as cash equivalent or short-term investments. Revisions also added to capture qualifying cash pools that previously had not been addressed in SSAP No. 2R.

- SSAP No. 26R revised to clarify that future assessments to determine temporary impairment will be based on the modified contractual terms of the debt instrument.

- SSAP No. 43R disposed revisions to eliminate financial modeling in determining the final NAIC designation for residential and commercial mortgage-backed securities and instead adopted revised guidance in the Purposes and Procedures Manual that the model output will be mapped to a specific designation category.

- Temporary Interpretations (INT) for Statutory Accounting 20-01: Reference Rate Reform adopts, with modification, FASB guidance for transitioning from LIBOR, effective March 12, 2020 to December 31, 2022.

- INT 20-03: 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, effective March 1, 2020 and ending on the earlier of December 31, 2020 or 60 days after the Covid-19 national emergency ends.

- INT 20-04: Mortgage Loan Impairment Assessment Due to Covid-19 defers impairment assessment of mortgage and bank loans provided that the loan modification or forbearance was granted in response to Covid-19 and that the loan was current at December 31, 2019, effective for Q1, Q2, and Q3 2020 reporting periods.

- INT 20-05: Investment Income Due and Accrued allows investment income that is deemed collectible to be admitted even if more than 90 days overdue for mortgage and bank loans not in default, effective for Q1, Q2, and Q3 2020 reporting periods.

- INT 20-07: 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, effective March 1, 2020 and ending on the earlier of December 31, 2020 or 60 days after the Covid-19 national emergency ends.

Annual reporting updates:

- A new NAIC designation modifier added to Schedule D, DL, and BA to provide more credit quality granularity.

- Instructions clarified for which funds reported on Schedule D Part 2 Section 2 must have an NAIC designation, modifier, and SVO Administrative Symbol.

- Instructions modified for Supplemental Investment Risk Interrogatories (SIRI) lines 13.02 through 13.11 to require a look-through of non-diversified funds to aggregate exposures to determine the top 10 equity interests. A look-through is not required for diversified funds.

- Instructions modified for SIRI to require the completion of lines 14.06 through 14.15 to report the top 10 fund managers regardless of the answer to 14.01.

- A new code of "%" added for investments that have been reported on Schedule DA Part 1 and E Part 2 for more than one consecutive year.

- A new collateral type code of "10" added for ground lease financing in Schedule D Part 1, with collateral type "Other" renumbered to "11".

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- New line 4.05 added to the Summary of Investment Schedule for valuation allowance for mortgages loans.

Effective 2021:

- 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, effective 1/1/2021.
- SSAP No. 32R revisions made to the definitions of redeemable and perpetual preferred stock to be consistent with US GAAP and to clarify the measurement and impairment guidance for preferred stocks, effective 1/1/2021.
- A new category line added to Schedule E Part 2 and a new disclosure 5R added to the Notes to Financial Statements for Qualified Cash Pools, effective Q1 2021.

On-going Projects and Discussions (2021 and beyond):

- SSAP No. 26R proposed revisions to clarify that perpetual bonds be reported at fair value, not to exceed any current effective call price.
- RBCWG exposure to remove hybrid securities from the Equity Asset page and report them on the Bond Asset page.
- SAPWG reviewing credit losses to limit GAAP to SAP differences in recognition of impairment when FASB Accounting Standards Update (ASU) 2016-13 goes into effect for public business entities January 1, 2020. Further discussion on this topic remain ongoing.

[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