September 2023 SAPWG Call

Issues & Trends

Latest SAPWG actions include adoption of guidance related to reporting for residual interests and how to assess corporate alternative minimum tax.

October 2023

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Contents

1 Meeting highlights

During its September 2023 call, the Statutory Accounting Principles Working Group (SAPWG) **adopted** the following guidance.

- Revisions to SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches.
- Revisions to INT 23-02 to provide guidance on how insurers assess the effects of the corporate alternative minimum tax (CAMT) and provide disclosures for the third quarter 2023.
- INT 23-03 to provide guidance on assessing the effects of CAMT for periods on or after the 2023 year-end.

Accounting highlights >>	
Residual interests	SAPWG adopted revisions to SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches. Revisions are effective December 31, 2023.[1]
Application of CAMT to third quarter 2023	SAPWG adopted revisions to INT 23-02 to provide guidance on how insurers assess the effects CAMT and provide disclosures for the third quarter 2023.[2] INT 23-02 will automatically nullify on November 16, 2023.
CAMT guidance	SAPWG adopted INT 23-03 to provide guidance on assessing the effects of CAMT for periods on or after the 2023 year-end.[3]

1 SSAP 43R, Loan-Back and Structured Securities; SSAP No. 48, Joint Ventures, Partnerships, and Limited Liability Companies

2 INT 23-02, Third Quarter 2023 Inflation Reductions Act – Corporate Alternative Minimum Tax

3 INT 23-03, Inflation Reduction Act – Corporate Alternative Minimum Tax

2 Accounting highlights

Residual interests

Action. SAPWG adopted revisions to SSAP Nos. 43R and 48 to clarify the scope and reporting of residual interests and residual security tranches. Revisions are effective December 31, 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, are reported on the dedicated residual reporting line on Schedule BA, Other Long-Terms Assets;
- residual interests or residual security tranches:
  - exist in investment structures backed by a discrete pool of collateral assets;
  - could be backed directly or indirectly through a feeder fund; and
  - receive residual cash flows after all debt holders receive contractual interest and principal payments;
- the substance of the investment rather than the legal form of the structure is used to determine whether a security is a residual interest or a residual security tranche.

The revisions also provide information about common characteristics of residual interests or residual security tranches, including that residuals:

- often do not have contractual principal or interest;
- may be structured with terms that appear to be stated principal or interest but 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 revisions are a result of a Valuation of Securities Task Force referral and discussion at the Spring meeting that suggested residuals may be underreported because of the many legal forms of residual investments.

Application of CAMT to third quarter 2023

Action. SAPWG adopted revisions to INT 23-02 to provide guidance on how insurers assess the effects of CAMT and provide disclosures for the third quarter 2023. INT 23-02 will automatically nullify on November 16, 2023.

The interpretation:

- allows insurers to not include the effects of CAMT on the insurer's valuation allowance estimate and deferred tax assets (DTA);
- includes a subsequent event exception; and
- directs insurers to disclose:
  - any information available about their applicable entity status; and
  - the estimate of CAMT 2023 liabilities for third quarter 2023, if available or that a reasonable estimate is not feasible.

Corporate alternative minimum tax guidance

Action. SAPWG adopted INT 23-03 to provide guidance on assessing the effects of CAMT for periods on or after the 2023 year-end.

INT 23-03:

- does not revise SSAP No. 101, rather it clarifies existing guidance;[4]
- relies on tax allocation agreements (TAA) to allocate the consolidated CAMT for purposes of admittance calculation; and
- introduces a principles-based approach that could be applied by all insurers.

INT 23-03 applies to insurers that are not subject to CAMT, those that are subject to CAMT, and those that may or may not meet the TAA exclusion.

To meet the exclusion, the TAA will need to:

- exclude the insurer from charges for any portion of the group's CAMT; and
- not allocate any portion of the group's CAMT credit carryover to the insurer.

Insurers that meet the TAA exclusion are not required to calculate or recognize CAMT in their current or deferred tax computation. Insurers that do not meet the TAA exclusion, are included in a consolidated tax return and are subject to a qualifying TAA will recognize the amount of CAMT payable (expense) or CAMT tax credit carryforward in accordance with the TAA.

The INT provides guidance for recognition of CAMT payable, DTA and statutory valuation allowance (SVA) that is consistent with SSAP No. 101. It states that the determination of a SVA for CAMT DTA depends on whether

4 SSAP No. 101, Income Taxes

the insurer is a part of a tax-controlled group or a stand-alone unaffiliated corporation:

- if part of a consolidated tax return group, the insurer uses the SVA assessment for the CAMT DTA completed at the consolidated tax return group level; or
- if a separate return filer, the insurer estimates the SVA for all deferred taxes, including CAMT DTA, in determining their total adjusted gross DTA.

An insurer is allowed to make an accounting policy election to either consider or disregard CAMT when evaluating the need for a SVA for its non-CAMT DTAs.

The INT states that the DTA for a CAMT credit allocated to the insurer is an admitted asset subject to the following admissibility guidance:

- it is a CAMT payor or is part of a tax-consolidated group that is a CAMT payor; and
- the use of the CAMT credit is contingent on the actions and tax paying behaviours of the consolidated return group that may potentially put the group below the CAMT threshold, thus prohibiting it from being used.

The INT also states that insurers that meet or exceed the top line of the Realization Threshold Limitation Table in SSAP No. 101 are not required to consider the CAMT when calculating the with- and without tax liability for purposes of determining the amount expected to be realized under SSAP No. 101, paragraph 11.b.i.

The CAMT DTA is treated the same as other DTAs for admittance under paragraph 11.c of SSAP No. 101.

Transition guidance allows insurers to rely on amended TAA filed by year-end with the domiciliary regulator while it is under review provided that the domiciliary regulator confirms, in writing, that it does not object to the new TAA amendment.

Insurers are also required to disclose whether they are a non-applicable entity, an applicable entity with tax allocation agreement exceptions or an applicable entity. For applicable entities without TAA exclusions, insurers also disclose:

- the accounting policy election made to consider or disregard CAMT when evaluating the need for a valuation allowance for its non-CAMT DTAs; and
- material modifications to the methodology used to project CAMT.

Insurers continue to be subject to all disclosures required by SSAP No. 101.

On the call in September, interested parties proposed revisions to clarify language that could cause misinterpretation within the industry and inconsistency in treatment. They also requested that the transition guidance be updated to allow the use of an amended TAA filed with the domiciliary regulator before December 31, 2023, if the domiciliary regulator has not provided written objection.

SAPWG agreed to make most of the clarifying changes. However, regulators commented that the proposed transition language may be considered by some states to override state authority. They stated this is an issue for domiciliary regulators and revisions should not be included in the INT, rather the insurer can work with their domiciliary regulator to gain approval before filing the Annual Statement. Therefore, they did not make this requested revision by interested parties.

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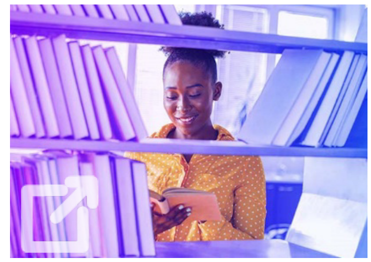

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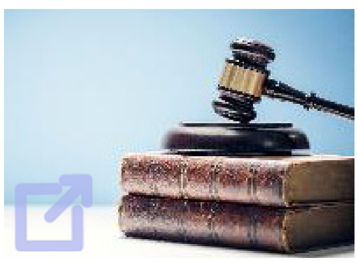

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Acknowledgments

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