NAIC February 2024 SAPWG Call

Issues & Trends

Latest SAPWG actions include adoption of guidance related to disclosures of collateral loans.

March 2024

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Contents

1 Meeting highlights

During its February 2024 call, the Statutory Accounting Principles Working Group (SAPWG) **adopted** the following guidance.

- Revisions to SSAP No. 21R to add a disclosure to expand the reporting lines on Schedule BA to detail admitted and nonadmitted collateral loans based on the type of collateral that secures the loan.

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

- SSAP 21R to incorporate the effective yield with a cap method to measure residuals, with a practical expedient that allows the use of the cost recovery method.
- Reporting lines in Schedule BA for collateral loans.
- Schedule BA instructions to further define examples of investments that are reported by type of investment on Schedule BA based on underlying characteristics of assets.

Accounting highlights >>	
Collateral loan reporting	SAPWG adopted revisions to SSAP No. 21R to add a disclosure of the total amount of collateral loans and collateral loans admitted and nonadmitted by qualifying investment type, effective for year-end 2024 reporting.[1]
Principles-based bond definition	SAPWG reexposed revisions for residuals in the scope of SSAP 21R, to incorporate the effective yield with a cap method to measure residuals, with a practical expedient that allows the use of the cost recovery method. Comments were due March 7, 2024.
Collateral loan reporting – Schedule BA	SAPWG exposed revisions to Schedule BA to expand the reporting lines to report collateral loans by the type of collateral that secures the loan, effective for year-end 2024 reporting. Comments are due April 19, 2024.
Schedule BA reporting categories	SAPWG reexposed revisions to the Schedule BA instructions to further define examples of investments that are reported by type of investment on Schedule BA based on underlying characteristics of assets. Comments are due April 19, 2024.

1 SSAP No. 21R, Other Admitted Assets

2 Accounting highlights

Collateral loan reporting

Action. SAPWG adopted revisions to SSAP No. 21R to add a disclosure to report collateral loans by the type of collateral that secures the loan, effective for year-end 2024 reporting.

The revisions require that collateral loans be reported based on the type of qualifying investment that secures the loan and adds a disclosure to identify:

- total amount of collateral loans; and
- the collateral loans admitted and nonadmitted by qualifying investment type.

Principles-based bond definition

Action. SAPWG reexposed revisions for residual tranches or interests from securitization tranches, beneficial interests, and loss positions (residuals) in the scope of SSAP 21R, to incorporate the effective yield with a cap method to measure residuals, with a practical expedient that would allow the use of the cost recovery method. Comments were due March 7, 2024.

Proposed revisions include:

- transition guidance to specify how residuals that were previously accounted for under different SSAPs will move to the proposed measurement guidance at the effective date of the updates to SSAP No. 21R. With this guidance, unrealized gains and losses recorded at December 31, 2024 for residuals, would be realized upon adoption;
- guidance that residuals would follow the accounting and admittance guidance within SSAP No. 21R, and therefore residuals that were in the form of a SSAP No. 48 investment would not be required to obtain an audit for admittance[2];
- deletion of previously exposed guidance for reclassification when investments cease to meet the definition of a residual. Under the proposed revisions, once an investment is classified as a residual, it would be reported as a residual until disposed of by the insurer;
- Other-than-temporary impairment (OTTI) guidance that addresses both the allowable earned yield method and the practical expedient. Under the proposed practical expedient guidance, when the residual has a fair value less than the reported book/adjusted carrying valuation (BACV), an OTTI would be considered to have occurred, and a realized loss

[2] SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies

equal to the difference between the fair value and the BACV would be recognized.

In addition to these proposed revisions, the NAIC staff proposed guidance to permit early adoption of the residual guidance as of December 31, 2024, as requested by industry. The remaining principles-based bond guidance would continue to be effective January 1, 2025, without the ability to early adopt.

Collateral loan reporting – Schedule BA

Action. SAPWG exposed revisions to Schedule BA to report collateral loans by the type of collateral that secures the loan, effective for year-end 2024 reporting. Comments are due April 19, 2024.

In response to comments from interested parties, the NAIC has split the original proposal to separate the data-captured disclosure adopted above, and the proposed reporting line changes to Schedule BA. Although this agenda item does not contain asset valuation reserve (AVR) reporting revisions, the exposure was proposed to consider requested feedback from industry and regulators on whether collateral loans backed by certain types of collateral should flow differently through AVR for risk-based capital (RBC). Collateral loans do not currently flow through AVR and are reported on a single line in the RBC formula.

As insurers are currently reporting certain loans in the “non-registered private fund” line for them to run through AVR, as the size and effect of collateral loans has increased significantly across reporting entities, and as collateral loans are the only item captured on Schedule BA that does not run through AVR, this agenda item introduces the potential for industry and regulators to consider revisions to historical treatment with the request for comments on whether collateral loans backed by certain types of collateral should flow through AVR for RBC.

Schedule BA reporting categories

Action. SAPWG reexposed revisions to further define examples of investments that are reported by type of investment on Schedule BA based on underlying characteristics of assets. Comments are due April 19, 2024.

The following proposed revisions were made after considering interested parties’ comments:

- Clarification that all investments would be reported in the dedicated reporting line category. Investments that do not fit within any specific reporting line would be captured as an “Any Other Class of Asset”;
- Clarification that the joint venture, partnership and limited liability company reporting category would be in scope of SSAP No. 48. One exception to the SSAP No. 48 restriction would be included to reference structured settlement payment rights in scope of SSAP No. 21R that have an SVO-assigned designation. This inclusion would be consistent with the guidance in SSAP No. 21R.

- Reference to SSAP No. 21R for the residual definition, pursuant to the agenda item discussed above. As this residual guidance is effective as of January 1, 2025, all residuals would be in the scope of SSAP No. 21R, regardless of the investment form.

SAPWG stated that although the revisions include the interested parties' proposal to clarify the description for items with underlying characteristics of bonds to include "investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans," the NAIC staff revisions clarify that this description applies to SSAP No. 48 investments only. NAIC staff notes that not including the SSAP No. 48 clarification could lead to interpretations that the guidance is intended to permit non-bond debt securities and collateral loans to be reported in these reporting lines. If this was to occur, the reporting would hinder NAIC data users' ability to aggregate and correctly identify investment data. Items not in the scope of SSAP No. 48 would be reported in other designated categories.

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