



# May 2023 SAPWG Call

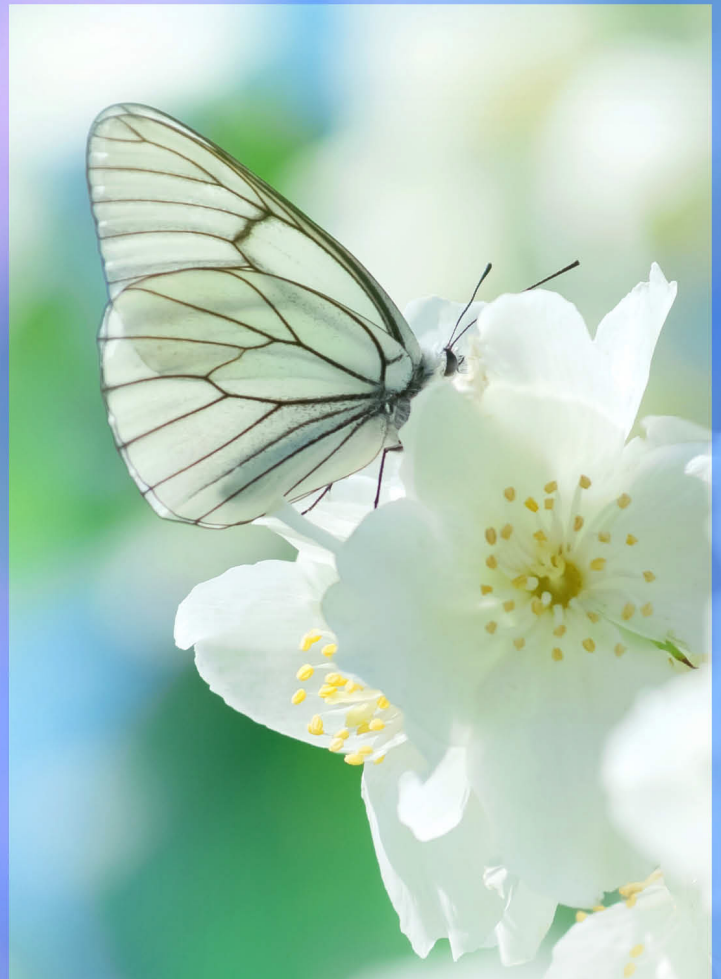
## Issues & Trends

Latest SAPWG actions include the exposure of its clarification about paid-in-kind interest disclosures and reporting for residual tranches.

May 2023

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## Meeting highlights

During its call on May 16, 2023, the Statutory Accounting Principles Working Group (SAPWG) **adopted** the following guidance:

- INT 22-02 to extend its effective date through August 16, 2023. The INT provides an exception to insurers when assessing the effects on the insurer's valuation allowance and deferred tax assets from the Corporate Alternative Minimum Tax (CAMT).

SAPWG **exposed** revisions to the following guidance:

- SSAP No. 34 to further clarify disclosures and incorporate a practical expedient for the paid-in-kind (PIK) interest aggregate disclosures.
- SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches.

Accounting highlights >>	
<b>PIK interest disclosure</b>	SAPWG exposed revisions to SSAP No. 34 to further clarify disclosures and incorporate a practical expedient for the PIK interest aggregate disclosures. <sup>1</sup> Comments are due June 30, 2023.
<b>Residual interests</b>	SAPWG exposed revisions to SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches. <sup>2</sup> Comments are due June 30, 2023.
<b>C-2 mortality risk disclosure</b>	SAPWG deferred proposed revisions to SSAP Nos. 51R, 59, and 61R to add detailed disclosures for the net amount at risk to support updates to the life risk-based-capital (RBC) C-2 mortality risk charges. It referred the comments received to the Life RBC Working Group. <sup>3</sup>
<b>New market tax credits and tax equity investments</b>	SAPWG exposed revisions to SSAP Nos. 93 and 94R to include tax credit investments that provide federal business tax credits and state premium tax credits if they meet specified criteria. <sup>4</sup> Comments are due June 30, 2023.
<b>Corporate alternative minimum tax guidance</b>	SAPWG adopted revisions to INT 22-02 to extend its effective date through August 16, 2023. <sup>5</sup> The INT provides an exception to insurers when assessing the effects on the insurer's valuation allowance and deferred tax assets from the CAMT.

<sup>1</sup> SSAP No. 34, Investments Income Due and Accrued

<sup>2</sup> SSAP No. 43R, Loan-Back and Structured Securities; SSAP No. 48, Joint Ventures, Partnerships, and Limited Liability Companies

<sup>3</sup> SSAP No. 51R, Life Contracts; SSAP No. 59 Credit Life and Accident and Health Insurance Contracts; SSAP No. 61R, Life, Deposit-Type and Accident and Health Reinsurance

<sup>4</sup> SSAP No. 93, Low-Income Housing Property Tax Credits; SSAP No. 94R, Transferable and Non-Transferable State Tax Credits

<sup>5</sup> INT 22-022, Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax

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## Accounting highlights

### PIK interest disclosure

SAPWG exposed revisions to SSAP No. 34 to further clarify disclosures and incorporate a practical expedient for the PIK interest aggregate disclosures. Comments are due June 30, 2023.

The proposed revisions add a footnote to SSAP No. 34 stating that disclosure of the cumulative amount of PIK interest included in the current principal balance or par value insurers would:

- identify the specific amounts of PIK interest by lot and aggregate the amounts by CUSIP/PPN that have a net increase to the original par value;
- apply any decreasing amounts such as disposals (i.e. repayments or sales) to any PIK interest outstanding first when calculating the net increase that includes PIK interest; and
- allow insurers to use a practical expedient to calculate the cumulative amount of PIK interest on a bond by subtracting the original principal or par value from the current principal or par value, not to be less than zero.

The proposed revisions are in response to questions received about how paydowns and disposals would affect PIK interest included in the cumulative balance.

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### Residual interests

**Action.** SAPWG exposed revisions to SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches. Comments are due June 30, 2023.

The revisions clarify that:

- investment structures captured in the scope of SSAP No. 48, which represent residual interests or that predominantly hold residual interests, would be reported on the dedicated residual reporting line on Schedule BA, Other Long-Term Assets;
- residual interests or residual security tranches:
  - exist in investment structures that are backed by a discrete pool of collateral assets;
  - could be backed directly or indirectly through a feeder fund;
  - receive residual cash flows after all debt holders receive contractual interest and principal payments; and

## Accounting highlights

- the substance of the investment rather than the legal form of the structure should be used to determine whether a security reflects a residual interest or a residual security tranche.

Proposed revisions also provide common characteristic of residual interests or residual security tranches, including that residuals:

- often do not have contractual principal or interest;
- may have stated principal or interest but the terms result in the holder of a residual interest or a security tranche receiving the residual cash flows of the underlying collateral;
- do not have credit rating or NAIC assigned designations;
- may provide payment throughout the investment duration, but the payments received continue to reflect the residual amount after other tranche holders receive their contractual principal and interest payments; and
- frequently have contractual triggers that divert cashflows to debt holders if the structure becomes stressed.

The proposed revisions are a result of a Valuation and Securities Task Force referral and discussion at the Spring national meeting that suggested residuals may be underreported because of the many legal forms of residual investments.

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## C-2 mortality risk disclosure

**Action.** SAPWG deferred revisions to SSAP Nos. 51R, 59, and 61R to add detailed disclosures for the net amount at risk to support updates to the life RBC C-2 mortality risk charges. It referred the comments received to the Life RBC Working Group.

The deferral is in response to comments from interested parties , including:

- a recommendation that the proposed changes are included in a different part of the Annual Statement, apart from the notes to the financial statements;
  - an observation about possible redundancies between the proposed disclosures and other exhibits within the Annual Statement; and
  - a question about whether all of the elements are necessary for the life RBC C-2 mortality risk charge calculation.
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## New market tax credit and tax equity investments

SAPWG exposed revisions to SSAP Nos. 93 and 94R to include tax credit investments that provide federal business tax credits and state premium tax credits if they meet specified criteria. Comments are due June 30, 2023.

## Accounting highlights

The proposed revisions to SSAP 93 include:

- expanding the scope to include tax credit investments irrespective of structure which is a departure from US GAAP that only applies to tax equity investments;
- providing guidance on the investment structures that would be in the scope; and
- applying the proportional amortization method in ASU 2023-02.<sup>6</sup>

The proposed revisions to SSAP No. 94R include:

- expanding the scope to include all state and federal tax credits that have been allocated to or purchased by an insurer;
- requiring tax credits be recorded at face value;
- recognizing a loss immediately for acquisitions at a premium; and
- deferring the gain as a miscellaneous liability for acquisitions at a discount until the insurer has used tax credits in excess of the acquisition cost.

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## Corporate alternative minimum tax guidance

**Action.** SAPWG adopted revisions to INT 22-02 to extend its effective date through August 16, 2023. The INT provides an exception to insurers when assessing the effects on the insurer's valuation allowance and deferred tax assets from the CAMT.

The extension allows INT 22-02 to be applied through the second quarter of 2023 with disclosures required. The nullification date of August 16, 2023 is the day after quarterly statements are due and is consistent with the expiration date requested by interested parties.

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<sup>6</sup> ASU 2023-02, Investments- Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)

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# Acknowledgments

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We would like to acknowledge the efforts of the main contributors to this Issues & Trends.

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