ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Draft: 12/10/09

Accounting Practices and Procedures (E) Task Force
San Francisco, CA
December 6, 2009

The Accounting Practices and Procedures (E) Task Force met in San Francisco, CA, Dec. 6, 2009. The following Task Force members participated: Steve Poizner, Chair, represented by Kim Hudson (CA); Susan E. Voss, Vice Chair, and Jim Armstrong (IA); Linda S. Hall represented by Gloria Glover (AK); Jim L. Ridling represented by Richard Ford (AL); Jay Bradford represented by Mel Anderson (AR); Thomas R. Sullivan represented by Kathy Belfi (CT); Gennet Purcell represented by N. Kevin Brown (DC); Karen Weldin-Stewart represented by Linda Sizemore (DE); Kevin McCarty represented by Robin Westcott (FL); Michael T. McRaith represented by Jim Hanson (IL); Carol Cutter represented by Connie Ridinger (IN); Sharon P. Clark represented by David Hurt (KY); Ralph S. Tyler, III represented by Les Schott (MD); Mila Kofman represented by Kendra Godbout (ME); Ken Ross represented by Judith Weaver (MI); Glenn Wilson represented by Jaki Gardner (MN); John Huff represented by Fred Heese (MO); Ann Frohman represented by Jim Nixon (NE); Roger A. Sevigny represented by Thomas Burke (NH); Neil N. Jasey represented by Robert Kasinow (NJ); James J. Wrynn represented by Joseph Fritsch (NY); Mary Jo Hudson represented by Dale Bruggeman (OH); Kim Holland represented by John McCarter (OK); Teresa Miller represented by Russell Latham (OR); Joel Ario represented by Steve Johnson (PA); Joseph Torti, III represented by Jack Broccoli (RI); Leslie A. Newman represented by Larry Knight Jr. (TN); Kent Michie represented by Jake Garn (UT); Alfred W. Gross represented by Doug Stolte (VA); Paulette Thabault represented by Ken McGuckin (VT); Mike Kreidler represented by Patrick McNaughton (WA); Sean Dilweg represented by Peter Medley (WI); and Jane L. Cline represented by Leah Cooper (WV).

1. Discuss Significant Items from Working Group Meetings and Adoption of Working Group Reports

Mr. Armstrong provided the report of the Emerging Accounting Issues (E) Working Group noting the following action items: 1) finalized interpretations on the federal Term Asset-Backed Securities Loan Facility (TALF) program and on a compilation of rejected interpretations; 2) exposed rejecting guidance on own-share lending arrangements; 3) rejected the exposed tentative consensus on re-securitizations (Re-REMICs); 4) deferred action on e-prescribing fees and on a request to modify the intent and ability impairment guidance; 5) referred a broader project on health insurers' expenses to the Statutory Accounting Principles (E) Working Group for consideration; and 6) approved the interim minutes. The deadline for comments on exposed items and for new items is Feb. 11, 2010. Upon a motion made by Mr. Armstrong and seconded by Mr. Ford, the Task Force unanimously adopted the report of the Emerging Accounting Issues Working Group.

Mr. Fritsch provided the report of the Statutory Accounting Principles (E) Working Group, describing the significant items that were adopted. The Working Group adopted *SSAP No. 100—Fair Value Measurements (SSAP No. 100),* which provides statutory accounting guidance on defining fair value, establishing a framework for measurement of fair value, and expanding fair value disclosures. SSAP No. 100 defines fair value when other statutory accounting pronouncements require or permit fair value measurements, but does not require any new items to be measured at fair value. SSAP No. 100 establishes a fair value hierarchy. SSAP No. 100 is effective for Dec. 31, 2010, annual financial statements, with interim and annual reporting thereafter. Early adoption is permitted for Dec. 31, 2009, annual financial statements. In addition to adopting SSAP No. 100, the Working Group also adopted various nonsubstantive revisions to other SSAPs to reflect the new fair value guidance.

The Working Group adopted the exposed *SSAP No. 62R—Property and Casualty Reinsurance – Revised (SSAP No. 62R)* with minor revisions. This substantively revised SSAP expands the exceptions for retroactive reinsurance to include property/casualty reinsurance run-off agreements that meet specified criteria. Although this is less conservative than GAAP and life-loss portfolio accounting for retroactive reinsurance, there are several additional criteria, including commissioner approval, financial strength of the nonaffiliated assuming entity, and unlimited transfer of risk, without the ability to cancel the contract.

The Working Group adopted the nonsubstantive exposed disclosures to *SSAP No. 60—Financial Guaranty Insurance*, with minor revisions to footnotes. The adopted disclosures are initially required for 2009 year-end reporting.

The Working Group adopted the nonsubstantive revisions to *SSAP No. 43R—Loan-Backed and Structured Securities – Revised*. These changes update the statutory accounting guidance to reflect the revised "Residential Mortgage-Backed Securities Designation Process" originating from the Valuation of Securities (E) Task Force.

The Working Group adopted *Issue Paper No. 140—Substantive Revisions to SSAP No. 43* (Issue Paper No. 140). Issue Paper No. 140 provides a historical reference of the guidance superseded by *SSAP No. 43R—Loan-backed and Structured*

Securities – Revised (SSAP No. 43R), which was adopted in September 2009.

The Working Group adopted nonsubstantive exposed revisions to: 1) *SSAP No. 9—Subsequent Events;* 2) reference the new FASB codification and GAAP hierarchy in the preamble and in two interpretations; 3) update the bond categories to mirror what has been adopted by the Blanks (E) Working Group; 4) Appendices A-815 Model Regulation Permitting the Recognition of Preferred Mortality Tables for use in Determining Minimum Reserve Liabilities and A-830-Valuation of Life Insurance Model Regulation to reflect changes adopted by the Life and Health Actuarial Task Force.

The Working Group exposed substantive revisions to statutory accounting guidance. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets – Revised (SSAP No. 5R),* which adopts, with modification, *FASB Interpretation No. 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) and requires a liability, representing the fair value of the guarantee, at the inception of the guarantee.

Issue Paper No. 141—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (Issue Paper No. 141) proposes adoption with modification of *FAS 166, Accounting for Transfers of Financial Assets, an Amendment to FAS 140* (FAS 166). Revisions to statutory accounting reflected in Issue Paper No. 141 proposes the establishment of new conditions for when a transferred financial asset can be accounted for as a sale, as well as removal of the concept of a qualifying special-purpose entity. The Working Group exposed *Issue Paper No. 142—Variable Interest Entities (Issue Paper No. 142),* which proposes adoption with modification of *FAS 167, Amendments to FASB Interpretation No. 46R (FAS 167)* in a new SSAP to provide guidance on variable interest entities. In addition to exposing Issue Paper No. 141 and 142, the Working Group also formed a subgroup to review comments and assess the impact of this guidance.

The following nonsubstantive revisions to statutory accounting guidance were exposed for comment: 1) to add disclosures within *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*; 2) to reject *Accounting Standards Update 2009-02: Omnibus Update – Amendments to Various Topics for Technical Corrections (*ASU 2009-02); 3) recommendations from Securities Lending Subgroup with comments requested by Jan. 29, 2010; and 4) to revise to the disclosures in SSAP No. 43R to clarify that the disclosures that correspond with *SSAP No. 27—Disclosure Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentration of Credit Risk and Disclosures about Fair Value of Financial Instruments* are only required for annual audited statutory financial statements. Within SSAP No. 43R, these disclosures include paragraphs 48a (fair values), 48b (concentrations of credit risk) and 48k (when it is not practicable to estimate fair value); the exposure period is for two weeks. The deadline for submission of comments or for new items, unless otherwise noted, is Feb. 11, 2010.

The Working Group formed a subgroup to develop a "Question and Answer Implementation Guide" to SSAP No. 43R. The Guaranty Fund Subgroup advised that they have exposed a draft Issue Paper at the subgroup level until Jan. 15, 2010. The Financial Guaranty Contracts Subgroup advised that they will begin discussion on their remaining directives in 2010.

The Working Group noted that *FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments* is on the maintenance agenda but will continue to be deferred at this time.

The Working Group adopted interim minutes from July 20, Oct. 5 and Nov. 2. The Working Group discussed that a memo related to admission of deferred tax assets would be sent to the chair of Financial Condition (E) Committee. Mr. Fritsch made a motion, seconded by Mr. Garn, to adopt the report of the Statutory Accounting Principles (E) Working Group, which passed unanimously (Attachment One).

Mr. Garn provided the report of the Blanks (E) Working Group, which adopted four blanks proposals; exposed 10 blanks proposals for public comment; and adopted Oct. 9 interim meeting minutes and a listing of editorial changes. The Blanks (E) Working Group also received memos on new 2009 disclosures adopted by the Statutory Accounting Principles (E) Working Group related to deferred tax assets, financial guaranty insurance and subsequent events. The Life and Health Actuarial Task Force provided a memo related to Interrogatory 9.2 of the Life and Health Annual Statement regarding Actuarial Guideline 43. Finally, the Blanks (E) Working Group deferred action on a proposal to break out directors and officers insurance into a separate line and referred the proposal to its Line of Business (E) Subgroup. The comment deadline on exposed items and all new proposals is Feb. 24, 2010. Upon a motion made by Mr. Garn and seconded by Mr. McCarter, the Task Force unanimously adopted the report of the Blanks (E) Working Group (Attachment Two).

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.

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Draft: 12/14/09

Statutory Accounting Principles (E) Working Group
San Francisco, CA
December 5, 2009

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in San Francisco, CA, Dec. 5, 2009. The following Working Group members participated: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Kim Hudson (CA); Linda Sizemore (DE); Jim Hanson (IL); Caroline Brock and Stewart Guerin (LA); Judith Weaver (MI); Tom Burke (NH); Matti Peltonen and Lou Felice (NY); Dale Bruggeman (OH); Steve Johnson (PA); Danny Saenz (TX); Doug Stolte and David Smith (VA); and Peter Medley (WI).

1. Public Hearing – Review and Adoption of Non-Contested Positions

The Working Group held a public hearing to review comments (Attachment One-A) on previously exposed issues.

Mr. Fritsch informed the Working Group that five exposed items did not receive comments. No additional discussion on the items was requested. On a motion from Mr. Johnson, seconded by Mr. Bruggeman, the Working Group adopted all five items:

a. *Issue Paper No. 140, Substantive Revisions to SSAP No. 43—Loan-backed and Structured Securities* (Issue Paper No. 140) – This issue paper provides a historical record of the guidance in *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43), *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43* (SSAP No. 98), and paragraph 13 of *SSAP No. 99—Accounting for Certain Securities in an Other-Than-Temporary Impairment* (SSAP No. 99) as this guidance was superseded by *SSAP No. 43—Loan-backed and Structured Securities – Revised* (SSAP No. 43R) (Attachment One-B).

b. Ref #2009-12 – *SSAP No. 9—Subsequent Events (SSAP No. 9)* – Nonsubstantive revisions to *SSAP No. 9* adopting *FAS 165, Subsequent Events (FAS 165).* Due to the issuance of both statutory financial statements and audited financial statements for insurers, the revisions include disclosure requirements for both sets of financials, including the dates for which subsequent events were reviewed, and the dates the financial statements were issued or available to be issued (Attachment One-C).

c. Ref #2009-13 – *Preamble, INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration* (INT 04-01) and *INT 04-18: EITF 00-21: Revenue Arrangements with Multiple Deliverables* (INT 04-18) – Nonsubstantive revisions were adopted to reference the new the FASB Codification prescribed by *FAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168) (Attachment One-D).

d. Ref #2009-16 – *SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities* (SSAP No. 26) – Nonsubstantive revisions to paragraph 17e of SSAP No. 26 to revise the bond categories to reflect what has previously been adopted by the Blanks (E) Working Group (Attachment One-E).

e. Ref # 2009-17 – Appendices A-815 and A-830 – Nonsubstantive revisions to Appendix A-815 and Appendix 8-830 to reflect changes to the corresponding model laws adopted by the Life and Health Actuarial (A & B) Task Force (Attachment One-F).

2. Public Hearing – Review of Comments on Exposed Items

The Working Group held a public hearing to review comments (Attachment One-A) on previously exposed issues.

a. Agenda Item 2007-24

Mr. Fritsch directed the Working Group to agenda item 2007-24: Fair Value Measurements and noted that during the Fall National Meeting the Working Group had exposed *SSAP No. 100—Fair Value Measurements* (SSAP No. 100) as well as nonsubstantive revisions to other SSAPs to reflect the new guidance in SSAP No. 100 for public comment. Mr. Fritsch advised that no formal comments were provided on the exposure items; however, informal comments were received regarding the exposed language in paragraph 14 pertaining to the "Application to Liabilities," drafted in response to the Fall National Meeting discussion. These informal comments inquired whether the intent was to deviate from the overall definition of fair value. To provide clarity, minor revisions have been proposed to remove the added guidance reflected in the exposed version and simply add reference to derivative liabilities. Mr. Fritsch also stated that a clarification revision is proposed to the disclosures to only require the source of the fair value measurement in the annual statutory financial statements. This revision is necessary as the full listing of investments is not reported individually in the quarterly financial statements. On a motion from Mr. Hudson, seconded by Mr. Johnson, the Working Group adopted SSAP No. 100 with the modifications discussed, as well as the corresponding exposed nonsubstantive revisions to other SSAPs (Attachment One-G and Attachment One-H).

b. Agenda Item 2003-12

Mr. Fritsch directed the Working Group to agenda item 2003-12: Consideration of *FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others, an interpretation of FASB Statement No. 5, 57, and 107 and rescission of FASB interpretation No. 34* (FIN 45) and noted that during the Fall National Meeting, the Working Group had adopted *Issue Paper No. 135—Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others* (Issue Paper No. 135) and had directed staff to issue a substantively revised SSAP to reflect the changes. *SSAP No. 5—Liabilities, Contingencies and Impairment of Assets – Revised* (SSAP No. 5R) was exposed with the substantive modifications, and a nonsubstantive revision was exposed to the disclosure requirements in *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25). Mr. Fritsch advised that comments were received from interested parties and Nationwide Insurance. Mr. Fritsch noted that the key comments received addressed the liability recognition for subsidiaries and affiliates as well as the effective date.

Ken Copman (Liberty Mutual Insurance Company) presented the comments from interested parties and noted that the primary focus of FIN 45 was to require liability recognition for a guarantee so that the financial statements of a guarantor were correct. He stated that FIN 45 excluded affiliated guarantees from the liability recognition guidance, with the rationale that it would be nearly impossible to properly value the guarantees, noting that the guarantor has control of the transaction. He stated that it is the interested parties' position that a liability for intercompany guarantees should not be recognized if there is no gain or loss that needs to be recognized by the guarantor in regard to the transaction that gave rise to the guarantee. He noted that the disclosures provide sufficient information on the guarantees, and as such, interested parties are requesting that affiliate guarantees be excluded from the liability recognition requirement.

Mr. Fritsch inquired about the position that someone would have to recognize income in order to require recognition of the guarantee liability. Mr. Copman clarified that if there is no income generated from the guarantee transaction, then a liability should not be recognized in order to prevent distortion of the financial statements. Mr. Fritsch noted that under this approach, unless a premium is paid for that guarantee, the guarantor would not be required to establish a liability. Mr. Fritsch noted that with intercompany guarantees, there would not have been a charge for the guarantee like there would have been for third-party guarantees. Mr. Fritsch noted that FIN 45 excludes intercompany guarantees, but statutory accounting does not consolidate. As such, the Working Group needs to decide if the disclosures and risk-based capital (RBC) charge are sufficient, or if liability recognition shall be required. Mr. Fritsch advised that both subsidiaries and affiliated transactions need to be considered.

Mr. Johnson stated that it would seem appropriate to exclude liability recognition for guarantees made by a parent for a wholly-owned subsidiary. However, as statutory accounting reports on a legal-entity basis with a focus of solvency, liability recognition should be required for any other affiliate transaction. Thus, if a parent made a guarantee to a subsidiary, but it was not wholly-owned, liability recognition would be required. The same would be true for guarantees made between two subsidiaries within an insurance group. Mr. Felice stated that the Capital Adequacy (E) Task Force will review changes to RBC based on the final decision of the Working Group. He advised that the current disclosures are utilized to determine RBC, but if liabilities are recognized, they may re-evaluate whether an RBC charge is necessary, and/or change the approach for determining RBC. Mr. Hanson agreed with Mr. Johnson on only excluding wholly-owned subsidiaries from the liability recognition requirement.

Keith Bell (Travelers) stated that in some instances, issuing a guarantee for affiliate companies is essentially a capital contribution. He noted that interested parties have concerns with the current guidance that indicates that the offset to the liability recognition would be to expense. He also stated that several factors will need to be considered in properly determining the fair value of guarantees. Mr. Medley stated that some guarantees issued to subsidiaries are considered holding company reportable transactions, and knowing that it is difficult to determine the exposure or fair value of these guarantees raises questions on whether future approval should occur. Mr. Bell disagreed, noting that most parent guarantees to subsidiaries are unlimited in response to rating agency requirements. He advised that there are some guarantees for which it is would be easy to determine fair value by reviewing comparable products, but for other guarantees—particularly guarantees involving capital and surplus—fair value determination is much more strenuous. Mr. Bell stated that the unlimited guarantees have already been scoped out from the liability recognition requirement.

Mr. Fritsch stated that the current effective date within SSAP No. 5R is Dec. 31, 2010, and comments were provided on whether this guidance should be effective for all issued guarantees, or if the revisions should be applied on a prospective basis. Mr. Fritsch requested a motion to re-expose SSAP No. 5R to exclude wholly-owned subsidiaries from the liability recognition requirement with an effective date of Dec. 31, 2010. Mr. Fritsch clarified that this motion would change the exposed guidance for the effective date, as the disclosures were originally proposed for inclusion as of Dec. 31, 2009. Additionally, the revised guidance would apply to all guarantees as of the effective date. Robin Marcotte (NAIC) proposed two additional minor revisions to the disclosures within SSAP No. 5R and SSAP No. 25. Mr. Johnson made the motion requested by Mr. Fritsch, with Ms. Marcotte's proposed revisions. Mr. Bell stated that interested parties are supportive of delaying the disclosure requirements until year-end 2010. This motion was seconded by Mr. Hanson and carried unanimously. Mr. Fritsch directed staff to work with interested parties in drafting the revised language for the effective date and the exclusion of wholly-owned subsidiaries.

c. <u>Agenda Item 2008-28</u>

Mr. Fritsch directed the Working Group to agenda item 2009-28: Property and Casualty Run-off Reinsurance and stated that during the Fall National Meeting, the Working Group had exposed substantive revisions to *SSAP No. 62R—Property and Casualty Reinsurance (Revised)* (SSAP No. 62R). Mr. Fritsch noted that comments received from interested parties stated agreement with the proposed changes. Ms. Marcotte presented minor revisions proposed to the guidance requested by the Reinsurance Association of America (RAA). Mr. Fritsch stated that the Working Group needs to decide on whether to allow the accounting as proposed, and if there needs to be segregate reporting of gains. He stated that with the conditions established within SSAP No. 62R, he is comfortable with adopting the guidance. Joseph Sieverling (RAA) reiterated that the guidance has been drafted to include a number of restrictions so that such transactions are as close as possible to sale transactions. He stated that the guidance does not include deferral of potential gains. He stated that with the restrictions, it would be unlikely that there would be a gain recognized. Mr. Armstrong inquired about the segregation of surplus if gains are rare. Mr. Sieverling stated that as the gains are expected to be rare, the gains could be segregated if such treatment is desired by the Working Group. This segregation was not originally included in the draft, as it was believed that the conditions established would not make it necessary to segregate the gains.

Mr. Medley stated that the proposed guidance should be revised to prevent immediate recognition of gains. He requested that this item be deferred until the 2010 Spring National Meeting so that language could be drafted and considered. Mr. Johnson stated that the Working Group has already extensively reviewed this issue, and with the restrictions established, including approval from commissioners, he is comfortable moving forward with adopting the revised SSAP No. 62R. He stated that with the restrictions, there is no need for segregation of gains. Mr. Johnson made a motion to adopt SSAP No. 62R, as exposed with the minor revisions noted by Ms. Marcotte. The motion was seconded by Mr. Stolte. Mr. Fritsch agreed with the comments from Mr. Johnson, noting that this issue has also been reviewed by the Property and Casualty Reinsurance (E) Study Group. Mr. Hanson also noted concerns with moving forward, as the companies that caused problems are getting relief. Mr. Medley agreed with these comments, noting that the initial company that completes one of these transactions would put pressure on their competitors to also complete such transactions. Although these transactions are being presented as rare occurrences, due to competition and market pressure, one company could trigger many instances of these transactions. Mr. Medley stated that it is poor practice to allow immediate gain recognition when the contract has not been abated from the policyholder. As such, he recommended voting against adoption.

Bob Solitro (Swiss Re) stated that the conditions of these transactions require regulator approval on both sides of the transaction. Additionally, he clarified that gain recognition would be considered unusual, but it is anticipated that transactions completed under the new SSAP guidance would not be rare. For retroactive transactions, gains are recognized in the income statement on the date the transaction occurs—the only difference is the surplus restriction. He requested adoption of the proposal without further modifications.

In regard to the motion to adopt SSAP No. 62R as exposed with the minor revisions identified by Ms. Marcotte, the motion carried, with Mr. Armstrong, Mr. Hanson and Mr. Medley opposing (Attachment One-I).

d. Agenda Item 2009-09

Mr. Fritsch directed the Working Group to agenda item 2009-09: Financial Guaranty Insurance and noted that during the Fall National Meeting, the Working Group had exposed disclosures to *SSAP No. 60—Financial Guaranty Insurance* (SSAP No. 60). John Tittle (NAIC) stated that comments had been received from Ambac, and the comments had been submitted to the Financial Guaranty (E) Subgroup. Mr. Fritsch stated that the Subgroup had proposed footnote clarification revisions after considering Ambac's comments, and that these revisions were distributed to identified financial guaranty companies for review. Comments on these revisions were then submitted by Ambac and MBIA. These comments were also considered, and the proposed revised disclosures are reflected in the additional handouts distributed. Mr. Fritsch stated support for moving forward with the proposed disclosures for year-end 2009, as there are no current disclosures currently required within SSAP No. 60. Kelley Kortman (MBIA) stated that the revisions seem to address their original concerns, so they have no additional comments. Robert E. Mackin (Mackin and Company representing the Association of Financial Guaranty Insurers) also noted that they have no additional comments.

On a motion from Mr. Medley, seconded by Mr. Hudson, the Working Group voted to adopt the proposed disclosures to SSAP No. 60. These disclosures will be required for year-end 2009 financial statements (Attachment One-J).

e. Agenda Item 2009-18

Mr. Fritsch directed the Working Group to agenda item 2009-18: Securities with Multiple NAIC Designations and advised that nonsubstantive revisions were exposed to SSAP No. 43R to provide guidance for the revised "Residential Mortgage-Backed Security (RMBS) Designation Process." He stated that the revisions add a new paragraph to the guidance and were proposed to be effective for 2009 year-end reporting. Mr. Fritsch noted that it has been requested that "SVO" be removed from paragraph 60 before adopting the guidance. Mr. Peltonen provided information on the revision, noting that the changes to SSAP No. 43R are necessary to correspond with the valuation method already adopted by the Valuation of Securities (E) Task Force. Mike Monahan (American Council of Life Insurers—ACLI), representing interested parties, presented comments supporting the new process, but noted that operational implementation issues still need to be addressed. He stated that the Valuation of Securities (E) Task Force has an agenda item to consider extending the short-term proposal until a long-term solution is adopted, and stated that interested parties strongly endorse extending the short-term project.

Keith Bell (Travelers) stated that Travelers is not criticizing the goal of the project, as they agree with the objective, but that there are problems with the proposal in the way in which it addresses risk. He stated that the risk does not go away once an other-than-temporary impairment is recognized. He noted that it is not uncommon for additional other-than-temporary impairments to be subsequently recognized. He identified that the proposal does not properly consider the concept of risk in some types of securities, specifically noting securities where both senior-level and lower-level support tranches are held. Mr. Bell stated that industry continues to have several questions in regard to the proposal and that the proposal does not provide any benefit for property and casualty companies, as they have different valuation structures and RBC formulas than life companies. He stated that they are not looking for capital relief, but as a practical manner, after testing the proposal, there is little impact on RBC for the work required by property and casualty companies. Mr. Bell suggested an alternative to amend paragraph 26.b.2 to make the second step optional, with impairment recognized from the information obtained from the NAIC Securities Valuation Office (SVO) without a re-rating back to amortized cost. Mr. Peltonen stated that using the carrying value to determine the designation is a fundamental concept to the proposal. He stated that the intent was not RBC relief, but to develop a better designation. He noted that the new system does allow a better RBC treatment for securities that are carried at fair value.

Jay Muska (Travelers) stated that the covariance takes away reduction of risk. He stated that for property and casualty insurers, as they carry securities with NAIC designations between three and six at fair value, it is possible that several pieces of the same security could be held. The lower tranches could result in an NAIC designation "one," whereas the higher-level tranches could be an NAIC designation "six," even though the lower-level tranches continue to hold more risk. He stated that with the revisions to SSAP No. 43R already adopted, companies are allowed to determine and recognize their own credit-impairments, and this also impacts the RBC calculation. Mr. Peltonen noted that if a security has been written down, some of the risk has been removed. Thus, it is possible for a higher-level security that continues to be held at par to have a lower NAIC designation, as this determination is based on the carrying value of the security that is held. Mr. Bell stated that it would be unusual to have a support tranche that would be rated as high as a super-senior-level tranche, as the support-level tranche would lose all of its cash flows before the higher-level tranche is impacted. Mr. Peltonen stated that the expected loss scenario considers the probability of potential loss of cash flows; thus, this probability is estimated under the proposal.

Mr. Bell inquired about the analysis that is completed in determining the break-points for the designations and the risk factors of the securities that are considered within the provided example. Mr. Peltonen noted that the information provided was simply an example and was not intended to represent what the actual prices will be. He advised that the ranges and prices will not be known until the final data is received. Mr. Bell inquired whether a final table will be provided. Mr. Peltonen advised that this will be available from the provider. Mr. Bell noted that they could not find any scenarios that would cause a significant change for property and casualty companies as a result of applying the proposal. Mr. Fritsch stated that unless a member of the Working Group wants to exclude property and casualty companies, he is not in favor of a carve-out for them. Mr. Peltonen stated that the proposal was developed to exclude optionality in applying the proposal.

Mr. Bell requested clarification of paragraph 26.b.2, as the guidance seems to be circular. Mr. Peltonen stated that the guidance is clear and he does not recommend language revisions. Mr. Fritsch stated that clarification on this issue could be incorporated within the question-and-answer guidance that is going to be developed for SSAP No. 43R. Mr. Medley inquired about the issue regarding reporting in "lots." Mr. Peltonen suggested incorporating this issue within the SSAP No. 43R question and answer guide as well. On a motion from Mr. Hudson, seconded by Mr. Saenz, the Working Group adopted the revisions to SSAP No. 43R with a slight revision to remove "SVO" from paragraph 60 (Attachment One-K).

2. <u>Consideration of Maintenance Agenda—Pending Listing</u>

Mr. Fritsch referred the Working Group to the Maintenance Agenda Pending Listing (Page 1 of Attachment One-L).

a. <u>Agenda Item 2009-19</u>

Mr. Fritsch directed the Working Group to agenda item 2009-19: SSAP No. 43R Question and Answer Implementation Guide and noted that questions have been received regarding the application of SSAP No. 43R and the corresponding disclosure requirements. This item proposes nonsubstantive revisions to SSAP No. 43R so that specific disclosures that are in accordance with *SSAP No. 27—Disclosure of Information about Financial Instruments and Off-Balance Sheet Risk, Financial Instruments with Concentrations of Credit Risk, and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27) are only required for annual audited statutory financial statements. These disclosures were identified as paragraph 49a (fair value), paragraph 49b (concentration of credit risk) and paragraph 49k (when it is not practicable to estimate fair value). Mr. Fritsch also noted that this item requests the formation of a subgroup to review the identified questions within the agenda submission form, and draft answers to create a question-and-answer implementation guide. On a motion from Mr. Hudson, seconded by Mr. Hanson, the Working Group unanimously agreed to move this item to the nonsubstantive active listing, form a subgroup to develop a question-and-answer guide, and expose nonsubstantive revisions to SSAP No. 43R for a shortened two-week period to indicate that paragraphs 49a, 49b and 49k are required in the annual audited statutory financial statements only.

b. <u>Agenda Item 2009-20</u>

Mr. Fritsch directed the Working Group to agenda item 2009-02: *Accounting Standards Update 2009-02, Omnibus Update – Amendments to Various Topics for Technical Corrections* (ASU 2009-02) and noted that this GAAP pronouncement prescribes minor, technical corrections to guidance within the GAAP Accounting Standards Codification. Mr. Tittle stated that staff has reviewed this item as part of the maintenance process, but does not believe the technical corrections incorporated into the GAAP codification warrant further statutory review. On a motion from Mr. Hudson, seconded by Mr. Hanson, the Working Group unanimously agreed to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to *Issue Paper No. 99—Nonapplicable GAAP Pronouncements* (Issue Paper No. 99) rejecting ASU 2009-02 as not applicable to statutory accounting.

2. <u>Consideration of Maintenance Agenda—Substantive Listing</u>

Mr. Fritsch referred the Working Group to the Maintenance Agenda Pending Listing (Page 2 of Attachment One-L).

a. <u>Agenda Item 2009-14 and Agenda Item 2009-15</u>

Mr. Fritsch directed the Working Group to agenda item 2009-14: *FAS 166, Accounting for Transfers of Financial Assets* (FAS 166) and agenda item 2009-15: *FAS 167, Amendments to FASB Interpretation No. 46R* (FAS 167) and noted that issue papers have been drafted for both of these items as a result of the Working Group's direction from the Fall National Meeting. Mr. Fritsch identified that interested parties submitted a comment letter that recommended forming a subgroup to consider the impact of FAS 166 and FAS 167 on statutory accounting. Mr. Fritsch recommended proceeding with exposure of the issue papers for initial public comment and forming a subgroup to review the comments received, assess the impact of adoption for statutory accounting, and propose revisions as appropriate to the issue papers. Doug Barnert (Barnert and Associates) stated that comments should be requested from the Valuation of Securities (E) Task Force, as this is an invested asset issue. He also noted difficultly in providing comments by Feb. 11, 2010, on these complex issues. Mr. Fritsch stated that this is a statutory accounting issue, and the subgroup will be open for those who are interested in participating. On a motion from Mr. Johnson, seconded by Mr. Hudson, the Working Group unanimously agreed to expose these issue papers and form a subgroup.

b. Agenda Item 2009-07

Mr. Fritsch directed the Working Group to agenda item 2009-07: *FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and 124-2). Mr. Tittle noted that this item had been deferred by the Working Group during the Fall National Meeting. Rose Albrizio (AXA Equitable) presented comments from the interested parties and inquired when this item will be addressed. Mr. Fritsch stated that he would prefer deferral at this time, recommending that it be retained on the maintenance agenda for future consideration.

c. Update on the Guaranty Fund Subgroup

Mr. Johnson stated that the Guaranty Fund Subgroup has exposed, at the subgroup level, an issue paper proposing substantive revisions to *SSAP No. 35—Guaranty Fund and Other Assessments – Revised* (SSAP No. 35R) until Jan. 15, 2010. The issue paper is posted publicly on the Working Group's Web page, and everyone is welcome to comment.

d. Update on the Securities Lending Subgroup

Mr. Saenz provided a Securities Lending Subgroup update, requesting that the Working Group expose proposed revisions to the current securities lending guidance for statutory accounting. He stated that the proposed revisions provide more transparency and clarity. Max McGee (Prudential) stated that the revisions address several of the regulator concerns. He also requested minor revisions to paragraph 3 to clarify that the guidance is for holders or agents. On a motion from Mr. Saenz, seconded by Mr. Johnson, the Working Group unanimously agreed to expose the propose guidance, with the revisions proposed by Mr. McGee, until Jan 29, 2010.

2. Consideration of Any Other Matters

a. Adoption of Interim Minutes

Mr. Fritsch directed the Working Group to interim meeting minutes from Nov. 2, Oct. 5, and July 20. On a motion from Mr. Armstrong, seconded by Mr. Hudson, the Working Group unanimously adopted the interim meeting minutes (Attachments One-M, One-N and One-O).

b. Deferred Tax Asset (DTA) Memo

Mr. Tittle informed the Working Group that the draft DTA memo, which has been reviewed by the Working Group, would be submitted to the Joint Executive (EX) Committee/Plenary with *SSAP No. 10—Income Taxes – Revised* (SSAP No. 10R.) The Working Group unanimously voted to adopt the revised DTA memo (Attachment One-P).

Mr. Fritsch stated that the comment letter deadline, unless otherwise stated, on items released for exposure at this meeting or re-exposed at the hearing is Feb. 11, 2010. Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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November 4, 2009

Mr. Joe Fritsch, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: Comments on Various Agenda Items of the NAIC Statutory Accounting Principles Working Group

Dear Mr. Fritsch,

We appreciate the opportunity to provide comments on Ref 2003-12: FIN 45 and offer the following:

Ref 2003-12: FIN 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others, and Interpretation of FASB Statement Nos. 5, 57, and 107 and Rescission of FIN No. 34 (FIN 45)

During the 2009 Spring National Meeting, the Working Group directed NAIC staff to modify Issue Paper 135 – FIN 45: *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, 107 and rescission of FASB Interpretation No. 35* (Issue Paper No. 135) to prominently include related party guarantees provided within the body of the accounting guidance. Interested parties recommended that intercompany or related party guarantees be valued in the same manner as other guarantees in accordance with FIN 45, i.e., fair value, except for certain "unlimited" related party guarantees. In those cases where an intercompany guarantee has been provided in response to a rating agency's requirement to provide a commitment to support, the amount of the guaranty may be unlimited and, accordingly, there are no observable values to determine the value of the guarantee as it is highly unlikely that a third party would provide an unlimited guarantee. In these limited circumstances, the existence and terms of the guaranty should be disclosed without a requirement to quantify and disclose the amount of the guaranty.

On September 21, 2009, the Statutory Accounting Principles Working Group adopted Issue Paper No. 135, with modifications discussed during the meeting. This issue paper requires reporting entities to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee. The Working Group agreed to expose for public comment *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets – Revised* (SSAP No. 5R) reflecting the substantive revisions adopted within the issue paper. Additionally, certain other revisions to *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25) were also exposed to correspond with the changes to this SSAP identified in the issue paper.

In evaluating and discussing the draft SSAP 5R, interested parties concluded that the requirement to record an expense for a guaranty of a subsidiary may have a "double counting" effect, similar to the negative "stacking effect" on surplus that would occur for the risk-based capital (RBC) of a parent insurer that has provided a guaranty on the obligation of a lower level insurance subsidiary. For example, if a subsidiary insurer incurs a loss, the parent's and subsidiary insurer's surplus already reflects the subsidiary insurer's loss. If the parent guarantees the subsidiary insurer's loss (or capital and surplus) and records a FIN 45 expense for the guarantee, the parent insurer's surplus will have a negative double counting effect. Taking this example one step further, if the guarantee extends down another level to an insurance subsidiary below the first insurance subsidiary, the effect is compounded even further.

Consistent with the approach contained in FIN 45, interested parties believe that a single accounting treatment cannot be prescribed for the other side of the entry recording a FIN 45 liability. Instead, a thoughtful evaluation of the facts and circumstances is required by the reporting entity to properly reflect the substance of the guaranty. For example, a guarantee of a subsidiary is in effect an increase in the cost basis (investment) in the subsidiary, whereas a guarantee of an affiliate having the same parent as the insurer providing the guarantee is in effect a dividend to the parent (a dividend to the parent with a corresponding increase in the parent's cost basis in the insurer that is the beneficiary of the guarantee). Also, interested parties believe that the transition guidance should be clarified to state that the new guidance is applicable only to newly issued guarantees or existing guarantees that have been modified.

In summary, interested parties does not believe that a single approach to recognizing an intercompany guarantee is likely to accurately reflect the economics of many types of inter-company guarantees. Instead, the statutory guidance should require that the accounting reflect the specific facts and circumstances of the guarantee and provide some examples of various types of guarantees.

Ref #2007-24: FAS 157: Fair Value Measurements

On June 13, 2009, the Fair Value Subgroup presented to the Statutory Accounting Principles Working Group a draft *Issue Paper 138—Fair Value Measurements* (Issue Paper No. 138), to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value. The Issue Paper proposes adoption, with modification of *FAS 157, Fair Value Measurements* (FAS 157). Modifications from FAS 157 include rejections of the GAAP provision to include consideration of own-credit-risk in determining the fair value of a liability. The Issue Paper proposes adoption of the FASB definition of fair value, the three-level fair value hierarchy and proposes adoption of the *FSP FAS 157-4: Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* The Working Group exposed this Issue Paper for public comment.

On September 21, 2009, the Working Group adopted Issue Paper No. 138, with modifications discussed during the meeting. The Working Group agreed to expose a new SSAP for public comment that reflects the substantive guidance from the issue paper. Additionally, the Working Group exposed for public comment corresponding revisions to various SSAPs and interpretations to refer to the new SSAP on fair value and ensure consistency throughout statutory accounting for determining fair value.

Interested parties have no comment on the new SSAP and the various revisions to other SSAPs.

Ref #2008-28: Transfer of P&C Run off Portfolios

On June 13, 2009, the Working Group exposed *Issue Paper No. 137—Transfer of Property and Casualty Reinsurance Agreements in Run-Off* (Issue Paper No. 137) and changes to *SSAP No. 62—Property and Casualty Reinsurance* to expand the exception to retroactive accounting treatment to include property and casualty reinsurance run-off agreements that meet specified criteria as modified during the meeting. Reinsurance agreements and retrocession agreements that meet insurance risk transfer requirements and meet the specified criteria will receive prospective accounting treatment. In addition, these exposed changes were referred to the Property and Casualty Reinsurance Study Group of the Accounting Practices and Procedures Task Force for further discussion.

On September 21, 2009, the Working Group adopted Issue Paper No. 137 with modifications discussed during the meeting. The Working Group agreed to re-expose *SSAP No. 62R—Property and Casualty Reinsurance – Revised* (SSAP No. 62R), reflecting guidance within the adopted issue paper, for public comment.

Interested parties agree with the proposed changes to SSAP 62 to allow an exception to retroactive accounting treatment for property and casualty reinsurance run-off agreements that meet the criteria specified in the revised guidance

Ref# 2009-07: FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments

During the 2009 Summer National Meeting, the Working Group moved this item to the Substantive Active Listing and directed staff to draft an Issue Paper for a new SSAP to incorporate guidance from FSP FAS 115-2 and 124-2. During interim discussions, the Working Group elected to modify the impairment recognition guidance strictly for loan-backed and structured securities within a revised SSAP No. 43 (SSAP No. 43R). This guidance incorporates a bifurcation approach for "interest-related" and "non-interest related" impairment recognition for items the entity does not intend to sell as well as items that the entity has the intent and ability to hold until recovery of the cost basis. If there is a non-interest-related impairment, and the entity does not intend to sell, and has the intent and ability to hold for recovery of the cost basis, the entity would only recognize an other-than-temporary impairment, as a realized loss, for the portion attributed to the non-interest related impairment. The security would not be written down to fair value, but the amortized cost basis, less the non-interest related impairment would become the new amortized cost basis.

During the October 5 Working Group call, it was decided to reject consideration of FSP FAS 115-2 and 124-2.

SSAP No. 43R became effective for reporting periods ending September 30, 2009. Among issues raised by ~~I~~interested ~~P~~parties during the deliberation process was the use of the word "intent" as it relates to asserting the intent and ability to hold a security for a period of time sufficient to recover the amortized cost basis. The specific concern noted was that this language exactly mirrors the GAAP impairment guidance as included in FAS 115 – *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 115") that was subsequently superseded by FASB Staff Position FAS 115 – 2 and FAS 124 – 2 – *Recognition and Presentation of Other- Than-Temporary Impairments*.

Interested parties believe that by rejecting FSP FAS 115-2 and 124-2, an inconsistency has been created between loan-backed and structured securities accounted for under SSAP No. 43R and bonds accounted for under SSAP No. 26, i.e., the bifurcation approach for "interest-related" and "non-interest related" impairment recognition. We recommend that SSAP No. 26 be evaluated and compared to FSP FAS 115-2 and 124-2 with the goal of adopting consistent guidance for all bonds. Additionally, with the adoption of SSAP 43R at September 30, 2009, there has been confusion over the use of the term "intent" as it relates to asserting the intent and ability to hold a security for a period of time sufficient to recover the amortized cost basis. The specific concern noted was that this language exactly mirrors the GAAP impairment guidance that was originally included in FAS 115 – *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 115") and then subsequently superseded by FASB Staff Position FAS 115 – 2 and FAS 124 – 2 – *Recognition and Presentation of Other- Than-Temporary Impairments*.

Under FAS 115, some audit practitioners interpreted the "intent and ability to hold" assertion to require an entity to hold the security until the cost basis was recovered, regardless of any changes in facts or circumstances. In some instances, this prohibited an insurer from managing its investment portfolio as it typically would should such strict restrictions not apply. Through comments made as SSAP No. 43R was being deliberated, it is our belief that such an interpretation is not consistent with the intent of the Working Group. The Working Group appeared to recognize that facts and circumstances may change subsequent to the balance sheet date which may result in a change in a company's "intent and ability to hold" assertion. During the conference calls to discuss SSAP 43R, some members of the Working Group pointed out that SSAP No. 9 – *Subsequent Events* already provides guidance in regards to changing facts and circumstances subsequent to the balance sheet date and therefore clarifying language within SSAP No. 43 itself was deemed unnecessary. Given the inconsistent application of the new guidance, we believe that there should be clarification that the "intent and ability to hold" assertion is as of a given point in time and is therefore subject to change if new facts and circumstances indicate a change is warranted, consistent with the discussions that took place during the conference calls to develop SSAP 43R. Attached please find a Form B that we believe should be considered by the Working Group and referred to the Emerging Accounting Issues Working Group to clarify the application of the guidance in SSAP 43R.

Ref #2009-09: Disclosures for Financial Guarantee Insurance Contracts

On September 21, 2009, the Working Group agreed to re-expose financial guaranty disclosures with the proposed revisions suggested by the Financial Guaranty Subgroup.

Interested parties have no comment on the proposed revisions.

Ref #2009-12: ***FAS 165, Subsequent Events***

On October 5, 2009, the Working Group moved this item to the nonsubstantive active listing and exposed revisions to *SSAP No. 9—Subsequent Events* (SSAP No. 9) proposing adoption of FAS 165. Due to the issuance of both statutory financial statements and audited financial statements for insurers, the exposed revisions include proposed disclosure requirements for both sets of financials, the dates for which subsequent events were reviewed, and the dates the financial statements were issued, or available to be issued.

Interested parties have no comment on the proposed revisions.

Ref #2009-13: ***FAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles***

On October 5, 2009, the Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to the Preamble, INT 04-1 and INT 04-18 of the NAIC Accounting Practices and Procedures Manual, to read as follows:

> *INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration*
> 1. In accordance with the Preamble and the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, Generally

Accepted Accounting Principles (GAAP) reference material categories a, b and c from the GAAP Hierarchy, as defined in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles*contained within the FASB Accounting Standards Codification, are automatically placed on the Statutory Accounting Principles Working Group maintenance agenda for review and discussion. (As noted in the Preamble, FAS 162 has been adopted with modification to exclude FAS 133 Implementation Issues are excluded from the statutory review process unless individually requested for review.

INT 04-18: EITF 00-21: Revenue Arrangements with Multiple Deliverables

Footnote 1 **-** Whether a deliverable(s) is within the scope of higher-level authoritative literature is determined by the scope provisions of that literature, without regard to the order of delivery of that item in the arrangement. The term higher-level literature refers to **items captured within the FASB Accounting Standards Codification.** categories (a) and (b) of the generally accepted accounting principles (GAAP) hierarchy as defined in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* in the Independent Auditor's Report. EITF consensuses represent category (c) of the hierarchy.

Interested parties have no comment on the proposed revisions.

2009-14: FAS 166, Accounting for Transfers of Financial Assets

FAS 166, Accounting for Transfers of Financial Assets – an Amendment to FAS 140 (FAS 166) was issued in June 2009 and amends FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FAS 140). FAS 166 is effective as of the beginning of the first annual reporting period after November 15, 2009. NAIC staff was directed by SAPWG to draft an Issue Paper proposing adoption of FAS 166 with modifications to replace SSAP 91R. It is proposed to mirror the scope of FAS 166 and eliminate the concept of QSPE's. This should be considered jointly with 2009-15: FAS 167, Amendments to FASB Interpretation No. 46(R).

Interested parties recommend that a subgroup be formed to consider the impact of FAS 166 and 167 on statutory accounting. As companies struggle to adopt these complex statements for U.S. GAAP, our experience would prove helpful in the development of the statutory accounting.

Ref #2009-16: ***Bond Categories Within SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities (SSAP No. 26)***

On October 5, 2009, the Working Group moved this item to the Non-substantive Active Listing and exposed certain revisions to SSAP No. 26, paragraph 17e to revise the bond categories to the following:.

17. The financial statements shall include the following disclosures:

e. For each balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond category issued by:

   i. U.S. Governments;

   ii. All Other Governments;

   iii. States, Territories and Possessions (Direct and Guaranteed);

   iv. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed);

   v. Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions;

   vi. Public Utilities (Unaffiliated);

   vii. Industrial & Miscellaneous (Unaffiliated);

   viii. Credit Tenant Loans (Unaffiliated);

   ix. Hybrid Securities

   x. Parent, Subsidiaries and Affiliates;

Interested parties have no comment on the proposed revisions.

Ref #2009-17: Modify Appendices A-815 and A-830 to reflect changes to model laws

On October 5, 2009, the Working Group moved this item to the Non-substantive Active Listing and exposed certain revisions to Appendix A-815 and Appendix A-830.

Interested parties have no comment on the proposed revisions.

* * * * *

Thank you for considering our comments; these comments are provided on behalf of the interested parties contained in the list attached to this letter.

We look forward to working with you, Mr. Armstrong, and the Working Group at the NAIC Winter meeting in San Francisco. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,	Sincerely,
D. Keith Bell	Rose Albrizio

cc: Mr. James Armstrong, Iowa DOI
Robin Marcotte, NAIC staff
Interested Parties

The Interested Parties, as noted below, for the NAIC Statutory Accounting Principles Working Group agree with the comments contained in this letter:

Organization	**Name**	**Phone Number**	**E-Mail Address**
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America's Health Insurance Plans	Randi Reichel	301-774-2268	rreichel@ahip.org
American Insurance Association (410 members)	Phil Carson	202-828-7170	pcarson@aiadc.org
AXA Equitable	Rose Albrizio	212-314-5630	rosemarie.albrizio@axa-equitable.com
Blue Cross Blue Shield Association	Joe Zolecki	312-297-5766	Joseph.Zolecki@bcbsa.com
CIGNA	Nancy Ruffino		Nancy.Ruffino@CIGNA.com
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NAMIC	Bill Boyd	317-875-5250	bboyd@namic.org
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Property Casualty Insurers Association of America (PCI)	Jim Olsen	847-553-3664	james.olsen@pciaa.net
Prudential	John Bauer		john.bauer@prudential.com

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StoneRiver	Connie Jasper Woodroof	800-373-3366	connie.woodroof@stoneriver.com
The Hartford Life Companies	Steve Oliver	860-843-6740	Steve.Oliver@hartfordlife.com
The Travelers Companies, Inc.	D. Keith Bell	860-277-0537	d.keith.bell@travelers.com
TIAA-CREF	Linda S. Dougherty	704-988-4187	ldougherty@tiaa-cref.org

Nationwide

October 28, 2009

Mr. Joseph Fritsch, Chairman
Statutory Accounting Principles Working Group (SAPWG)
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Proposed Statement of Statutory Accounting Principles No. 5R, *Liabilities, Contingencies and Impairments of Assets – Revised*

Dear Chairman:

Nationwide Insurance Group appreciates the opportunity to comment on the exposure draft of the proposed Statement of Statutory Accounting Principles (SSAP) No. 5R, *Liabilities, Contingencies and Impairments of Assets – Revised* (Proposed SSAP 5R). Nationwide Insurance Group (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management which include property and casualty and life insurance companies. Nationwide is one of the largest diversified insurance and financial services organizations in the world, with combined surplus of more than $13 billion.

The purpose of Proposed SSAP 5R is to update statutory accounting principles (STAT) for guarantees. The proposed guidance will result in adoption, with modification, of Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others, and Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34* (FIN 45). As noted in our comment letter on associated Issue Paper No. 135, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (IP 135), dated August 7, 2009 (Exhibit A), we support the adoption of the provisions of FIN 45 which would align disclosure requirements for guarantees under STAT and U.S. generally accepted accounting principles (GAAP) with the additional requirement to disclose the status of performance risk. However, we do not support the requirement to recognize a liability for intercompany and affiliate limited guarantees. Furthermore, we do not support the significant change from IP 135 included in Proposed SSAP 5R requiring application of the revisions to existing guarantees.

We respectfully recommend a scope exclusion in SSAP 5R for (1) guarantees issued either between parents and their subsidiaries or between corporations under common control; (2) a parent's guarantee of its subsidiary's debt to a third party, and (3) a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. Additionally, we recommend prospective application of the guidance for guarantees included within paragraphs 14-22 of Proposed SSAP 5R.

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Nationwide Insurance
Nationwide Financial

We understand the SAPWG realizes the potential for a negative stacking effect on risk-based capital (RBC) caused by the recognition of a guarantee liability by a parent on a subsidiary's obligation. Although the assumption is that another working group will be assembled to address the RBC formula at a later date, we strongly recommend addressing this issue at the same time the accounting principles are being revised, so as to not create a disconnect in the timing and add further confusion on this matter as the impact to capital in the interim would not be representative of an entity's true financial condition.

In addition, we reiterate our belief that the requirement to recognize a liability for guarantees issued as a part of intercompany or related party transactions could subject reporting entities to unintended consequences, especially provided the clarification provided in paragraph 21d, which states "if a guarantee were issued to an unrelated or related party for no consideration on a standalone basis, the offsetting entry would be to expense." This would lead to a doubling effect on surplus, not just RBC. We believe an accounting answer which would lead to a charge or benefit to surplus twice for the same underlying obligation would produce results which do not accurately reflect the actual risk to parent company surplus. Refer to Exhibit A for further explanation and example journal entry discussion, which demonstrates what we hope to be an unintended impact of the revised guidance.

We believe the requirement provided in paragraph 32 to apply the guidance in Proposed SSAP 5R for guarantees to all existing guarantees at the date of adoption will unduly burden insurers as paragraph 18 requires initial measurement of the liability at the fair value of the guarantee at its inception. The cost of gathering historical information about guarantees and having to determine the fair value of the guarantee at the time it was issued could be substantial, as well as likely cause a significant impact to surplus on the effective date.

We hope these comments assist you during your deliberations of Proposed SSAP 5R. In the event that the SAPWG would like any further clarification of our positions we are happy to explain them in greater detail.

Respectfully,

/s/ Martha L. Frye

Martha L. Frye
Senior Vice President and Chief Accounting Officer
Nationwide Insurance

Exhibit A

Nationwide

August 7, 2009

Mr. Joseph Fritsch, Chairman
Statutory Accounting Principles Working Group (SAPWG)
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Statutory Issue Paper No. 135, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

Dear Chairman:

Nationwide Insurance Group appreciates the opportunity to comment on the exposure draft of Statement of Statutory Accounting Principles (SSAP) Issue Paper No. 135, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (IP 135). Nationwide Insurance Group (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management which include property and casualty and life insurance companies. Nationwide is one of the largest diversified insurance and financial services organizations in the world, with combined surplus of more than $13 billion.

The purpose of IP 135 is to update statutory accounting principles (STAT) for guarantees. The proposed guidance will result in adoption, with modification, of Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others, and Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34* (FIN 45). We support the adoption of the provisions of FIN 45 which would align disclosure requirements for guarantees under STAT and U.S. generally accepted accounting principles (GAAP) with the additional requirement to disclose the status of performance risk. However, we do not support the requirement to recognize a liability for intercompany and affiliate limited guarantees. As discussed in further detail below, we respectfully recommend that the following items within paragraph 13 are excluded from the scope of IP 135 as proposed:

(1) guarantees issued either between parents and their subsidiaries or between corporations under common control;
(2) a parent's guarantee of its subsidiary's debt to a third party, and
(3) a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent

We believe the modifications to the existing FIN 45 guidance proposed for adoption in IP 135 could subject reporting entities to unintended consequences and could result in measurement difficulties inherent in a parent-subsidiary guarantee. Herein we discuss our primary concerns related to IP 135

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Nationwide Insurance
Nationwide Financial

Page 2

Unlike GAAP, the concept of consolidation does not exist under STAT. As a result, the proposed guidance could cause a "double charge" or "double benefit" recorded to the parent entity surplus for certain guarantees. For example, if a parent entity guarantees a population of policy liabilities of a subsidiary company and no consideration is provided, as is the common practice, the subsidiary company would first recognize a liability for those policy liabilities and a related charge to income which ultimately flows through surplus. When the parent entity values their investment in the subsidiary company in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* (SSAP 97), the parent entity would recognize an adjustment to their "investment in subsidiary" resulting in a reduction in surplus. If the parent is required to recognize a liability and related expense for the guarantee, this would result in a "double charge" to surplus. Likewise, if the subsidiary company releases a portion of those reserves based on experience and similarly the parent reduces the value of their obligation under the guarantee for those reserves, the parent would recognize an adjustment to surplus for both their "investment in subsidiary" and a reduction in their expense related to the guarantee. We believe these results are counterintuitive to underlying STAT.

Although this guidance excludes unlimited guarantees between affiliates from the initial recognition and measurement requirements and would only be effective for new or modified guarantees upon adoption, we believe there are legitimate business reasons for using limited guarantees between affiliates that would be adversely impacted by this guidance. We are especially concerned since it is not an uncommon practice in the insurance industry for a parent to issue limited guarantees to affiliates for specific liabilities such as coverage for run-off policy liabilities. Insurance companies are also required by licensing and other regulatory bodies to use limited guarantees for maintaining certain levels of surplus at an affiliate. Even without the requirement to recognize a liability for limited guarantees between affiliates, we feel the users of the financial statements would still receive important information about those guarantees because disclosures are still required.

Additionally, we are concerned about the ability for companies to develop relevant and reliable fair values for limited guarantees involving affiliates absent any current guidance addressing how to fair value these types of guarantees. We feel the current lack of guidance could lead to diversity in practice, creating comparability issues.

We hope these comments assist you during your deliberations of IP 135. In the event that the SAPWG would like any further clarification of our positions we are happy to explain them in greater detail.

Respectfully,

s/ Martha L. Frye

Martha L. Frye
Senior Vice President and Chief Accounting Officer
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Sean T. Leonard
Senior Vice President and
Chief Financial Officer

October 28, 2009

Mr. Joseph Fritsch, Chairman
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National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Ambac

Re: Disclosures for Financial Guarantee Insurance Contracts

Dear Sir:

Ambac Assurance Corporation ("Ambac") is pleased to offer the following comments in response to the newly proposed financial guarantee disclosures which have been re-exposed by the Statutory Accounting Principles Working Group ("SAPWG") based on suggested revisions from the Financial Guaranty Subgroup. Ambac is domiciled in the State of Wisconsin and is a provider of financial guarantees to clients in both the public and private sectors.

We appreciate the SAPWG's efforts to address many of Ambac's comments discussed in our initial letter of August 14, 2009 related to the first exposure draft. Nonetheless we believe that significant issues remain in the re-exposed draft that we would ask the SAPWG to consider prior to finalization. These issues are discussed below:

- Paragraph 15.a.(1) – Most of the issues we outlined in our original comment letter of August 14, 2009 continue to be a concern. We firmly believe the costs of complying with this disclosure far outweigh any additional benefits provided to users of our statutory financial statements. This paragraph requires the following disclosure, "The unearned premium revenue (undiscounted) as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception." The language suggests the intent of this disclosure is to compute what the unearned premium revenue ("UPR") would have been for installment-paying policies under the existing SSAP 60 revenue recognition principles for non-installment paying policies. Our concerns are as follows:

    1. We would like clarification on whether the above interpretation of the SAPWG's intent is correct, since we believe the disclosure requirement could be interpreted a number of different ways. For example, should the UPR amount disclosed include the impact of only installment premiums received to date or installment premiums received to date plus expected future installment premiums?
    2. To the extent our interpretation is correct, this would impose a significant burden in terms of reallocating scarce technology and finance department resources to develop the necessary system enhancements that is for disclosure purposes. We recently completed a nine month technology effort to enhance our revenue recognition algorithms to comply with FAS 163 GAAP reporting requirements.

However, the revenue recognition principles of FAS 163, which are based on a level-yield notion, are inconsistent with SSAP 60 revenue recognition principles. As such, we cannot leverage the FAS 163 system enhancements to comply with paragraph 15.a.(1) disclosures.

We would strongly urge the SAPWG to eliminate this disclosure.

Ambac

- Paragraph 15.f - The term "claim liability" used in this disclosure requirement is consistent with the GAAP terminology used in FAS 163 to denote what insurance enterprises and financial statement users loosely refer to as loss reserves. However, this is inconsistent with the terminology in SSAP 60 which refers to loss reserves as "reserves for unpaid losses and loss adjustment expenses." We would recommend using terminology in this disclosure requirement that is consistent with other statutory accounting principles.

- Paragraphs 16 a. (2) and 16.a.(3) – These paragraphs require the remaining weighted-average contract period and the insured contractual payments outstanding, segregating principal and interest, to be disclosed. Footnotes 2 and 3 to these disclosures state that the time periods used should be based on management estimates. Presumably, if management believes the expected life of the contract (and contractual payments) is less than the contractual life, it should use the expected life.

  These proposed disclosures are similar to FAS 163 disclosure requirements, with one important difference. The revenue recognition requirements of FAS 163 are based on either a contractual period or expected period of risk dependent on the asset class of the insured obligation (refer to FAS 163, paragraph 12). As a result, our FAS 163 disclosures related to weighted average contract period and insured contractual payments outstanding for a given policy are calculated using either a contractual or expected time period consistent with the policy's revenue recognition requirement. In other words, the time period used to make these FAS 163 disclosures are dependent on the asset class of the insured obligation. Similar to our previous comment on paragraph 15.a.(1), because our technology systems have been re-designed to produce the FAS 163 disclosures we would be unable to leverage the significant system enhancements which were completed earlier this year to comply with the paragraph 16.a. (2) and 16.a. (3) disclosures. As such, we would recommend these disclosures either be eliminated or modified to allow us to use an expected or contractual life in the calculation consistent with FAS 163 principles.

- Paragraphs 16.a. (4) through (9) and A.1. – Footnotes 4 and 5 of paragraphs 16.a. state that the amounts disclosed for net claim liability and reinsurance recoverable may not reconcile to the financial statements. Additionally footnote (a) in the disclosure table in paragraph A.1 states that "instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may note equal the claim liability reported in the balance sheet." These footnotes have created some confusion regarding the appropriate content of the individual disclosures required in paragraph 16.a. (4) through (9). We believe the line items shown in the disclosure table of paragraph A.1, which related to paragraph 16, should be based on current statutory principles as follows:

- *Gross claim liability* - represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAPs 55 and 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.
- *Less: Gross potential recoveries* – includes a) subrogation recoveries which are deducted from the gross claim liability in accordance with paragraph 12 of SSAP 55 and b) ceded reinsurance recoveries on unpaid losses which are deducted from the gross claim liability in accordance with paragraph 83.a of SSAP 62.
- *Less: Discount, net* – represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.
- *Net claim liability* – represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the "Losses" line item on the balance sheet.
- *Unearned premium revenue* – should reconcile to the "Unearned premiums" line item on the balance sheet.
- *Reinsurance recoverable* – represents reinsurance recoverables on paid losses which is reported as an asset in accordance with paragraph 20 of SSAP 62. This line should reconcile to "Amounts recoverable from reinsurers" on the balance sheet.

Ambac

If the SAPWG agrees with the above interpretation of what each line item in the disclosure table should contain, we would recommend either deleting the above mentioned footnotes in paragraphs 16.a and A.1 or clarifying those footnotes may only be relevant if the statutory accounting standards are revised in the future.

If a representative of the NAIC staff wishes to discuss the contents of this comment letter, please contact Sean Leonard at (212) 208-3177 (sleonard@ambac.com) or Rich Alger at (212) 208-3196 (ralger@ambac.com).

Sincerely,

Sean Leonard

Sean Leonard
Senior Vice President and
Chief Financial Officer

EAIWG Additional Handout – AH1

D. Keith Bell, CPA
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December 1, 2009

Mr. James Armstrong, Chairman
Emerging Accounting Issues Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: GAAP Accounting for Re-REMICs

Dear Mr. Armstrong,

This letter addresses the Working Group's request to the interested parties during the Fall National Meeting to provide a summary of the impact that the revised GAAP accounting would have on re-REMIC transactions.

During 2009, the Financial Accounting Standards Board issued revised guidance for the transfer of financial assets and the consolidation of variable interest entities. This guidance is effective for periods beginning after November 15, 2009. The provisions of the pronouncements related to re-REMIC transactions are as follows:

Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets, an amendment of FAS 140 (FAS 166)*

Summary and sale criteria

FAS 166 eliminates the concept of a qualifying special-purpose entity (QSPE), clarifies the isolation and effective control conditions for sale accounting and amends the initial measurement of a transferor's interest in transferred financial assets. FAS 166 also clarifies that a transfer is accounted for as a sale only if *all* of the following conditions are met:

1. The transferred financial assets must be isolated from the transferor, even in bankruptcy or receivership.
2. Transferees of the financial assets (or third party beneficial interest holders in a securitization structure), have the right to pledge or exchange the assets. (The change in the criteria addresses the elimination of the QSPE.)

3. The transferor, its consolidated affiliates or its agents do not maintain effective control over the transferred financial assets or third party beneficial interests related to those transferred assets. Examples of effective control include the following:
   a. Agreements that both entitles and obligates the transferor to repurchase or redeem the financial assets prior to their maturity. This has not changed from FAS 140.
   b. Agreements that provide the transferor with both the unilateral ability to cause the holder to return specific financial assets and *a more-than-trivial benefit attributable to that ability*, other than through a cleanup call**.**
   c. Agreements that permit the transferee to require the transferor to repurchase the transferred assets at a price that is so favorable that it is probable that the transferee will exercise its option to cause the repurchase. This item is an addition from FAS 140.

Accounting of a transfer that qualifies as a sale

FAS 166 requires that upon completion of a transfer, the transferor will derecognize the transferred financial assets and recognize at fair value both assets obtained and liabilities incurred. A resulting gain or loss for the difference between carrying value and the fair value of the net assets obtained will be recognized.

Accounting of a transfer that does not qualify as a sale

If the transfer does not meet the requirements of a sale, the transferor does not de-recognize the assets (no change in reporting of financial assets) and the transaction is accounted for as a secured borrowing with a pledge of collateral.

Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FAS 167)

FAS 167 amends FIN 46R to require an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (2) the obligation to absorb the losses that could potentially be significant to the entity or the rights to receive benefits from the entity that could potentially be significant to the entity. FAS 167 changes the analysis required under FIN 46R from quantitative to qualitative with more of a focus on the entity that has the ability to impact the performance of the variable interest entity (VIE) rather than on the variable interest holder that would be exposed to the majority of the variability of economic gains and losses. FAS 167 also requires that consideration should be given to situations where an entity's economic interest in a VIE is disproportionate to its power to direct the activities of the VIE as this might be indicative of the amount of power the entity holds.

The interplay with the elimination of the QSPE in FAS 166 is expected to result in more consolidations.

Impact of FAS 166 and FAS 167 on Re-REMICs

EAIWG Additional Handout – AH1

If a transfer meets the requirements for sale accounting in FAS 166, the assets will be derecognized at their carrying value and any assets obtained and liabilities incurred would be initially recognized at fair value. This would result in a gain or loss for the difference between the carrying value and the fair value of the net assets obtained. If the transfer does not meet the requirements for sale accounting, the assets are not derecognized. The determination as to whether sale accounting is achieved is based on the structure of the transaction.

Under FAS 167, the re-REMIC structure would be considered a VIE. Insurers involved will be required to perform an analysis which will be driven by the insurer's ability to direct the activities of the VIE and whether the insurer holds a variable interest in the VIE. An insurer's ability to impact the economic activity of the VIE, along with the significance of variable interests held, will determine whether an insurer consolidates a VIE; however, if the insurer has the ability to direct the economic activities and holds a variable interest, it will likely consolidate the re-REMIC structure. Additionally, holding a significant portion of the re-REMIC may require consolidation.

In summary, we believe that some re-REMIC transactions will qualify for sale treatment but it is likely that in cases where an insurer holds a greater percentage in the re-REMIC structure, the requirements for sale accounting treatment will not be met.

If you have any questions, please do not hesitate to contact either one of us. We look forward to meeting with you and the other members of the Working Group during the NAIC National Meeting in San Francisco.

Sincerely,	Sincerely,
D. Keith Bell	Rose Albrizio

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SAPWG Additional Handout – AH2

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November 24, 2009

Mr. Joe Fritsch, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: Ref 2003-12: Fin 45 Guarantor's Accounting and Disclosure Requirements for Guarantees.

Dear Mr. Fritsch,

We appreciate the opportunity to provide additional comments on Ref# 2003-12: FIN 45 and offer the following:

The Statutory Accounting Practices Working Group (SAPWG) drafted SSAP No. 5R which incorporated the guidance in FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees*, *Including Indirect Guarantees of Indebtedness of Others*, into SSAP No. 5, *Liabilities, Contingencies and Impairments of Assets* and released a draft of SSAP No. 5R for comment on October 5, 2009. The salient difference between FIN 45 and the guidance incorporated into the draft of SSAP No. 5R is that FIN 45 excluded guarantees issued between parents and their subsidiaries or among corporations under common control in its liability recognition requirements, while SSAP No. 5R includes such guarantees issued between parents and their subsidiaries or among corporations under common control in its liability recognition requirements, except for certain unlimited guarantees which have been scoped out of SSAP No. 5R.

FIN 45 excluded the following types of affiliate guarantees from its liability recognition guidance:

a. Guarantees issued between either parents and their subsidiaries or corporations under common control.

b. A guarantee of a subsidiary's debt to a third party by a parent (whether the parent is a corporation or an individual).

c. A subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. (Corporations under common control would be viewed in this situation as subsidiaries of a parent who is an individual or a group of individuals.)

Under SSAP No. 5R, except for unlimited guarantees, the guarantor is required to record a liability for these aforementioned guarantees.

FIN 45 identified several reasons for excluding inter-company guarantees:

1. In consolidation a parent's guarantee of a subsidiary's debt to a third party would be the liability of the consolidated entity. As such, the parent would be guaranteeing the consolidated entity's own performance, which under FIN 45, is not a guarantee subject to recognition.

2. No arms-length transaction existed when any of these parent-subsidiary (or common control) guarantees are made, as the parent controls the resources that effect whether the triggering event occurs, which would require the guarantor (either the parent or subsidiary) to perform under a guarantee.

3. It would be nearly impossible to value the guarantee of a related party's debt to a third party, as it would not be an arms length transaction.

4. If separate-company financial statements were presented, users would also receive important information about those guarantees because the disclosures are still required for guarantees that are subject to this interpretation.

The primary reason for FIN 45 requiring entities to recognize a liability at the inception of a guarantee in its financial statements was to ensure the financial statements were "representationally correct." FIN 45 focused on guarantees where the guarantor experienced a gain in its income statement by granting a guarantee and if a liability for the guarantee were not recorded, the financial statements would be distorted.

FIN 45 states:

"The Board believes that, in current practice, many entities may not be recognizing a liability for a guarantee because the recognition requirements in Statement 5 (pertaining to loss contingencies) have not been met at the inception of the guarantee and the premium for the guarantee was not separately identified because it was embedded in the purchase or sales agreements, service contracts, joint venture, or other commercial agreements."

SAPWG Additional Handout – AH2

"How the Changes in This Interpretation Improve Financial Reporting"

The recognition of a liability for the obligations undertaken upon issuing a guarantee results in a more representationally faithful depiction of the guarantor's assets and liabilities. When a guarantee is issued without a separately identified premium in conjunction with another transaction, the gain or loss recognized on that other transaction would be misstated if the guarantor fails to recognize a liability for the guarantee. For example, if a seller-guarantor issues to a customer's bank a guarantee of the customer's loan to facilitate the customer's obtaining funds to pay the seller for the assets being purchased, the failure to recognize a liability for the issuance of the guarantee overstates the profit on the sale. In those circumstances, the recognition of the liability for the guarantee results in a more representationally faithful depiction of the seller-guarantor's liabilities and results of operations. The initial recognition and initial measurement requirements in this Interpretation are expected to affect primarily the accounting for multiple-element transactions that include issuance of a guarantee by one party to another."

In the example in the preceding paragraph, by guaranteeing the customer's loan, the guarantor realizes a gain on the sale of the asset, which it would not have realized had the company not guaranteed the customer's loan. Embedded in the purchase price is a premium linked to the guarantee. Under this circumstance, the gain on the sale of assets would be overstated, if a liability for the guarantee was not recorded.

Affiliate guarantees in most instances do not result in income to the guarantor, e.g., a guarantee of an affiliate's mortgage to build an operating facility, a guarantee of an affiliate's debt so that it can replace its computers, or a guarantee of the performance under a revolving credit agreement. While these actions would indirectly inure to the benefit of the parent guarantor, not recognizing a liability for these affiliate guarantees would not result in a distortion of the guarantor's financial statements.

Interested parties understand the need to record a liability for a guarantee where there is a gain in the income statement of the guarantor, as a direct result of the guarantee. However, we believe that a liability for affiliate guarantees should not be recorded in the financial statements at inception for affiliate guarantees as there is no gain or loss to be recognized on the transaction which gave rise to the guarantee. The footnote disclosures in SSAP No. 5R provides the reader of the financial statements with sufficient information regarding affiliate guarantees.

Interested parties agree with FIN 45's reasoning for excluding affiliate guarantees and would also point out that under separate-company statutory-basis financial statements, there would be a double reporting of the same liability. First, a liability is reported on the subsidiary's balance sheet and a second time when a liability is reported on the guarantor's financial statements to recognize a liability for the guarantee of the subsidiary. Also, if a parent recorded an expense for a guarantee of a subsidiary insurer's loss, where a premium was not paid by the subsidiary, there would be a double charge to the surplus of the parent if the subsidiary incurred a loss. The attached file reflects journal entries which demonstrate the double booking effect on both liabilities and surplus.

Interested ~~P~~parties would also like to point out that following the guidance in the Draft of SSAP No. 5R could have an adverse impact on the rating it receives from a rating agency. If the parent guarantor records a debit to the cost basis of the investment in a subsidiary, as an offset to recording a liability for a guarantee on behalf of a subsidiary, a rating agency would not give the parent guarantor credit for the increased investment in the subsidiary. However, the liability for the guarantee would remain on the balance sheet and, as a result, the surplus of the parent would decrease by the amount of the guarantee liability. Alternatively, if the offset to recording a liability for a guarantee were expense, surplus would decrease by the amount of the liability.

In summary Interested parties do not believe a liability for an affiliate guarantee should be recorded in the financial statements. For affiliate guarantees there is no distortion of the financial position of the guarantor to offset by recording a liability for the guarantee. Recording a liability for an affiliate guarantee may have the opposite effect and distort an insurer's financial position. Recording a liability on the guarantor's financial statements could result in unintended consequences such as having an adverse impact on an insurers rating from a rating agency, double counting liabilities and having an adverse impact on the guarantor's Risk Based Capital result. The footnote disclosure in SSAP No. 5R provides the reader of financial statements with sufficient information on guarantees.

Thank you for considering our comments. We look forward to working with you, Mr. Armstrong, and the Working Group at the NAIC winter meeting in San Francisco. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,	Sincerely,
D. Keith Bell	Rose Albrizio

cc: Mr. James Armstrong, Iowa DOI
Robin Marcotte, NAIC staff
Interested Parties

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Exposure Draft SSAP No. 5R - *Liabilities, Contingencies and Impairment of Assets - Revised*

Proforma Journal Entries Needed for SSAP 5R revisions which show double booking of expense and liability:

Scenario 1

Parent guarantees sub's $100M debt:

	Parent				Sub			
	Dr.	Cost of Sub	100		Dr.	Cash	100	
	Cr.	Liab		100	Cr	Liab		100
	To record liab. on Guarantee				To record receipt of cash from borrowing			

Under this scenario, the same liability is recorded on the Parent's and the Sub's balance sheet

Scenario 2

The Sub does not pay a premium to its Parent to guarantee a transaction which may result in a loss.

	Parent			
Entry 1	Dr.	Expense	100	
	Cr	Liab		100
	To record liab. on the Guarantee			

	Parent				Sub			
Entry 2								
The Sub incurs a loss on asset	Dr.	Unrealized loss in sub	100		Dr.	Loss	100	
	Cr.	Carrying value of sub		100	Cr	Asset		100
	To record a loss under guarantee				To record loss on asset			

Under this scenario the Parent incurs a double charge to surplus.

As respects this guarantee, there was no P&L impact from this guarantee on the financial statements. Therefore, it is questionable as to the benefit from recording a liability for the guarantee on the guarantor's books. (However, there would be a P&L impact if no premium were paid for the guarantee.)

SAPWG Additional Handout – AH4

November 30, 2009

Attn: Mr. Joe Fritsch, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

File Reference: Ref #2009-09 – Disclosures for Financial Guarantee Insurance Contracts

Dear Mr. Fritsch:

MBIA Inc., is pleased to offer the following comments in response to the proposed disclosures for financial guarantee insurance contracts as proposed by the Financial Guarantee Subgroup. MBIA's financial guarantee business is currently operated through two subsidiaries, National Public Finance Guarantee Corporation ("National") and MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). National is subject to insurance regulations and supervision of the State of Illinois (its state of incorporation). MBIA has submitted applications to its regulators to re-domesticate National to New York. MBIA Corp. is domiciled in the State of New York.

We believe the additional footnotes added in the most recent version of the proposed disclosures for financial guarantee insurance contracts provide additional clarity to the proposed updates to SSAP 60. We do have one comment regarding the addition of footnote #10 added in the most recent changes to the Form A which we would like for the Working Group to consider. Currently, footnote #10 states:

"Unearned premium revenue should reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums."

We would like to point out to the Statutory Accounting Principles Working Group that this amount may not reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums. The unearned premium represented in this table is limited to those insured policies which are currently under surveillance (i.e. policies where the credit of the issuer has deteriorated). Paragraph 16 requirements provide for a tabular disclosure of those policies which are currently subject to the risk management procedures of the enterprise. The insured policies where the credit has not deteriorated are not included in the tabular disclosures of paragraph 16[1]. We propose that footnote #10 be changed to the following:

[1] See paragraph A12 and A13 of FAS 163 for further details of the tabular disclosures referenced.

MBIA Inc. • 113 King Street • Armonk, NY 10504 • 914 273 4545 • www.mbia.com

"Unearned premium revenue may not ~~should~~ reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums. To the extent that this amount does not reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums, please provide an additional reconciliation to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums in a footnote to the tabular disclosures required in paragraph 16 of the standard."

****

Thank you for considering these proposals and for the opportunity to contribute to the standard-setting process. Should you have any questions about this letter, please do not hesitate to contact Kelley Kortman, Vice President of Accounting Policy Group at (914) 765-3263 or myself at (914) 765-3557.

Sincerely,

Huy Tran
Deputy Controller and Managing Director of Accounting Policy
MBIA Inc.

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SAPWG Additional Handout – AH5

Ref# 2009-09

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Disclosures for Financial Guarantee Insurance Contracts <u>– AMBAC Proposed Revisions</u>

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☐	☐
New Issue or SSAP	☐	☐	☐

Description of Issue:
During the Spring 2009 National Meeting, the Statutory Accounting Principles Working Group considered comments received on the exposed *Issue Paper No. 136—Accounting for Financial Guarantee Contracts* (Issue Paper No. 136). This Issue Paper proposed adoption, with modification, of FAS *163, Accounting for Financial Guarantee Contracts* (FAS 163). After considering the comments received, the Working Group formed a Subgroup comprised of New York, Maryland and Wisconsin. This Financial Guarantee Subgroup was then directed to 1) prioritize adopting enhanced financial guarantee disclosures effective for the 2009 reporting period, 2) coordinate with the Financial Guaranty Insurance Guideline Working Group, and 3) conduct conference calls to address the technical comments received from the initial exposure of Issue Paper No. 136.

This agenda submission form is in response to the Subgroup's priority of adopting enhanced financial guarantee disclosures effective for the 2009 reporting period. The Subgroup has requested that this new agenda submission form be exposed for public comment during the 2009 Summer National Meeting. As illustrated, this agenda submission form proposes the incorporation of several disclosures within SSAP No. 60. The Subgroup believes these disclosures are necessary as SSAP No. 60 does not currently have any disclosure requirements specific to financial guarantee insurers. (Current disclosure requirements within SSAP No. 60 are simply limited to disclosures required by other statements within the Accounting Practices and Procedures Manual.)

The Subgroup agreed to propose disclosures that are applicable under current statutory accounting guidance, but that are similar to the intent of disclosures within FAS 163. It is anticipated that disclosures adopted from the issuance of this new agenda submission form will be modified in the event that statutory guidance on financial guarantee contracts is revised in accordance with FAS 163. However, as it is uncertain whether revisions to mirror FAS 163 guidance would be adopted, the Subgroup believes the Working Group should proceed with adopting disclosure requirements that reflect the current statutory guidance to enable users to assess the financial condition of financial guarantee insurers and understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

<u>**Financial Guarantee Subgroup Proposed revisions to SSAP No. 60: (tracked changes illustrate the proposed revisions to SSAP No. 60)**</u>

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. A schedule of premiums expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums, including:

(1) Expected future premiums – Beginning of Year

(2) Less - Premium payments received for existing installment contracts

(3) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration. For installment premiums for which the insured obligation is retired early, the outstanding principal is paid down by the issuer, and/or other situations that impact the receipt and recognition of future installment premiums, describe the situation impacting the future installment premiums, the monetary impact to future installment premiums and, if applicable, disclosure of any resulting premium receivables that will be earned when received.

e. A schedule of the future expected premium revenue as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability:

(1) The rate used to discount the claim liability. This rate shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (such as changes in the discount rate, the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average contract period

(3) Insured contractual payments outstanding, segregating principal and interest

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability

(8) Reinsurance recoverables

(9) Unearned premium revenue.

17. Refer to the preamble for further discussion regarding disclosure requirements.

The Financial Guarantee Subgroup also proposes inclusion of an Appendix to SSAP No. 60, illustrating the expected disclosure of insured financial obligations with credit deterioration:

Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	$ 565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Claim liability reported in the balance sheet (a)	$ 120,000,000	$ 148,000,000	$ 170,000,000	$ 99,000,000	$ 537,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

Existing Authoritative Literature:
SSAP No. 60—Financial Guaranty Insurance (SSAP No. 60) establishes statutory accounting principles for financial guaranty insurance and addresses areas where financial guaranty insurance accounting differs from other lines of insurance. Currently, no specific disclosure requirements for financial guarantee insurance contracts are included within SSAP No. 60.

FAS 60, Accounting and Reporting by Insurance Enterprises (FAS 60) was rejected for statutory accounting.

FAS 163, Accounting for Financial Guarantee Insurance Contracts (FAS 163) is currently pending statutory accounting consideration. The disclosure requirements proposed within this agenda submission form are similar to the intent of disclosures within FAS 163, but have been modified to reflect existing statutory requirements. As it is uncertain when consideration of FAS 163 will be finalized for statutory accounting, the Subgroup proposes that the Working Group proceed with adopting disclosure requirements that would currently allow users to assess the financial condition of insurers and provide information to that will affect the present and future recognition and measurement of financial guarantee contracts.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None.

Staff Recommendation:

Summary Recommendation:
NAIC staff agrees that disclosure requirements specific to financial guarantee contracts should be incorporated within statutory accounting principles. Such disclosures will provide additional information to assess the financial condition of insurers as well as provide information that will affect the present and future recognition and measurement of financial guarantee contracts.

NAIC staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 60, to incorporate the financial guarantee disclosures and illustrative example within SSAP No. 60, as proposed by the Financial Guarantee Subgroup of the Statutory Accounting Principles Working Group. (Consistent with existing statutory accounting policies, disclosures are considered nonsubstantive, and will be effective upon adoption. It is projected that enhanced disclosures will be adopted for 2009 reporting.)

Staff Review Completed by:
Julie Gann
NAIC
May 2009

Status:
On June 13, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to *SSAP No. 60—Financial Guaranty Insurance* (SSAP No. 60) proposing the incorporation of several disclosures and an appendix illustration, as presented above. The proposed disclosures are similar to the intent of disclosures within *FAS 163, Accounting for Financial Guarantee Contracts* (FAS 163), but have been modified to be applicable under current statutory accounting guidance for financial guarantee insurance contracts. It is anticipated that enhanced disclosures will be adopted for 2009 reporting.

SAPWG Additional Handout – AH5

Ref# 2009-09

In August 2009, comment letters were received from MBIA, AMBAC and CIFG in response to the Statutory Accounting Principles Working Group public exposure of agenda item #2009-09. NAIC staff distributed these comment letters to the SAPWG Financial Guaranty Subgroup in order for the Working Group to receive the Subgroup's suggestions for consideration during the Fall National Meeting. In response to the Subgroup's comment letter review, the Subgroup suggested that the Working Group retain all of the disclosures, but incorporate some modifications to clarify the disclosures and to reduce significant system changes. (Key modifications include utilizing management estimates for all 'expected' amounts and terms, as well as clarifying when discounting should be utilized.) In addition, the Subgroup also suggested retaining the Appendix A - Illustration to ensure the necessary disclosure information is easily identifiable within the notes to the financial statements. The Subgroup recognized that there is a 'financial guaranty insurance exhibit' already included in the blanks, but the Subgroup wanted to retain this additional illustration as it classifies financial guaranty obligations in a concise format in accordance with the performance risk of the insured obligation.

On September 21, 2009, the Statutory Accounting Principles Working Group agreed to re-expose financial guaranty disclosures with the proposed revisions suggested by the Financial Guaranty Subgroup. The exposed disclosures, with tracked changes representing the Subgroup's suggestions, are provided below:

Revised Proposed Disclosures to SSAP No. 60:

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.)

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue (undiscounted) as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. A schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

(1) Expected future premiums – Beginning of Year

(4) Less - Premium payments received for existing installment contracts

(5) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration.

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability:

(1) The rate used to discount the claim liability. This rate[1] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a

[1] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average[2] contract period

(3) Insured contractual payments outstanding[3], segregating principal and interest

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability[4]

(8) Reinsurance recoverables[5]

(9) Unearned premium revenue.

17. Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

[2] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts.
[3] Contractual payments outstanding shall be based on management's estimates of receivables.
[4] This amount may not reconcile to the financial statements
[5] This amount may not reconcile to the financial statements

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	$ 565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Claim liability reported in the balance sheet (a)	$ 120,000,000	$ 148,000,000	$ 170,000,000	$ 99,000,000	$ 537,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

SAPWG Additional Handout – AH5

Ref# 2009-09

In November 2009, a comment letter was received from AMBAC in response to the Statutory Accounting Principles Working Group public exposure of agenda item #2009-09. The Financial Guaranty Subgroup reviewed the comment letter received, and recommends that the Working Group retain the disclosures and appendix illustration, but incorporate several of the clarifying revisions requested by AMBAC. The following illustrates the exposed guidance, with the Subgroup's proposed footnote clarifications:

Revised Proposed Disclosures to SSAP No. 60 – 11/9/09:

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.)

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue ~~(undiscounted)~~ as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception. [1]

b. A schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

(1) Expected future premiums – Beginning of Year

~~(6)~~(2) Less - Premium payments received for existing installment contracts

~~(7)~~(3) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

[1] If desired, a reporting entity that follows FAS 163 for GAAP may elect to report this disclosure in accordance with the revenue recognition principles of FAS 163.

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration.

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability[2]

(1) The rate used to discount the claim liability. This rate[3] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

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[2] The reference to "claim liability" throughout the disclosure requirements shall reflect the "reserves for unpaid losses and loss adjustment expenses" from paragraphs 6 and 7 of this Statement.

[3] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average[4] contract period

(3) Insured contractual payments outstanding[5], segregating principal and interest

(4) Gross claim liability[6]

(5) Gross potential recoveries[7]

(6) Discount, net (both claim liability and potential recoveries)[8]

(7) Net claim liability[9]

(8) Reinsurance recoverables[10]

(9) Unearned premium revenue[11]

17. Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

[4] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[5] Contractual payments outstanding shall be based on management's estimates of receivables. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[6] Represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAP No. 55 and SSAP No. 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.

[7] Includes (a) subrogation recoveries, which are deducted from the gross claim liabilities in accordance with paragraph 12 of SSAP No. 55 and (b) ceded reinsurance recoveries on unpaid losses, which are deducted from the gross claim liability in accordance with paragraph 83.a. of SSAP No. 62.

[8] Represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.

[9] Represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the sum of line 10, column 8 and column 9 (financial guaranty net unpaid losses and net unpaid loss adjustment expenses) of the Underwriting and Investment Exhibit, Part 2a – Unpaid Losses and Loss Adjustment Expenses.

[10] Represents reinsurance recoverables on paid losses which is reported as an asset with paragraph 20 of SSAP No. 62. This line should reconcile to "Amounts recoverable from reinsurers" on the balance sheet.

[11] Unearned premium revenue ("UPR") should be consistent with the UPR measurement principles of SSAP No. 60 as reported in ~~reconcile to~~ line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums.

SAPWG Additional Handout – AH5

Ref# 2009-09

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

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Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
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(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

Ambac comment: Please delete "Claim liability reported in the balance sheet" and related footnote (a) in the above table. We have established in footnote 9 above that the "Net claim liability" reported in this table will reconcile to line 10, columns 8 and 9 of the Underwriting and Investment Exhibit, Part 2a, which already reconciles to the balance sheet. Therefore, "Claim liability reported in the balance sheet" seems unnecessary as it would be the same number as the "Net claim liability".

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November 19, 2009

Mr. Joe Fritsch, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: Comments on SSAP No. 43R Exposed by the NAIC Statutory Accounting Principles Working Group

Dear Mr. Fritsch,

We appreciate the opportunity to provide comments on the proposed changes to SSAP No. 43R, *Loan-backed and Structured Securities*, that were exposed by the Statutory Accounting Principles Working Group ("SAPWG").

Overall, we support and appreciate the effort of the SAPWG to better reflect the risk to insurers of holding loan-backed and structured securities like residential mortgage-backed securities ("RMBS").

Without having a detailed proposal from the NAIC to evaluate along with the proposed changes to SSAP 43R, we found that we have many questions regarding the proposal and were unable to provide a complete evaluation and set of comments. Our comments below highlight areas where additional discussion with the SAPWG would be beneficial or involve clarifications where practitioners and auditors may otherwise be prone to develop inconsistent approaches when applying the guidance.

The following are some of the main comments that were raised in our discussions so far:

- Currently, most systems utilize one master data file with a one NAIC rating to one CUSIP relationship. This creates a fundamental problem with determining the initial and final NAIC ratings for non-agency RMBS that a company may have purchased in various lots within an individual separate entity, within a consolidated life **or** P&C group, or within a consolidated life **and** P&C group. Given all the downstream and reporting implications associated with the NAIC ratings determined under the proposed guidance, we believe that a software solution is essential to effectively implementing the proposed changes. As such, we have begun to have discussions with all of the major software suppliers to develop solutions to the proposed guidance by the effective date. Given the complexity of the potential for multiple ratings per security, this may not be accomplished by the effective date, and we will have to develop manual workarounds to get the reporting completed. As such, we believe that a practical solution to problem is to apply a weighted average of the securities purchased in various lots within an individual separate entity, within a consolidated life **or** P&C group, or within a consolidated life **and** P&C group.

- Given the year end time constraints, the timeliness of the security file from the SVO is extremely important to all companies, especially public filers. As such, we would like some clarification to confirm that the file will be received by mid-December to ensure that statutory reporting can be accomplished by year end.

In addition, based on discussions within the industry, we offer the following comments to assist in clarification of the proposed guidance to ensure in consistent application by all companies:

- We believe that the proposed guidance changes the methodology used to derive the NAIC credit designations, which is used to determine C-1 capital, asset valuation reserves, interest maintenance reserves, and reporting on Schedule D and throughout the Annual Statement. We ask that the SAPWG please clarify that our understanding is correct.

- As mentioned above, given all the downstream and reporting implications associated with the NAIC ratings determined under the proposed guidance, we believe that a software solution is essential to effectively implementing the proposed changes. Throughout discussions with various software suppliers, we note that there have been various concerns regarding the timing and format of the file that is expected to be received from the SVO. We ask that the NAIC staff work with the software suppliers to address their concerns to ensure that a software solution is able to be developed on a timely basis.

* * * * *

Thank you for considering our comments; these comments are provided on behalf of the interested parties contained in the list attached to this letter.

We look forward to working with you and members of the Committee to complete the proposed changes to SSAP No. 43R. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely, Sincerely,

D. Keith Bell Rose Albrizio

cc: Mr. James Armstrong, Iowa DOI
Robin Marcotte, NAIC staff
Interested Parties

The Interested Parties, as noted below, for the NAIC Statutory Accounting Principles Working Group agree with the comments contained in this letter:

Organization	**Name**	**Phone Number**	**E-Mail Address**
Aetna	Joseph Alfano	860-273-7199	AlfanoJA@aetna.com
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American Council of Life Insurers (356 members)	Mike Monahan	202-624-2324	MikeMonahan@acli.com
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American Insurance Association (410 members)	Phil Carson	202-828-7170	pcarson@aiadc.org
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Jackson National Life Insurance Company	Chet Czubko, Jr.	517-367-4246	chet.czubko@jackson.com

Lincoln Financial Group	Kristine Hook Toscano	484-583-1748	Kristine.Toscano@lfg.com
NAMIC	Bill Boyd	317-875-5250	bboyd@namic.org
Nationwide Insurance	Jason T. Fehlner	614-249-1077	FEHLEJ@nationwide.com
Northwestern Mutual	Wally Givler	414-665-1673	wallygivler@northwesternmutual.com
Property Casualty Insurers Association of America (PCI)	Jim Olsen	847-553-3664	james.olsen@pciaa.net
Protective Life Corporation	Charles D. Evers, Jr.	205-268-3596	charles.evers@protective.com
Reinsurance Association of America (36 members)	Joe Sieverling	202-638-3690	sieverling@reinsurance.org
StoneRiver	Connie Jasper Woodroof	800-373-3366	connie.woodroof@stoneriver.com
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November 19, 2009

Mr. Joe Fritsch, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: Securities with Multiple NAIC Designations (revisions to SSAP No. 43R)

Dear Mr. Fritsch,

We appreciate the opportunity to provide comments on the recently exposed Ref #2009-18: *Securities with Multiple NAIC Designations*. We agree with the NAIC's goal of addressing the deficiencies in ratings for Residential Mortgage-Backed Securities (RMBS) from Nationally Recognized Statistical Rating Organizations (NRSROs); however, we have concerns with the proposal, both from a conceptual and practical perspective. Until such time as the Valuation of Securities Task Force exposes for comment a specific proposal that provides details on the ratings process, we cannot provide final comment on whether the proposed changes to SSAP No. 43R, *Loan-Backed and Structured Securities* are appropriate relative to the changes in the ratings process. However, we do offer the following initial comments:

Conceptual Concerns

We believe that the two-step process reflected in the revisions to SSAP 43R and Attachment 1 thereto, may understate the risks in some RMBS investments while overstating the risk in others. The proposal also appears to introduce more subjectivity into the accounting and risk-based capital (RBC) treatment for RMBS. Additionally, the two-step process is unlikely to have a significant effect, if any, on property and casualty insurers due to the relative insignificance of fixed-income asset charges to property and casualty RBC results, even before consideration of the covariance adjustment. Accordingly, we are not in favor of initiating a manual process for one quarter and increasing insurers' costs without any benefit to assessing property and casualty companies' capital adequacy.

We believe that the understatement of risk that would occur in the proposal is primarily due to the proposal's implicit premise that the lower the carrying value, the less risk there is in a security. We believe that this argument fails to take into account that there is a difference between the amount at risk from an investment and the uncertainty in the investment's future cash flows. While we agree that impairing a security or writing it down to fair value decreases the net amount at risk, there is not necessarily a decrease in the risk of receiving future cash flows commensurate with a lower RBC charge. Inherently, many of these securities carry significant risk, and it is our observation that once there is a decline in expected cash flows, it is likely that there will be further deterioration. Therefore, we disagree with the implication in the two-step process that a high quality bond and an impaired bond should both be reported as NAIC 1 and receive the same risk charge since we believe that there is significantly more risk in the impaired bond. We believe that the difference in market values for high and low quality RMBS are indications of the differential in the risk and uncertainty as viewed by investors.

Additionally, the proposal does not address the interplay between the proposal's changes and the recent changes made to SSAP No. 43R to impair only the credit amount of an RMBS. It is unlikely that many of these RMBS will be carried at fair value since an expected loss will drive the insurer to record a credit loss which, under the proposal, would likely result in an NAIC designation being assigned to the RMBS that would require amortized cost accounting. This coupled with an inherently subjective nature of the impairment process whereby small changes in assumptions can lead to significantly different risk-based capital charges, appears to stray from a conservative treatment of these securities.

We also believe that there is a reasonable chance, based on the table in Attachment 1, that highly rated securities that are carried at or near par and fair value will not be rated NAIC 1. We acknowledge that this is just one of over 19,000 tables but it does appear to imply that there is a reasonable chance that super-senior bonds could be carried at fair value since they will have high carrying values, whereas RMBS of lesser quality (e.g., the support tranche of a super-senior bond) that have been impaired could be carried at amortized cost, even though the support tranche would lose its entire value before the super-senior bond suffers any loss.

We would like to have more examples of rated RMBS to determine if we conceptually agree with the rating outcomes under the proposal prior to implementing it. In addition, we would like to see a conceptual description of how the mapping tables between NAIC designation and price will be constructed to reflect expected losses. The mapping tables are a critical component for determining how the proposed changes will affect insurers' portfolios, yet we are unable to evaluate the proposed changes without having a conceptual description of the mapping tables and a number of examples spanning the range of RMBS securities affected by the proposed changes to review.

Practical Concerns

We are very concerned with the practical aspects of this proposal, especially given the short period of time that insurers will have to implement it so close to year end and the inability to better evaluate the proposal against the current NAIC process. Some of the concerns/questions with implementation are as follows:

- Many companies have a cut-off date for changes to reporting systems after which changes are no longer allowed in order to ensure that the systems are stable for year-end reporting. To accommodate this proposal, companies will have to open the investment accounting systems to cause them to report in a way that they were not designed. Most investment accounting systems are designed to have the accounting based on the NAIC designation; any change in designation (Step 2) will cause the system to attempt to change the accounting. (This is a greater issue for property and casualty insurers than for life insurers, as property and casualty insurers are required to start using the lower of amortized cost or fair value below NAIC 2, whereas life insurers need only use the lower of amortized cost or fair value for bonds below NAIC 5.) We are also concerned with the proposal since we do not utilize an external investment accounting system and therefore will have to allocate resources to comply with the provisions of this guidance.

- It is unclear whether this change in accounting would be for just one quarter or would need to be revised at a further date to accommodate a longer term solution. We believe it would be less disruptive to determine the long term solution prior to revising SSAP No. 43R.
- There is not sufficient time for companies to review and challenge the ratings that will be provided by the firm selected by the NAIC to rate the RMBS securities. Once selected, the firm will have to appropriately model over 19,000 CUSIPS, taking into consideration the nuanced subordination in many of the structures. It has been our observation that the NRSRO's have not always been able to adequately account for the subordination in some of these complex structures even when they've had the convenience of time to perform their analysis.
- It is unclear as to how insurers should account for different lots of the same CUSIP. We believe that it is appropriate to do this at lot level since an insurer could get a different accounting answer when using a weighted average. This would especially be true for property and casualty companies where the amortized cost / lower of amortized cost or fair value split is between NAIC category 2 and 3. Using a weighted average under the proposal would also increase the potential subjectivity in risk-based capital due to the ability to impact the weighted average through credit impairments. Although we believe that implementing at lot level is conceptually more appropriate, we are concerned with the practical implications since implementation at lot level poses significantly greater system challenges.
- It is unclear how the information would be delivered (i.e., the format). We recommend that once the format is identified, there should be pre-testing of the delivery method.
- It is unclear how new CUSIPs will be evaluated and how long that process will take.
- It is unclear as to when the NAIC is planning to make available a list of the CUSIPS that will be evaluated and how an insurer will notify the SVO/NAIC if a CUSIP is not on the list.
- There has been no mention of the cost of such ratings to allow insurers to plan and budget for the re-rating of the securities.
- There should be a process and timeline for notification when a RMBS can not be rated.
- It is not clear how the information received from the ratings will work with the other-than-temporary guidance within SSAP 43R. We believe that any indication of credit losses from the third party would put pressure on the insurer to impair an RMBS, but we do not find any discussion of this in the proposal.

Conclusion

Given that there are only six weeks remaining this year and many unanswered questions, we recommend that this proposal be deferred until it can be adequately reviewed by the Valuation of Securities Task Force and Capital Adequacy Task Force and a long-term solution developed. While a cost/benefit analysis is usually in order before adopting a change of this magnitude, we do not believe there would be any benefit to property and casualty insurers and note that the Working Group may want to consider the impact on other segments of the industry.

If the Working Group proceeds with the proposal, we request that it be optional or that at least the second step in the proposal be deferred to give adequate time for companies to comply and the NAIC to evaluate whether the second step appropriately addresses the risk-based capital concerns. We believe that there might be merit to the first step, if appropriately implemented; however, we have significant concerns with the second step and believe that a better approach can be developed to address the risk in RMBS securities.

* * * * *

Thank you for considering our comments. I look forward to meeting with you, Mr. Armstrong, and the Working Group at the NAIC Winter meeting in San Francisco, CA, and stand ready to assist in this NAIC project. If you have any questions in the interim, please do not hesitate to contact me.

Sincerely,

D. Keith Bell

cc: Mr. James Armstrong, Iowa DOI
Robin Marcotte, NAIC staff

November 14, 2009

Mr. Joe Fritsch, Chairman
Statutory Accounting Principals Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, Mo 64108-2604

Re: Form A on SSAP No. 43R

Dear Mr. Fritsch:

On behalf of SS&C Technologies, Inc. and our clients, we thank you for the opportunity to provide comments on the proposed modifications to SSAP 43R that were exposed for comment on November 2, 2009 by The Statutory Accounting Principles (E) Working Group.

The exposed revisions to SSAP No. 43R reflect an SVO proposal to assign different ratings to RMBS securities based on investor carrying value. We commend the NAIC staff for the level of detail included with the proposed modifications; however, we believe that there are a few points that require further clarification to help the insurance community implement these changes consistently that will also allow SS&C as an investment software vendor to assist our clients in automating this process.

1. <u>Treatment for Multiple Tax Lot Positions within a Legal Entity</u>

   Paragraph 26, subparagraph b.i. describes the determination of the **<u>initial</u>** NAIC designation where the amortized cost of a RMBS loan-backed security is compared to the range of values. The **<u>initial</u>** NAIC Designation is then used to calculate a carrying value and the carrying value is then used to determine the **<u>final</u>** designation. While the process as described is understood, the process does not provide specific guidance for determining the designation when multiple purchase lots are held of the same loan-backed security within a legal entity.

   After discussing these issues with our clients, SS&C believes that specific guidance is needed to address this issue and suggests the following language or variation thereof be included in the final modifications and/or at least within the non-authoritative instructional guidance:

   I. Add to Paragraph 26, subparagraph b.i.: When multiple purchase lots of a loan-backed security are held within a legal entity, the entity should aggregate the amortized cost values across all purchase lots held by the legal entity. A par-weighted amortized cost price should be used for comparison to the range of values to determine the **<u>initial</u>** NAIC designation.

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II. Add to Paragraph 26, subparagraph b.i.: When multiple purchase lots of a loan-backed security are held within a legal entity, a common **initial** designation will be used in the determination of the carrying value for each purchase lot.

III. Add to Paragraph 26, subparagraph b,ii.: The aggregate position of a loan-backed security for a given legal entity will report all purchase lots of the same security at the same NAIC **final** designation.

2. Determining the Reporting Designation when Reporting Consolidations of Legal Entities

Some of SS&C's clients file optional reports that consolidate values from multiple legal entities at a holding company level. For loan-backed securities subject to multiple designations as described in Paragraph 26, the methodology could result in two legal entities reporting a different **final** NAIC designation. In the event the company must report consolidations of legal entities at a holding company level, no guidance is given as to how to report the **final** designation.

After discussing this issue with our clients, SS&C believes that specific guidance is needed to address this issue and suggests the following language or variation thereof be included in the final modifications and/or guidance:

I. Add to Paragraph 26, subparagraph b,ii.: When preparing consolidated statements across legal entities where the final designation for the same loan-backed security is different, the lowest rating should be reported as the **final** designation or the company should have the option to report no **final** designation when preparing consolidated statements.

3. Amortized Cost Less Than Lowest Range of Values

The *Sample Data from NAIC for Example CUSIP X123456X* shows the lowest Price range of values as 51-60. No guidance is suggested if the Amortized Cost is Less than the lowest Price.

After discussing this issue with our clients, SS&C believes that specific guidance is needed to address this issue and suggest the following language or variation thereof be included in the final modifications and/or at least within the non-authoritative instructional guidance:

I. Add to General comments following the table showing the Ranges of Values for the Example CUSIP: An entity can assume that if the Amortized Cost is less than the lowest price in the Range of Values that the lowest designation should be used.

Mr. Joe Fritsch, Chairman
Statutory Accounting Principals Working Group
National Association of Insurance Commissioners
November 18, 2009
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SS&C is a market leader that provides investment accounting software, reporting and services to the insurance community. SS&C has over 300 clients in the insurance community including 10 of the largest insurance companies in the world. On behalf of our client base, we thank you for considering our comments. If you have any questions in the interim, please do not hesitate to contact either myself or Richard Pullara.

Sincerely,

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Mr. Dan Daveline, NAIC Staff
Mr. Suresh Thekkenmar, Senior Vice President, SS&C

Statutory Issue Paper No. 140

Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities (SSAP No. 43R)

STATUS:
Adopted December 5, 2009

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The purpose of this issue paper is to retain for historical purposes the statutory guidance superseded with the issuance of *SSAP No. 43R—Loan-backed and Structured Securities – Revised* (SSAP No. 43R):

a. *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43);

b. *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 98);

c. Paragraph 13 of *SSAP No. 99—Accounting for Certain Securities to an Other-Than-Temporary Impairment* (SSAP No. 99)

2. This Issue Paper also details SSAP No. 43R as initially adopted in September 2009. The substantive revisions adopted within SSAP No. 43R include accounting guidance for securities acquired in a transfer, beneficial interests, recognition of impairment and disclosures.

3. SSAP No. 43R supersedes SSAP No. 98 (impairment to fair value) and revises valuation and impairment requirements based on the cash flows expected to be collected for the securities, rather than fair value. Since the impairment requirements are based upon expected cash flows, most impairment charges recognized will be based upon cash flows that the reporting entity does NOT expect to collect (credit related). Reporting entities would only impair to fair value if there is intent to sell the security, or the reporting entity cannot assert that they have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis. No. 43R provides differences in impairment recognition for situations when: 1) there is an intent to sell; 2) the entity does not have the intent and ability to hold the security; and 3) there is a non-interest related decline, when there is no intent to sell and when the entity has the intent and ability to hold the security.

4. For historical record, the guidance within SSAP No. 43, SSAP No. 98, and paragraph 13 of SSAP No. 99, which has been superseded by SSAP No. 43R, has been included as the ‘Relevant Statutory Accounting’ guidance within paragraphs 7, 8 and 9.

5. The adopted guidance within SSAP No. 43R has been included below:

SSAP No. 43R

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in loan-backed securities and structured securities. In accordance with *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R), retained beneficial interests from the sale of loan-backed securities and structured securities are accounted for in accordance with this statement. In this statement loan-backed securities and structured securities are collectively referred to as loan-backed securities.

SUMMARY CONCLUSION

2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor can look only to the issuer's assets (primarily the trusteed assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans or other securities. Some sponsors do guarantee the performance of the underlying loans.

5. Loan-backed securities meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement.

6. The scope of this statement encompasses all types of loan-backed and structured securities, including, but not limited to, the following:

a. Loan-backed and structured securities acquired at origination,

b. Loan-backed and structured securities acquired subsequent to origination for which it is probable, at acquisition, that the reporting entity will be **able** to collect all contractually required payments receivable, and are accounted for at acquisition under SSAP No. 91R,

c. Loan-backed and structured securities for which it is probable, either known at acquisition or identified during the holding period[1], that the reporting entity will be **unable** to collect all contractually required payments receivable, and

d. Beneficial interests that continue to be held by a reporting entity (transferor) in securitization transactions that are accounted for as sales under SSAP No. 91R and purchased beneficial interests in securitized financial assets[2].

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[1] Securities classified within the type of paragraph 6.a. or 6.b. may be required to change classification to type 6.c. when it becomes probable that the reporting entity will be unable to collect all contractually required payments receivable.

7. At acquisition, loan-backed securities, except for loan-backed or structured securities that are beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount[3] (see paragraphs 20 through 24), shall be reported at cost, including brokerage and related fees. Cost shall not exceed fair value. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement loan-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.

8. Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method and shall be recorded as an adjustment to investment income. The interest method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the loan-backed securities is expected to occur, not the stated maturity period.

9. Interest shall be accrued using the effective-yield method using the redemption prices and redemption dates used for amortizing premiums and discounts. Interest income consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium amortization and interest paid on acquisition of loan-backed securities, and the addition of discount accrual. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.

10. For reporting entities required to maintain an IMR, the accounting for realized capital gains and losses on sales of loan-backed securities shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses on sales of loan-backed securities shall be recorded on the trade date and shall be reported as net realized capital gains or losses in the Statement of Income.

11. A loan-backed security may provide for a prepayment penalty or acceleration fee in the event the investment is liquidated prior to its scheduled termination date. These fees shall be reported as investment income when received.

Collection of All Contractual Cashflows is Probable

12. The following guidance applies to loan-backed and structured securities for which it is probable that the investor will be able to collect all contractually required payments receivable. (Paragraphs 17-19 provide guidance for securities in which collection of all contractual cash flows is not probable and paragraphs 20-24 provide guidance for beneficial interests.) Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security. Differences in cash flows can also result from other changes in the cash flows from the underlying assets. If assets are delinquent or otherwise not generating cash flow, which should be reflected

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[2] The accounting requirements related to these type of securities included in paragraphs 20 through 24 shall be determined at acquisition or initial transfer.

[3] As referenced in the Relevant Literature section, this Statement adopts EITF 99-20, including the scope requirements of that guidance.

in the cash flow analysis through diminishing security cash flows, even if assets have not been liquidated and gain/losses have not been booked.

13. Changes in currently estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities shall be reviewed periodically, at least quarterly. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

14. Loan-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions, using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities. However, if at anytime during the holding period, the reporting entity determines it is no longer probable that they will collect all contractual cashflows, the reporting entity shall apply the accounting requirements in paragraphs 17 through 19.

15. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

16. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Collection of All Contractual Cashflows is Not Probable

17. The following guidance applies to loan-backed and structured securities with evidence of deterioration of credit quality since origination for which it is probable, either known at acquisition or identified during the holding period, that the investor will be unable to collect all contractually required payments receivable, except for those beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount determined at acquisition (see paragraphs 20 through 24).

18. The reporting entity shall recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan-backed or structured security as interest income on an effective-yield basis over the life of the loan-backed or structured security (accretable

yield).[4] Any excess of contractually required cash flows over the cash flows expected to be collected is the nonaccretable difference. Expected prepayments shall be treated consistently for determining cash flows expected to be collected and projections of contractual cash flows such that the nonaccretable difference is not affected. Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

19. An investor shall continue to estimate cash flows expected to be collected over the life of the loan-backed or structured security. If, upon subsequent evaluation:

a. The fair value of the loan-backed or structured security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary. For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with paragraph 19.b.), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.

b. Based on current information and events, if there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan-backed or structured security as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment less (2) cash collected less (3) other-than-temporary impairments plus (4) amount of yield accreted to date. The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3), with the amount of periodic accretion adjusted over the remaining life of the loan-backed or structured security (prospective method).

Beneficial Interests

20. The following paragraphs provide statutory accounting guidance for interest income and impairment for a reporting entity that continues to hold an interest in securitized financial assets accounted for as sales under SSAP No. 91R, or that purchases a beneficial interest in securitized financial assets that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount, determined at acquisition or the date of transfer[5]. Beneficial interests that are of high credit quality and cannot contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded investment, shall be accounted for in accordance with paragraphs 12 through 16.

21. The reporting entity shall recognize the excess of all cash flows attributable to the beneficial interest estimated at the acquisition/transaction date (referred to herein as the

[4] A loan-backed or structured security may be acquired at a discount because of a change in credit quality or rate or both. When a loan-backed or structured security is acquired at a discount that relates, at least in part, to the security's credit quality, the effective interest rate is the discount rate that equates the present value of the investor's estimate of the security's future cash flows with the purchase price of the loan-backed or structured security.

[5] The accounting requirements related to these type of securities included in paragraphs 20 through 24 shall be determined at acquisition or initial transfer. As referenced in the Relevant Literature section, this Statement adopts EITF 99-20, including the scope requirements of that guidance.

transaction date) over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the holder of the beneficial interest is the reporting entity that transferred the financial assets for securitization, the initial investment would be the allocated carrying amount after application of the relative fair value allocation method required by SSAP No. 91R. The amount of accretable yield shall not be displayed in the balance sheet.

22. The reporting entity that holds a beneficial interest shall continue to update the estimate of cash flows over the life of the beneficial interest. If upon evaluation:

a. Based on current information and events it is probable that there is a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected, then the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of estimated cash flows over the beneficial interest's reference amount (the reference amount is equal to (1) the initial investment less (2) cash received to date less (3) other-than-temporary impairments recognized to date [as described in paragraph 22(b)] plus (4) the yield accreted to date. The adjustment shall be accounted for prospectively as a change in estimate in conformity with SSAP No. 3, with the amount of periodic accretion adjusted over the remaining life of the beneficial interest. Based on estimated cash flows, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety.

b. The fair value of the beneficial interest has declined below its reference amount; a reporting entity shall determine whether the decline is other-than-temporary. If, based on current information and events it is probable that there has been an adverse change in estimated cash flows (in accordance with paragraph 22(a) above), then (1) an other-than-temporary impairment shall be considered to have occurred and (2) the beneficial interest shall be written down to the current estimate of cash flows at the financial reporting date discounted at a rate equal to the current yield used to accrete the beneficial interest with the resulting change being recognized as a realized loss. Determining whether there has been a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected (taking into consideration both the timing and amount of the estimated cash flows) involves comparing the present value of the remaining cash flows as estimated at the initial transaction date (or at the last date previously revised) against the present value of the cash flows estimated at the current financial reporting date. The cash flows shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is less than the present value of the current estimate of cash flows expected to be collected, the change is considered favorable (that is, an other-than-temporary impairment shall be considered to have not occurred). If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is greater than the present value of the current estimated cash flows, the change is considered adverse (that is, an other-than-temporary impairment shall be considered to have occurred). However, absent any other factors that indicate an other-than-temporary impairment has occurred, changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest generally shall not result in the recognition of an other-than-temporary impairment[6] (a plain-vanilla, variable-rate beneficial interest

[6] Changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset

does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).

23. All cash flows estimated at the transaction date are defined as the holder's estimate of the amount and timing of estimated future principal and interest cash flows used in determining the purchase price or the holder's fair value determination for purposes of determining a gain or loss under SSAP No. 91R. Subsequent to the transaction date, estimated cash flows are defined as the holder's estimate of the amount and timing of estimated principal and interest cash flows based on the holder's best estimate of current information and events. A change in estimated cash flows is considered in the context of both timing and amount of the estimated cash flows.

24. In situations in which it is not practicable for a transferor to estimate the fair value of the beneficial interest at the initial transfer date, interest income shall not be recognized using the interest method. For these beneficial interests (that is, those beneficial interests that continue to be held by a transferor that are recorded at $0 pursuant to SSAP No. 91R), the transferor shall use the cash basis for recognizing interest income because the beneficial interest will have an allocated carrying amount of zero.

Reporting and Impairment Guidance for All Loan-Backed and Structured Securities

25. Loan-backed securities shall be valued and reported in accordance with this statement, the *NAIC Purposes and Procedures of the Securities Valuation Office* manual, and the designation assigned in the NAIC Valuations of Securities product prepared by the NAIC Securities Valuation Office. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

26. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance *with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

27. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs 32-36). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

28. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than

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formulas that involve either leverage or an inverse floater) generally should not result in the recognition of an other-than-temporary impairment. For plain-vanilla, variable-rate beneficial interests, the yield is changed to reflect the revised interest rate based on the contractual interest rate reset formula. For example, if a beneficial interest pays interest quarterly at a rate equal to LIBOR plus 2 percent, the yield of that beneficial interest is changed prospectively to reflect changes in LIBOR. However, changes in the fair value of a plain-vanilla, variable-rate beneficial interest due to credit events should be considered when evaluating whether there has been an other-than-temporary impairment.

temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss (including any cumulative-effect adjustments recognized in accordance with paragraphs 55 through 57 of this Statement).

29. If an entity intends to sell the loan-backed or structured security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

30. If an entity does not intend to sell the loan-backed or structured security, the entity shall assess whether it has the intent and ability[7] to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

31. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security and the entity has the intent and ability to hold. Therefore, in those situations, an other-than temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a non-interest related decline[8] exists), and an other-than-temporary impairment shall be considered to have occurred. A decrease in cashflows expected to be collected on a loaned-backed or structured security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

32. In determining whether a non-interest related decline exists, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired loan-backed or structured security, discounted at the security's effective interest rate.

a. For securities accounted for under paragraphs 12 through 16 – the effective interest rate of the loan-backed or structured security is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).[9]

b. For securities accounted for under paragraphs 17 through 19 – the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment.

c. For securities accounted for under paragraphs 20 through 24 – the reporting entity shall apply the guidance in paragraph 22.b.

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[7] This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this Statement (amortized cost).

[8] A non-interest related decline is a decline in value due to fundamental credit problems of the issuer. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due. An interest related decline in value may be due to both increases in the risk-free interest rate and general credit spread widening.

[9] See Footnote 1.

33. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. (This guidance includes loan-backed securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized.)

34. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate in accordance with paragraph 32. (This guidance includes loan-backed securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities due to the reporting requirements.)

35. For reporting entities required to maintain an AVR or IMR, the accounting for the other-than-temporary impairment shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Non-interest related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

36. For situations where an other-than-temporary impairment is recognized pursuant to paragraphs 33 and 34 of this Statement, the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. Therefore, the prospective adjustment method shall be used for periods subsequent to loss recognition.

37. In periods subsequent to the recognition of an other than temporary impairment loss for a loan-backed or structured security, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. A reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

a. For securities accounted for under paragraphs 12 through 19, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield in accordance with paragraphs 17 through 19. The security shall continue to be subject to impairment analysis for each subsequent reporting period. The new amortized cost basis shall not be changed for subsequent recoveries in fair value. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

b. For beneficial interests accounted for under paragraphs 20 through 24, a reporting entity shall apply the guidance in paragraphs 21 through 22 to account for changes in cash flows expected to be collected.

38. It is inappropriate to automatically conclude that a security is not other-than-temporarily impaired because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents an other-than-temporary impairment. Further analysis and judgment are required to assess whether a decline in fair value indicates that it is probable that the holder will not collect all of the contractual or estimated cash flows from the security. In addition, the length of time and extent to which the fair value has been less than cost can indicate a decline is other than temporary. The longer and/or the more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that it is probable that the holder will not collect all of the contractual or estimated cash flows from the issuer of the security.

39. In making its other-than-temporary impairment assessment, the holder shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows. Such information generally shall include the remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral. To achieve that objective, the holder shall consider, for example, industry analyst reports and forecasts, sector credit ratings, and other market data that are relevant to the collectibility of the security. The holder also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by "nontraditional loans"[10]). Thus, the holder shall consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including "balloon" payments). The holder also shall consider how the value of any collateral would affect the expected performance of the security. If the fair value of the collateral has declined, the holder needs to assess the effect of that decline on the ability of the holder to collect the balloon payment.

Origination Fees

40. Origination fees represent fees charged to the borrower in connection with the process of originating or restructuring a transaction. The fees include, but are not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to such a transaction. Origination fees shall not be recorded until received in cash. Origination fees intended to compensate the reporting entity for interest rate risks (e.g., points), shall be amortized into income over the term of the loan-backed security consistent with paragraph 8 of this statement. Other origination fees shall be recorded as income upon receipt.

[10] A nontraditional loan may have features such as (a) terms that permit principal payment deferral or payments smaller than interest accruals (negative amortization), (b) a high loan-to-value ratio, (c) multiple loans on the same collateral that when combined result in a high loan-to value ratio, (d) option adjustable-rate mortgages (option ARMs) or similar products that may expose the borrower to future increases in repayments in excess of increases that result solely from increases in the market interest rate (for example, once negative amortization results in the loan reaching a maximum principal accrual limit), (e) an initial interest rate that is below the market interest rate for the initial period of the loan term and that may increase significantly when that period ends, and (f) interest-only loans that should be considered in developing an estimate of future cash flows.

Origination, Acquisition, and Commitment Costs

41. Costs related to origination when paid in the form of brokerage and other related fees shall be capitalized as part of the cost of the loan-backed security, consistent with paragraph 7 of this statement. All other costs, including internal costs or costs paid to an affiliated entity related to origination, purchase, or commitment to purchase loan-backed securities, shall be charged to expense when incurred.

Commitment Fees

42. Commitment fees are fees paid to the reporting entity that obligate the reporting entity to make available funds for future borrowing under a specified condition. A fee paid to the reporting entity to obtain a commitment to make funds available at some time in the future, generally, is refundable only if the loan-backed security is issued. If the loan-backed security is not issued, then the fees shall be recorded as investment income by the reporting entity when the commitment expires.

43. A fee paid to the reporting entity to obtain a commitment to borrow funds at a specified rate and with specified terms quoted in the commitment agreement, generally, is not refundable unless the commitment is refused by the reporting entity. This type of fee shall be deferred, and amortization shall depend on whether or not the commitment is exercised. If the commitment is exercised, then the fee shall be amortized in accordance with paragraph 8 of this statement over the life of the loan-backed security as an adjustment to the investment income on the loan-backed security. If the commitment expires unexercised, the commitment fee shall be recognized in income on the commitment expiration date.

Giantization/Megatization of FHLMC or FNMA Mortgage Backed Securities

44. Giantization/megatization of mortgage backed securities is defined as existing pools of FHLMC or FNMA mortgage-backed securities (MBS) with like coupon and prefix which are repooled together by the issuing agency creating a new larger security. The new Fannie Mae "Mega" or Freddie Mac "Giant" is a guaranteed MBS pass-through representing an undivided interest in the underlying pools of loans.

45. The benefits derived from giantization/megatization include:

a. Increased liquidity: Smaller MBS pools (particularly those with current face of less than $1 million) are less liquid than mortgage pools with current faces exceeding $5 million. Repooling smaller MBS pools into one larger pool improves the marketability for the aggregate package;

b. Geographic diversity: Regrouping of multiple pools generally will create greater geographic pool loan diversity resulting in less prepayment variation due to regional economic factors;

c. Reduced administrative expenses: The reduced number of pools lowers bank custodial fees, pricing/factor service fees, and increases efficiency for the accounting and investment departments.

46. Repooled FHLMC and FNMA securities meet the definition of substantially the same as defined in *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The transaction shall not be considered a sale/purchase and no gain or loss shall be recognized. To properly document the repooling, the transaction shall be reported through Schedule D of the Annual Statement as a disposition and an acquisition.

47. Transaction fees charged by the issuing agencies shall be capitalized and amortized over the life of the repooled security.

Disclosures

48. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed securities shall be made in the financial statements. Regardless of the allowances within paragraph 59 of the Preamble, the disclosures in paragraph 48f, 48g and 48h are required in separate, distinct notes to the financial statements:

a. Fair values in accordance with *SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27);

b. Concentrations of credit risk in accordance with SSAP No. 27;

c. Basis at which the loan-backed securities are stated;

d. The adjustment methodology used for each type of security (prospective or retrospective);

e. Descriptions of sources used to determine prepayment assumptions.

f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.

g. For each security with a recognized other-than-temporary impairment, currently held by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

    i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

    ii. The other-than-temporary impairment recognized in earnings as a realized loss.

    iii. The fair value of the security.

    iv. The amortized cost basis after the current-period other-than-temporary impairment.

h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

    i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

    ii. The aggregate related fair value of securities with unrealized losses.

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 27.

j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

k. When it is not practicable to estimate fair value in accordance with SSAP No. 27, the investor should disclose the following additional information, if applicable:

   i. The aggregate carrying value of the investments not evaluated for impairment, and

   ii. The circumstances that may have a significant adverse effect on the fair value.

49. Refer to the preamble for further discussion regarding disclosure requirements. All disclosures within this Statement shall be included within the interim and annual statutory financial statements.

Relevant Literature

50. This statement adopts *FASB Emerging Issues Task Force No. 99-20*, *Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security and FASB Staff Position EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20.* This statement adopts paragraphs 5, 7 and 9 of AICPA *Statement of Position 03-03, Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-03) for loan-backed and structured securities only. With the exception of this specific adoption, consideration of SOP 03-03 is still pending consideration for statutory accounting.

51. This statement rejects *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*.

52. This statement also rejects *FASB Emerging Issues Task Force No. 89-4, Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate, FASB Emerging Issues Task Force No. 90-2, Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security, FASB Emerging Issues Task Force No. 93-18, Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate*, and *FASB Emerging Issues Task Force No. 96-12, Recognition of Interest Income and Balance Sheet Classification of Structured Notes*.

Effective Date and Transition

53. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

54. For securities purchased prior to January 1, 1994, where historical cash flows are not readily available for applying the retrospective method, the reporting entity may use January 1, 1994 as the acquisition date and the then book value as the cost for purposes of determining yield adjustments in future periods.

55. This revised statement supersedes SSAP No. 98 and paragraph 13 of SSAP No. 99 effective September 30, 2009. For reporting entities that either early adopted the requirements of SSAP No. 98 or previously adopted a statutory accounting policy that was in accord with the prescriptions of SSAP No. 98, for which an other-than-temporary impairment was previously recognized, and if such reporting entities do not intend to sell the security, and have the intent and ability to retain the investment in the security for a period of time sufficient to recover the

amortized cost basis, those reporting entities shall recognize the cumulative effect of reversing the impact of the adoption of SSAP No. 98, or an equivalent statutory accounting policy, and paragraph 13 of SSAP No. 99 as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements.

56. The accounting and reporting requirements of this revised statement shall be applied to existing and new investments held by a reporting entity on or after September 30, 2009. For loan-backed and structured securities held at the beginning of the interim period of adoption (July 1, 2009) and continue to be held as of September 30, 2009, for which an other-than-temporary impairment was previously recognized under SSAP No. 43, if a reporting entity does not intend to sell the security, and has the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the reporting entity shall recognize the cumulative effect of initially applying this revised statement as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements. The cumulative effect on unassigned funds (surplus) shall be calculated by comparing the present value of the cash flows expected to be collected determined in accordance with the methodology in paragraph 32, as applicable, with the amortized cost basis of the loan-backed and structured security as of the beginning of the interim period in which this revised statement is adopted (July 1, 2009). The cumulative-effect adjustment shall include related tax effects. The discount rate used to calculate the present value of the cash flows expected to be collected shall be the rate in effect before recognizing any other-than-temporary impairments and not a rate that has been adjusted to reflect those impairments.

57. The amortized cost basis of a security for which an other-than-temporary impairment was previously recognized shall be adjusted by the amount of the cumulative-effect adjustment before taxes. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income (see paragraph 37).

58. In the period of adoption, an entity shall provide the disclosures required by SSAP No. 3 for changes in accounting principles.

AUTHORITATIVE LITERATURE

Statutory Accounting

- NAIC *Purposes and Procedures of the Securities Valuation Office*
- NAIC *Valuations of Securities* manual prepared by the Securities Valuation Office

RELEVANT ISSUE PAPERS

- Issue Paper No. 43—Loan-backed and Structured Securities
- Issue Paper No. 140—Loan-backed and Structured Securities, Revised September, 2009

DISCUSSION

6. This Issue Paper is intended to provide a historical reference of SSAP No. 43, SSAP No. 98 and SSAP No. 99 prior to the adoption of SSAP No. 43R. SSAP No. 43R was adopted in September 2009 with an effective date of September 30, 2009.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

7. Statutory accounting principles for loan-backed and structured securities was included within *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43). This guidance has been superseded by SSAP No. 43R:

> SCOPE OF STATEMENT
>
> 1. This statement establishes statutory accounting principles for investments in loan-backed securities and structured securities. In accordance with SSAP No. 91R, retained beneficial interests from the sale of loan-backed securities and structured securities are accounted for in accordance with this statement. In this statement loan-backed securities and structured securities are collectively referred to as loan-backed securities.
>
> SUMMARY CONCLUSION
>
> 2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
>
> 3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
>
> 4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor can look only to the issuer's assets (primarily the trusteed assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans. Some sponsors do guarantee the performance of the underlying loans.
>
> 5. Loan-backed securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.
>
> **Acquisitions and Sales**
>
> 6. At acquisition, loan-backed securities shall be reported at cost, including brokerage and related fees. Cost shall not exceed fair value. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement loan-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.
>
> **Amortization**
>
> 7. Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method and shall be recorded as an adjustment to investment income. The interest

method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the loan-backed securities is expected to occur, not the stated maturity period.

Balance Sheet Amount

8. Loan-backed securities shall be valued and reported in accordance with this statement, the NAIC *Purposes and Procedures of the Securities Valuation Office* manual, and the designation assigned in the NAIC *Valuations of Securities* product prepared by the NAIC Securities Valuation Office. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

9. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

Changes in Valuation

10. Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security. Differences in cash flows can also result from other changes in the cash flows from the underlying assets. If assets are delinquent or otherwise not generating cash flow, that should be reflected in the cash flow analysis through diminishing security cash flows, even if assets have not been liquidated and gain/losses have not been booked.

11. Changes in currently estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities shall be reviewed periodically. For securities that have the potential for loss of a portion of the original investment, the review shall be performed at least quarterly. For other securities, the review shall be performed at least annually. In addition to assets that are delinquent or otherwise not generating cash flows, other examples of securities that have the potential for loss of a portion of the original investment include CMO residuals and mortgage-backed interest-only certificates. For these securities, an effective yield or internal rate of return is calculated at acquisition based on the purchase price and anticipated future cash flows.

12. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

13. Loan-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions, using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities.

14. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the undiscounted anticipated cash flow is less than the carrying amount of the investment.

15. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Impairment

16. Regardless of whether a reporting entity is using a prospective or retrospective method, if the revaluation based on new currently estimated cash flows results in a negative yield (i.e., undiscounted estimated future cash flows are less than the current book value), an other than temporary impairment shall be considered to have occurred. If it is determined an other than temporary impairment has occurred, the cost basis of the security shall be written down to the undiscounted estimated future cash flows and the amount of the write down shall be accounted for as a realized loss. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. The new cost basis shall not be changed for subsequent recoveries in fair value. Therefore, the prospective adjustment method must be utilized for periods subsequent to the loss recognition.

17. NOTE: This paragraph is added by *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Then-Temporary Impairment.* Remaining paragraphs are renumbered.

In periods subsequent to the recognition of an other than temporary impairment loss for a loan-backed or structured security, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the security on the measurement date shall become the new cost basis. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized in the prospective manner over the remaining period in which repayment of principal is expected to occur. The security shall continue to be subject to impairment analysis for each subsequent reporting period. The new cost basis shall not be changed for subsequent recoveries in fair value. Therefore, the prospective adjustment method must be utilized for periods subsequent to the impairment loss recognition. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Income

18. Interest shall be accrued using the interest method using the redemption prices and redemption dates used for amortizing premiums and discounts. Interest income consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium amortization and interest paid

on acquisition of loan-backed securities, and the addition of discount accrual. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.

19. For reporting entities required to maintain an IMR, the accounting for realized capital gains and losses on sales of loan-backed securities shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses on sales of loan-backed securities shall be recorded on the trade date and shall be reported as net realized capital gains or losses in the Statement of Income.

20. A loan-backed security may provide for a prepayment penalty or acceleration fee in the event the investment is liquidated prior to its scheduled termination date. These fees shall be reported as investment income when received.

Beneficial Interests

21. A holder of a beneficial interest in securitized financial assets should recognize the excess of all cash flows attributable to the beneficial interest estimated at the acquisition/transaction date over the initial investment as interest income over the life of the beneficial interest using the effective yield method.

22. The holder of a beneficial interest should continue to update the estimate of cash flows over the life of the beneficial interest. Based on current information and events, if a favorable or adverse change in estimated cash flows is projected, the holder should recalculate the amount of interest income for the beneficial interest on the date of evaluation. The recalculated yield should be used to recognize interest income as a prospective change over the remaining life of the beneficial interest. Impairment for beneficial interests shall be determined in accordance with paragraph 16.

Origination Fees

23. Origination fees represent fees charged to the borrower in connection with the process of originating or restructuring a transaction. The fees include, but are not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to such a transaction. Origination fees shall not be recorded until received in cash. Origination fees intended to compensate the reporting entity for interest rate risks (e.g., points), shall be amortized into income over the term of the loan-backed security consistent with paragraph 7 of this statement. Other origination fees shall be recorded as income upon receipt.

Origination, Acquisition, and Commitment Costs

24. Costs related to origination when paid in the form of brokerage and other related fees shall be capitalized as part of the cost of the loan-backed security, consistent with paragraph 6 of this statement. All other costs, including internal costs or costs paid to an affiliated entity related to origination, purchase, or commitment to purchase loan-backed securities, shall be charged to expense when incurred.

Commitment Fees

25. Commitment fees are fees paid to the reporting entity that obligate the reporting entity to make available funds for future borrowing under a specified condition. A fee paid to the reporting entity to obtain a commitment to make funds available at some time in the future, generally, is refundable only if the loan-backed security is issued. If the loan-backed security is not issued, then the fees shall be recorded as investment income by the reporting entity when the commitment expires.

26. A fee paid to the reporting entity to obtain a commitment to borrow funds at a specified rate and with specified terms quoted in the commitment agreement, generally, is not refundable unless the commitment is refused by the reporting entity. This type of fee shall be deferred, and amortization shall depend on whether or not the commitment is exercised. If the commitment is exercised, then the fee shall be amortized in accordance with paragraph 7 of this statement over the life of the loan-backed security as an adjustment to the investment income on the loan-backed security. If the commitment expires unexercised, the commitment fee shall be recognized in income on the commitment expiration date.

Giantization/Megatization of FHLMC or FNMA Mortgage Backed Securities

27. Giantization/megatization of mortgage backed securities is defined as existing pools of FHLMC or FNMA mortgage-backed securities (MBS) with like coupon and prefix which are repooled together by the issuing agency creating a new larger security. The new Fannie Mae "Mega" or Freddie Mac "Giant" is a guaranteed MBS pass-through representing an undivided interest in the underlying pools of loans.

28. The benefits derived from giantization/megatization include:

d. Increased liquidity: Smaller MBS pools (particularly those with current face of less than $1 million) are less liquid than mortgage pools with current faces exceeding $5 million. Repooling smaller MBS pools into one larger pool improves the marketability for the aggregate package;

e. Geographic diversity: Regrouping of multiple pools generally will create greater geographic pool loan diversity resulting in less prepayment variation due to regional economic factors;

f. Reduced administrative expenses: The reduced number of pools lowers bank custodial fees, pricing/factor service fees, and increases efficiency for the accounting and investment departments.

29. Repooled FHLMC and FNMA securities meet the definition of substantially the same as defined in *SSAP No. 91—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The transaction shall not be considered a sale/purchase and no gain or loss shall be recognized. To properly document the repooling, the transaction shall be reported through Schedule D of the Annual Statement as a disposition and an acquisition.

30. Transaction fees charged by the issuing agencies shall be capitalized and amortized over the life of the repooled security.

Disclosures

31. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed securities shall be made in the financial statements:

a. Fair values in accordance with SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments (SSAP No. 27);

b. Concentrations of credit risk in accordance with SSAP No. 27;

c. Basis at which the loan-backed securities are stated;

d. The adjustment methodology used for each type of security (prospective or retrospective);

e. Changes from the retrospective to the prospective adjustment methodology due to negative yield on specific securities;

f. If, for applying the retrospective method, the reporting entity has elected to use book value as of January 1, 1994 as the cost for securities purchased prior to January 1, 1994 where historical cash flows are not readily available; and

g. Descriptions of sources used to determine prepayment assumptions.

h. For each balance sheet presented, all securities in an unrealized loss position for which other-than-temporary declines in value have not been recognized

l. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

m. The aggregate related fair value of securities with unrealized losses.

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 27.

j. As of the date of the most recent balance sheet presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

k. When it is not practicable to estimate fair value in accordance with SSAP No. 27, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:

a. The aggregate carrying value of the investments not evaluated for impairment, and

b. The circumstances that may have a significant adverse effect on the fair value.

32. Refer to the preamble for further discussion regarding disclosure requirements. The disclosures in paragraphs 31a., 31b., 31h., 31i., 31j., and 31k. above shall be included in the annual audited statutory financial reports only.

Relevant Literature

33. This statement rejects *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*.

34. This statement also rejects FASB Emerging Issues Task Force No. 89-4, *Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate,* FASB Emerging Issues Task Force No. 90-2, *Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security,* FASB Emerging Issues Task Force No. 93-18, *Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate, and FASB Emerging Issues Task Force No. 96-12, Recognition of Interest Income and Balance Sheet Classification of Structured Notes, and FASB Emerging Issues Task Force No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.*

Effective Date and Transition

35. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.*

36. For securities purchased prior to January 1, 1994, where historical cash flows are not readily available for applying the retrospective method, the reporting entity may use January 1, 1994 as the acquisition date and the then book value as the cost for purposes of determining yield adjustments in future periods.

8. *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 98) amended paragraphs 14 through 16 of SSAP No. 43. This guidance was superseded with the issuance of SSAP No. 43R:

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities.

SUMMARY CONCLUSION

2. This statement amends paragraphs 14 through 16 of SSAP No. 43—*Loan-backed and Structured Securities* to the following:

14. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

15. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Impairment

16. If it is determined that the decline in fair value of the security is other than temporary, then the cost basis of the security shall be written down to fair value. The amount of the write down shall be accounted for as a realized loss. An interest related decline in value shall be considered other than temporary only when a reporting entity has the intent to sell the investment, at the reporting date, before recovery of the cost of the investment. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Credit related other than temporary impairment losses shall be recorded through the AVR; interest related other than temporary impairment losses shall be recorded through the IMR. The new cost basis

shall not be changed for subsequent recoveries in fair value. Therefore, the prospective adjustment method must be utilized for periods subsequent to the loss recognition.

Disclosures

3. This statement requires no additional disclosures.

Effective Date and Transition

4. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted and encouraged. A change resulting from the adoption of this statement shall be accounted for prospectively. No cumulative effect adjustments or application of the new guidance to prior events or periods are required, similar to a change in accounting estimate.

9. *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment* (SSAP No. 99) establishes statutory accounting principles for the treatment of premium or discount applicable to certain securities subsequent to the recognition of an other-than-temporary impairment. Paragraph 13 of SSAP No. 99 inserted a new paragraph into SSAP No. 43. Consistent with the superseding of SSAP No. 43 by SSAP No. 43R, paragraph 13 of SSAP No. 99 (and the new paragraph inserted within SSAP No. 43) have also been superseded:

Loan-backed and Structured Securities

13. This statement shall insert the following new paragraph 17 into SSAP No. 43, with subsequent paragraphs of SSAP No. 43 to be renumbered accordingly:

17. In periods subsequent to the recognition of an other than temporary impairment loss for a loan-backed or structured security, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the security on the measurement date shall become the new cost basis. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized in the prospective manner over the remaining period in which repayment of principal is expected to occur. The security shall continue to be subject to impairment analysis for each subsequent reporting period. The new cost basis shall not be changed for subsequent recoveries in fair value. Therefore, the prospective adjustment method must be utilized for periods subsequent to the impairment loss recognition. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Disclosures

14. This statement requires no additional disclosures.

Generally Accepted Accounting Principles

10. The adoption of SSAP No. 43R did not adopt or reject any GAAP standards.

RELEVANT LITERATURE

Statutory Accounting

- *SSAP No. 43—Loan-backed and Structured Securities*

- *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-backed and Structured Securities*

- *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*

- *Issue Paper No. 43—Loan-backed and Structured Securities*

- *Issue Paper No. 124—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments: An Amendment to SSAP No. 43—Loan-backed and Structured Securities*

- *Issue Paper No. 131—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*

Generally Accepted Accounting Principles

- None

State Regulations

- No additional guidance obtained from state statutes or regulations.

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Ref. #2009-12

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue:
FAS 165, Subsequent Events

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐

Description of Issue:
FASB Statement 165, Subsequent Events (FAS 165), issued May 2009, establishes standards of accounting and requires disclosures of events that occur after the balance sheet date but before financial statements are issued, or available to be issued. The FASB issued this standard in conjunction with its effort to codify all authoritative U.S. accounting guidance related to a particular topic in one place. The FASB has undertaken projects to incorporate accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. In reviewing this topic, the FASB decided not to undertake a fundamental reexamination of the topic of subsequent events, but to develop an accounting standard that reflects the principles underpinning current subsequent events in existing accounting literature and in AICPA Auditing Standards *AU Section 560, Subsequent Events* (AU 560). In issuing FAS 165, the FASB acknowledged that it does not address all differences between previous guidance in the U.S. reflected in AU 560 and IFRS reflected in *IAS 10, Events After the Reporting Period* (IAS 10).

Key Aspects of FAS 165:

- An entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.

- An entity shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued.

- An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued.

- Some nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, an entity shall disclose: (a) the nature of the event, and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

Existing Authoritative Literature:

SSAP No. 9—Subsequent Events (SSAP No. 9) – The guidance within SSAP No. 9 is consistent with AU 560. SSAP No. 9 also notes that AU 560 should be considered when applying the provisions of that SSAP.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
None

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None

Staff Recommended Conclusion or Future Action on Issue:
The guidance within FAS 165 is generally consistent with existing guidance within SSAP No. 9, with the exception of disclosing the date through which subsequent events have been evaluated and whether that date is the date the financial statements are issued, or were available to be issued. Although the wording changes seem extensive, this is primarily due to trying to be as consistent as possible with FAS 165. **Staff recommends that the Statutory Accounting Principles Working Group move this item to the Nonsubstantive Active Listing and expose nonsubstantive revisions to SSAP No. 9 proposing adoption of FAS 165. Nonsubstantive revisions are proposed to include clarifying examples on the different types of subsequent events, as well as disclosure requirements to include the dates through which subsequent events have been evaluated and the dates the financial statements are issued, or available to be issued**. Due to the issuance of both statutory financial statements and audited financial statements for insurers, staff has proposed disclosure for both sets of financials, the dates for which subsequent events were reviewed, and the dates the financial statements were issued, or available to be issued. Staff also recommends incorporating reference within SSAP No. 9 noting that FAS 165 is adopted for statutory accounting; proposed revisions to SSAP No. 9 are illustrated in the attached appendix.

Recommending Party:
Julie Gann – NAIC Staff
June 2009

Status:
On October 5, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to *SSAP No. 9—Subsequent Events* (SSAP No. 9) proposing adoption of FAS 165. Due to the issuance of both statutory financial statements and audited financial statements for insurers, the exposed revisions include proposed disclosure requirements for both sets of financials, the dates for which subsequent events were reviewed, and the dates the financial statements were issued, or available to be issued.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed revisions to SSAP No. 9 as final.

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Statement of Statutory Accounting Principles No. 9

Subsequent Events

Status

Type of Issue:	Common Area
Issued:	Initial Draft
Effective Date:	January 1, 2001
Affects:	No other pronouncements
Affected by:	No other pronouncements
Interpreted by:	INT 00-16

Ref. #2009-12

Subsequent Events

SCOPE OF STATEMENT

1. This statement defines subsequent events and establishes the criteria for recording such events in the financial statements and/or disclosing them in the notes to the financial statements. The conclusions in this statement apply to both quarterly and annual statement filings.

SUMMARY CONCLUSION

Key Terms

2. Subsequent events shall be defined as events or transactions that occur subsequent after to the balance sheet date, but ~~prior~~ before ~~to~~ the issuance of the statutory financial statements and before the date the audited financial statements are issued, or available to be issued. The issuance of the statutory financial statements includes not only the submission of the Quarterly and Annual Statement but also the issuance of the audit opinion by the reporting entity's certified public accountant.

3. Material subsequent events shall be considered either:

a. Type I – Recognized Subsequent Events: ~~.~~ Events or transactions that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the ~~and affect the~~ estimates inherent in the process of preparing financial statements;

b. Type II – Nonrecognized Subsequent Events: ~~.~~ Events or transactions that provide evidence with respect to conditions that did not exist at the balance sheet date but arose ~~subsequent~~after ~~to~~ that date.

4. **Financial statements are issued**. Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with SAP.

5. **Financial statements are available to be issued.** Financial statements are considered available to be issued when they are complete in a form and format that complies with SAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders. The process involved in creating and distributing the financial statements will vary depending on an entity's management and corporate governance structure as well as statutory and regulatory requirements. An entity that has a current expectation of widely distributing its financial statements to its shareholders and other financial statement users shall evaluate subsequent events through the date that the financial statements are issued. All other entities shall evaluate subsequent events through the date that the financial statements are available to be issued.

Recognition Guidance

~~4.~~6. An entity shall recognize in the financial statements the effects of all material Type I subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. ~~All information that becomes available prior to the issuance of the financial statements relating to a material Type I subsequent event shall be used by management to determine a related accounting estimate (see *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*).~~ Any changes in estimates resulting from the use of such evidence shall be recorded in the financial statements unless specifically prohibited, (e.g., subsequent collection of agents balances over 90 days due when determining nonadmitted agents balances as prohibited by *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*).

~~5.~~7. For material Type I subsequent events, the nature and the amount of the adjustment shall be disclosed in the notes to the financial statements ~~only~~ if necessary to keep the financial statements from being misleading.

8. ~~Information that becomes available prior to the issuance of the financial statements relating to a~~ M~~m~~aterial Type II subsequent events shall not be recorded in the financial statements, but shall be disclosed in the notes to the financial statements. For such events, an entity shall disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

9. An entity also shall consider supplementing the historical financial statements with pro forma financial data. Occasionally, a nonrecognized subsequent event may be so significant that disclosure can best be made by means of pro forma financial data. Such data shall give effect to the event as if it had occurred on the balance sheet date. In some situations, an entity also shall consider presenting pro forma statements. If an event is of such a nature that pro forma disclosures are necessary to keep the financial statements from being misleading, disclosure of supplemental pro forma financial data shall be made including the impact on net income, surplus, total assets, and total liabilities giving effect to the event as if it had occurred on the date of the balance sheet.

~~7.~~10. Identifying events that require adjustment of the financial statements under the criteria stated in the conclusion calls for the management of the entity to exercise judgment and accumulate knowledge of the facts and circumstances surrounding the event. For example, a loss on an uncollectible agent's balance as a result of an agent's deteriorating financial condition leading to bankruptcy subsequent to the balance sheet date would be indicative of conditions existing at the balance sheet date, thereby requiring the recording of such event to the financial statements before their issuance. On the other hand, a similar loss resulting from an agent's major casualty loss such as a fire or flood subsequent to the balance sheet date would not be indicative of conditions existing at the balance sheet date and recording of the event to the financial statements would not be appropriate. However, this is a Type II subsequent event which would require disclosure in the notes to the financial statements.

11. The following are examples of Type I recognized subsequent events:

a. If the events that gave rise to litigation had taken place before the balance sheet date and that litigation is settled, after the balance sheet date but before the financial statements are issued or are available to be issued, for an amount different from the liability recorded in the accounts, then the settlement amount should be considered in estimating the amount of liability recognized in the financial statements at the balance sheet date.

b. Subsequent events affecting the realization of assets, such as receivables and inventories or the settlement of estimated liabilities, should be recognized in the financial statements when those events represent the culmination of conditions that existed over a relatively long period of time. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after the balance sheet date but before the financial statements are issued or are available to be issued ordinarily will be indicative of conditions existing at the balance sheet date. Thus, the effects of the customer's bankruptcy filing shall be considered in determining the amount of uncollectible trade accounts receivable recognized in the financial statements at the balance sheet date.

12. The following are examples of Type II nonrecognized subsequent events:

c. Sale of a bond or capital stock issued after the balance sheet date but before financial statements are issued or are available to be issued

d. A business combination that occurs after the balance sheet date but before financial statements are issued or are available to be issued

e. Settlement of litigation when the event giving rise to the claim took place after the balance sheet date but before financial statements are issued or are available to be issued

f. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date but before financial statements are issued or are available to be issued

g. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after the balance sheet date but before financial statements are issued or are available to be issued

h. Changes in the fair value of assets or liabilities (financial or nonfinancial) or foreign exchange rates after the balance sheet date but before financial statements are issued or are available to be issued

i. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date but before financial statements are issued or are available to be issued.

Disclosures

13. In addition to the disclosure of subsequent events as required throughout this statement, for annual and interim reporting periods, reporting entities shall disclose the dates through which subsequent events have been evaluated for statutory reporting and for audited financial statements along with the dates the statutory reporting statements and the audited financial statements were issued, or available to be issued. In the audited financial statements, reporting entities shall specifically identify subsequent events identified after the date subsequent events were reviewed for statutory reporting.

~~8.~~14. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~9.~~15. The above guidance was originally adopted to be~~is~~ consistent with the AICPA Statement on Auditing Standards No. 1, Section 560, Subsequent Events. In 2009, *FASB Statement No. 165, Subsequent Events* (FAS 165), was adopted for statutory accounting. The adoption of this guidance should not result in significant changes in the subsequent events that an entity reports, through either recognition or disclosure, in its financial statements. FAS 165 introduced the concept of available to be issued and requires additional disclosures on the dates for which an entity evaluated subsequent events as well as the date the financial statements were issued, or available to be issued. ~~, which should be considered when applying the provisions of this SSAP.~~

Ref. #2009-12

Effective Date and Transition

~~10.~~16. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Changes adopted as a result of FAS 165, are effective for years ending on and after December 31, 2009.

OTHER SOURCES
- AICPA *Statement on Auditing Standards No. 1*, Section 560, *Subsequent Events*

RELEVANT ISSUE PAPERS
- Issue Paper No. 9—Subsequent Events

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Ref. #2009-13

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue:
FAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐

Description of Issue:
FASB Statement 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS 168), issued June 2009 replaces *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). FAS 168, effective for interim and annual periods ending after Sept. 15, 2009, identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States.

Key Aspects of FAS 168:

- Establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. (SEC guidance included within the codification is provided for convenience and relates only to SEC entities.)

- If guidance for a transaction or event is not specified within a source of authoritative GAAP, entity shall consider accounting principles for similar transactions or events within a source of authoritative GAAP and then consider nonauthoritative guidance from other sources. Sources of nonauthoritative GAAP include:

    - Practices that are widely recognized and prevalent either generally or in the industry,
    - FASB Concept Statements,
    - AICPA Issues Papers,
    - International Financial Reporting Standards of the IASB,
    - Pronouncements of professions associations or regulatory agencies,
    - Technical Information Service Inquiries and Replies Included in AICPA Technical Practice Aids,
    - Accounting textbooks, handbooks and articles

- Accounting Standards Updates issued after the effective date of FAS 168 will not be considered authoritative in their own right. Such standards will serve only to update the Codification, provide background information, and provide the bases of conclusions on the changes to the Codification.

- On the effective date, all non-SEC accounting and reporting standards are superseded. Additionally, all nongrandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative.

- Changes in applying FAS 168 shall be accounted for a change in accounting principle or correction or error, as applicable, in accordance with *FAS 154, Accounting Changes and Error Corrections* (Section 250-10-50 of the Codification).

Existing Authoritative Literature:

Preamble - IV. Statutory Hierarchy – The guidance within the Preamble adopts, with modification *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). Modifications from FAS 162 excluded FAS 133

Implementation Issues from the NAIC Hierarchy unless considered significant and relevant to statutory accounting and specifically requested for review as part of the maintenance process. Also, FASB Staff Positions adopted after May 9, 2009 were considered NAIC Level 1 – Category 'a'. FSPs adopted prior to May 9, 2008 were classified as NAIC Level 1 – Category 'b' and reviewed as part of the maintenance process if considered to be 'Board-directed'. FSPs not considered 'Board-directed' were classified as NAIC Level 5 and not reviewed as part of the statutory accounting maintenance review process.

INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration (INT 04-01) provides guidance on when GAAP pronouncement disclosures are required for statutory accounting purposes. This interpretation includes reference to FAS 162.

INT 04-18: EITF 00-21: Revenue Arrangements with Multiple Deliverables (INT 04-18) provides guidance for arrangements in which the company will perform multiple revenue-generating activities. This interpretation includes reference to FAS 162 within a footnote.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
During the 2009 Summer National Meeting, the Statutory Accounting Principles Working Group formed a Subgroup to address changes necessitated by current projects, including the FASB Accounting Standards Codification.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None

Staff Recommended Conclusion or Future Action on Issue:
Staff recommends that the Statutory Accounting Principles Working Group move this item to the Nonsubstantive Active Listing and direct the AP&P Manual Subgroup to review the following proposed changes for incorporation within the *NAIC Accounting Practices and Procedures Manual*:

1) Revise guidance in the Preamble for the Statutory Hierarchy to reference the FASB Codification rather than the different categories of GAAP guidance.

2) Update all GAAP references throughout the AP&P manual to include reference the FASB Codification. Although GAAP filers are required to use the Codification reference for interim and annual periods ending after Sept. 15, 2009, it is Staff's recommendation that both the prior GAAP title and Codification reference continue to be retained in the *NAIC Accounting Practices and Procedures Manual*. (Review and reference of GAAP material adopted after the Codification effective date will simply include the Codification reference.)

3) Modify the GAAP to SAP Cross-Reference (Appendix D) to reflect the GAAP guidance within the FASB Codification. (Staff is looking for Subgroup member comments on whether the existing form of Appendix D should also be retained for a period of time to allow for adjustment to the new reference approach.)

Recommending Party:
Julie Gann – NAIC Staff
July 2009

Proposed Revisions to Preamble, INT 04-1 and INT 04-18:
(Staff Note: The revisions below only identify proposed revisions to the Preamble and other locations where FAS 162 was referenced. Pursuant to the staff recommendation, all references in the AP&P manual to "GAAP Pronouncements" will be revised to reflect "FASB Codification" or "GAAP Guidance".)

IV. Statutory Hierarchy

The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1:

- SSAPs, including GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[1] (FASB Codification or GAAP guidance)[2] ~~GAAP reference material~~ to the extent adopted by the NAIC ~~from Categories a, b and c from the GAAP Hierarchy, as defined in FAS 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162) with modification to exclude FAS 133 Implementation Issues from the NAIC Hierarchy and statutory accounting standard review process3~~.

~~**Category a includes: FASB Statements and Interpretations, FASB Staff Positions4, APB Opinions, and AICPA Accounting Research Bulletins.**~~

~~**Category b includes: FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.**~~

~~**Category c includes: Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins.**~~

Level 2:

- Consensus positions of the Emerging Accounting Issues Working Group as adopted by the NAIC

Level 3:

- NAIC Annual Statement Instructions
- NAIC Purposes and Procedures of the Securities Valuation Office manual

Level 4:

- Statutory Accounting Principles Statement of Concepts[5]

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[1] Effective September 15, 2009, the FASB Codification is the source of authoritative U.S. generally accepted accounting principles. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative.

[2] FAS 133 Implementation Issues~~, classified within FASB category 'a'~~ are excluded from the NAIC hierarchy and statutory accounting standard review process unless considered significant and relevant to statutory accounting and specifically requested for review as part of the maintenance process, or in accordance with future projects in which review of a specific FAS 133 Implementation Issue would be considered beneficial. (These items are excluded from the maintenance process as SSAP No. 86 only adopts the framework of the guidance included in FAS 133.)

[4] FASB Staff Positions (FSPs) adopted after May 9, 2008 ~~are considered within NAIC Level 1 – Category 'a' and~~ are reviewed as part of the statutory accounting maintenance review process. FSPs adopted prior to May 9, 2008 were ~~classified within NAIC Level 1 – Category 'b' and~~ reviewed as part of the maintenance process if considered to be 'Board-directed'. (Board-directed FSPs were issued to provide narrow and limited revisions to the FASB statements or FASB interpretations formerly provided in FASB Technical Bulletins.) FSPs that were not considered 'Board-directed' were considered to provide application guidance similar to that found in FASB Staff Implementation Guides and Staff Announcements and ~~were classified as NAIC Level 5 guidance. Due to this Level 5 classification, these FSPs~~ were not reviewed as part of the statutory accounting maintenance review process.

[5] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements One, Two, Five and Six to the extent they do not conflict with the concepts outlined in the statement. However, for

Level 5:

- Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA Issues Papers, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) ~~GAAP reference material below category c in the GAAP Hierarchy~~Accounting textbooks, handbooks and articles.

~~2.~~39. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

~~3.~~40. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature ~~below category c in the GAAP hierarchy as defined in FAS 162~~identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources ~~below category d in the GAAP hierarchy~~of nonauthoritative GAAP pronouncements[6].

VII. Relationship to GAAP

~~1.~~50. As expressed in the Statement of Concepts, SAP utilizes the framework established by GAAP. This Manual integrates that framework with objectives exclusive to statutory accounting. The NAIC's guidance on SAP is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting outlined herein. ~~Those~~ GAAP ~~pronouncements~~ guidance that ~~are~~is not applicable to insurance companies will not be adopted by the NAIC. For those principles that do not differ from GAAP, the NAIC may specifically adopt ~~those~~ GAAP ~~Pronouncements~~ guidance to be included in statutory accounting. Elements of the FASB Codification ~~GAAP Pronouncements~~ do not become part of SAP until and unless adopted by the NAIC. ~~GAAP pronouncements that have been considered in the development of SAP include all issued pronouncements in categories a, b and c of the GAAP Hierarchy.~~ Future SAP pronouncements will specifically identify any ~~GAAP pronouncements~~element of the FASB Codification that are to be included in SAP whether in whole, in part, or with modification as well as any rejected GAAP ~~pronouncements~~ guidance~~that are rejected~~. ~~Future~~ GAAP ~~pronouncements~~ guidance which SAP has not yet addressed shall not be considered as providing authoritative statutory guidance.

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purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

[6] ~~The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements One, Two, Five and Six to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.~~

INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration

1. In accordance with the Preamble and the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, Generally Accepted Accounting Principles (GAAP) ~~reference material categories a, b and c from the GAAP Hierarchy, as defined in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles*~~contained within the FASB Accounting Standards Codification, are automatically placed on the Statutory Accounting Principles Working Group maintenance agenda for review and discussion. (As noted in the Preamble, ~~FAS 162 has been adopted with modification to exclude~~ FAS 133 Implementation Issues are excluded from the statutory review process unless individually requested for review.)

INT 04-18: EITF 00-21: Revenue Arrangements with Multiple Deliverables

Footnote 1 - Whether a deliverable(s) is within the scope of higher-level authoritative literature is determined by the scope provisions of that literature, without regard to the order of delivery of that item in the arrangement. The term higher-level literature refers to items captured within the FASB Accounting Standards Codification. ~~categories (a) and (b) of the generally accepted accounting principles (GAAP) hierarchy as defined in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* in the Independent Auditor's Report. EITF consensuses represent category (c) of the hierarchy.~~

Status:
On October 5, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to the Preamble, INT 04-1 and INT 04-18 of the NAIC Accounting Practices and Procedures Manual, as illustrated above.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed revisions to the Preamble, INT 04-1 and INT 04-18 of the *NAIC Accounting Practices Procedures Manual* as final.

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Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue:
Bond Categories Within SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities (SSAP No. 26)

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☐	☐	☐
New Issue or SSAP	☒	☒	☒

Description of Issue:
In 2007, the Blanks Working Group adopted agenda item #2007-27BWG (Modified) and agreed to delete the categories of public utilities and banks and trusts and insurance companies from Schedule D and other related schedules since these non-governmental issues do not trade differently from the Industrial and Miscellaneous issues. In 2008, the Blanks Working Group adopted agenda items #2008-06BWG, to add the definition of hybrid securities to the Investment Schedules General Instructions, and add new line numbers for hybrid securities within Schedule D, Schedule DA and Schedule E Part 2. These revisions were made to allow regulators to more easily identify hybrid securities on the investment schedules. (Both of these items were effective January 1, 2009.)

In accordance with the Blanks Working Group adoptions of 2007-27BWG (Modified) and 2008-06BWG, the guidance in SSAP No. 26, paragraph 17e that requires disclosure by "pertinent bond category" no longer mirrors the disclosure categories included within the Annual Statement Instructions.

Existing Authoritative Literature:

SSAP No. 26, Bonds, excluded Loan-backed and Structured Securities (SSAP No. 26) – The disclosure requirements within paragraph 17e of this SSAP require information on the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond category.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The Blanks Working Group adopted agenda item #2008-06BWG adding the definition of hybrid securities to the Investment Schedules General Instructions as well as new line numbers for hybrid securities within Schedule D, Schedule DA, and Schedule E Part 2.

The Blanks Working Group adopted agenda item #2007-27BWG (Modified) deleting the categories Public Utilities and Banks, and Trusts and Insurance Companies as these non-governmental issues do not trade differently from the Industrial and Miscellaneous Issues.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:

None

Staff Recommended Conclusion or Future Action on Issue:

Staff recommends that the Statutory Accounting Principles Working Group move this item to the Nonsubstantive Active Listing and expose nonsubstantive revisions to SSAP No. 26, paragraph 17e to revise the bond categories as follows:

17. The financial statements shall include the following disclosures:

e. For each balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond category issued by:

i. U.S. Governments;

ii. All Other Governments;

iii. States, Territories and Possessions (Direct and Guaranteed);

iv. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed);

v. Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions;

~~vi.Public Utilities (Unaffiliated);~~

~~vii.~~vi. Industrial & Miscellaneous (Unaffiliated);

~~viii.~~vii. Credit Tenant Loans (Unaffiliated);

viii. Hybrid Securities

ix. Parent, Subsidiaries and Affiliates;

Recommending Party:
Julie Gann – NAIC Staff
August 2009

Status:
On October 5, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to SSAP No. 26, paragraph 17e to revise the bond categories, as illustrated above.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed revisions to paragraph 17e of SSAP No. 26 as final.

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Ref # 2009-17

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Modify Appendices A-815 and A-830 to reflect changes to model laws.

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☐	☒	☒
New Issue or SSAP	☐	☐	☐

Description of Issue:
The Life and Health Actuarial Task Force and Life Insurance and Annuities (A) Committee have adopted changes to Model Regulation Permitting the Recognition of Preferred Mortality Rates For Use in Determining Minimum Reserve Liabilities (Model Law 815) and to Valuation of Life Insurance Policies Model Regulation (Model Law 830).

Model Regulation Permitting the Recognition of Preferred Mortality Tables (Model Law 815) permits the 2001 CSO Mortality Table to be split into preferred and residual classes. Companies can use the split based on their anticipated experience.

The 2009 changes to Model Law 815 permit the use of the preferred mortality tables going back to when the company was permitted to use the 2001 CSO Mortality table, provided there is commissioner consent. It also limits the use of the tables in certain circumstances related to the mode of the reinsurance premium. (See **Exhibit 1**, paragraph 4 D). As the *Accounting Practices and Procedures Manual* adopted the use of the 2001 CSO table for policies issued on or after January 1, 2004, this date has been inserted as shown in **Exhibit 1**.

Valuation of Life Insurance Policies Model Regulation (Model Law 830) is on the valuation of life insurance policies and excerpts of this model are included in the Appendix A-830. The 2009 changes to Model Law 830 are to remove minimum mortality limits for deficiency reserves. These changes are shown in **Exhibit 2,** paragraph 17**.**

Existing Authoritative Literature:
SSAP No. 80—Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 56—Separate Accounts references Appendix A-815 and Appendix A-830in valuing life reserves:

5. This statement amends paragraph 43 of SSAP No. 51 to the following:

   This statement incorporates the requirements of Appendices A-225, A-235, A-585, A-620, A-641, A-695, A-812, A-815, A-820, A-821, A-822, A-830, the Actuarial Standards Board Actuarial Standards of Practice and the actuarial guidelines found in Appendix C of this Manual.

Appendices A-815 and A-830 incorporate the portions of model laws 815 and 830 that are relevant to statutory accounting.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The 2001 Commissioners Standard Ordinary Mortality tables (2001 CSO) replaced the prior 1980 Commissioners Standard Ordinary Mortality tables (1980 CSO). The *Accounting Practices and Procedures Manual* originally adopted the 2001 CSO table for use for policies issued on or after January

1, 2004. Model Law 815 as excerpted in Appendix A-815 originally permitted the use of preferred mortality tables in relation to the 2001 CSO table for policies issued on or after January 1, 2007.

In January 2009, the Executive Committee of the NAIC directed that the Capital and Surplus Relief recommendations be reviewed as part of the normal NAIC process.

The changes to Model Laws 815, 822 and 830 were part of the consideration of these recommendations by the Life and Health Actuarial Task Force. Model Law 815 and 830 are already included in the *Accounting Practices and Procedures Manual*. Changes to these model laws have been adopted by the Life and Health Actuarial Task Force and Life Insurance and Annuities (A) Committee in the second quarter of 2009 and are up for adoption at the Executive and Plenary at Fall National Meeting.

The changes to Actuarial Opinion and Memorandum Regulation 822 adopted by the Life and Health Actuarial Task Force are to a section of the model Law 822 that is not included in the *Accounting Practices and Procedures Manual* Appendix A-822.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None.

Staff Recommendation:
Staff recommends that the Statutory Accounting Principles Working Group move this issue to the nonsubstantive active listing and expose the attached changes to Appendix A-815 (**Exhibit 1**) and Appendix A-830 (**Exhibit 2**). As Executive and Plenary are expected to adopt these issues at the Fall National Meeting, and as these issues have already received substantial discussion at other groups within the NAIC, a shortened comment period may be warranted to allow companies to begin preparing for any year-end calculations that are a result of these changes.

Staff Review Completed by:
Robin Marcotte
August 2009

Status:
On October 5, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to Appendix A-815 and Appendix A-830 as illustrated in Exhibit 1 and Exhibit 2.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed revisions to Appendix A-815 and Appendix A-830 as final. These revisions reflect changes made to corresponding Model Laws previously adopted by the Life and Health Actuarial Task Force.

Appendix A-815

Model Regulation Permitting the Recognition of Preferred Mortality Rates For Use in Determining Minimum Reserve Liabilities

Purpose

1. The purpose of this regulation is to recognize, permit and prescribe the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities in accordance with paragraph 3.a.iii. of Appendix A-820 Standard Valuation Law and paragraphs 16 and 17 of Appendix A-830 Valuation of Life Insurance Model Regulation.

2. **Definitions**

a. "2001 CSO Mortality Table" means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)* and supplemented by the 2001 CSO Preferred Class Structure Mortality Table defined below in Subsection B. Unless the context indicates otherwise, the "2001 CSO Mortality Table" includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables. Mortality tables in the 2001 CSO Mortality Table include the following:

i. "2001 CSO Mortality Table (F)" means that mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.

ii. "2001 CSO Mortality Table (M)" means that mortality table consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.

iii. "Composite mortality tables" means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.

iv. "Smoker and nonsmoker mortality tables" means mortality tables with separate rates of mortality for smokers and nonsmokers.

b. "2001 CSO Preferred Class Structure Mortality Table" means mortality tables with separate rates of mortality for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers, and residual standard smoker splits of the 2001 CSO Nonsmoker and Smoker Tables, as adopted by the NAIC at the September, 2006 national meeting and published in the *NAIC Proceedings {3rd Quarter 2006}*. Unless the context indicates otherwise, the "2001 CSO Preferred Class Structure Mortality Table" includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.

c. "Statistical agent" means an entity with proven systems for protecting the confidentiality of individual insured and insurer information; demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, which are its members or subscribers; and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

2001 CSO Preferred Class Structure Table

3. At the election of the company, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this regulation, the 2001 CSO Preferred Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or Nonsmoker Mortality Table as the minimum valuation standard for policies issued on or after January 1, 2007. <u>For policies issued on or after January 1, 2004 (effective date of adoption of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits), and prior to January 1, 2007, these tables may be substituted with the consent of the commissioner and subject to the conditions of paragraph 4. In determining such consent, the commissioner may rely on the consent of the commissioner of the company's state of domicile</u>. No such election shall be made until the company demonstrates at least 20% of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO Preferred Class Structure Mortality Table used in place of a 2001 CSO Mortality Table, pursuant to the requirements of this rule, will be treated as part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the requirements of the NAIC model regulation, "Recognition of the 2001 CSO Mortality Table For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits Model Regulation."

4. **Conditions**

a. For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the super preferred nonsmoker, preferred nonsmoker, and residual standard nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary shall certify that:

i. The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

ii. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

Model Regulation Permitting the Recognition of Preferred Mortality Tables For Use in Determining Minimum Reserve Liabilities

b. For each plan of insurance with separate rates for preferred and standard smoker lives, an insurer may use the preferred smoker and residual standard smoker tables to substitute for the smoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, for business valued under the preferred smoker table, the appointed actuary shall certify that:

i. The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table corresponding to the valuation table being used for that class.

ii. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.

c. Unless exempted by the commissioner, every authorized insurer using the 2001 CSO Preferred Class Structure Table shall annually file with the commissioner, with the NAIC, or with a statistical agent designated by the NAIC and acceptable to the commissioner, statistical reports showing mortality and such other information as the commissioner may deem necessary or expedient for the administration of the provisions of this regulation. The form of the reports shall be established by the commissioner or the commissioner may require the use of a form established by the NAIC or by a statistical agent designated by the NAIC and acceptable to the commissioner.

d. The use of the 2001 CSO Preferred Class Structure Table for the valuation of policies issued prior to January 1, 2007 shall not be permitted in any statutory financial statement in which a company reports, with respect to any policy or portion of a policy coinsured, either of the following:

i. In cases where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than the amount specified in this paragraph as Y, the gross reserve calculated before reinsurance. Y is the amount of the gross reinsurance premium that (a) provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and (b) would be refunded to the ceding entity upon the termination of the policy.

ii. In cases where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this paragraph as Z. Z is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.

For purposes of this condition, both the reserve credit and the gross reserve before reinsurance (i) for the mean reserve method shall be defined as the mean reserve minus the deferred premium asset, and (ii) for the mid-terminal reserve method shall include the unearned premium reserve. A company may estimate and adjust its accounting on an aggregate basis in order to meet the conditions to use the 2001 CSO Preferred Class Structure Table.

Effective Date

5. The effective date of this regulation is after January 1, 2007.

Appendix A-830
Valuation of Life Insurance Policies
(Including the Introduction and Use of New Select Mortality Factors)

Purpose

1. The purpose of this appendix is to provide:

   a. Tables of select mortality factors and rules for their use;

   b. Rules concerning a minimum standard for the valuation of plans with nonlevel premiums or benefits; and

   c. Rules concerning a minimum standard for the valuation of plans with secondary guarantees.

2. The method for calculating basic reserves defined in this appendix will constitute the Commissioners' Reserve Valuation Method for policies to which this appendix is applicable.

Applicability

3. This appendix shall apply to all life insurance policies, with or without nonforfeiture values, issued on or after the effective date of this appendix, subject to the following exceptions and conditions. Nothing in this section shall be construed to expand the applicability of the Valuation of Life Insurance Policies Model Regulation to include life insurance policies exempted under this section.

   a. Exceptions

      i. This appendix shall not apply to any individual life insurance policy issued on or after the effective date of this appendix if the policy is issued in accordance with and as a result of the exercise of a reentry provision contained in the original life insurance policy of the same or greater face amount, issued before the effective date of this appendix, that guarantees the premium rates of the new policy. This appendix also shall not apply to subsequent policies issued as a result of the exercise of such a provision, or a derivation of the provision, in the new policy.

      ii. This appendix shall not apply to any universal life policy that meets all the following requirements:

         (a) Secondary guarantee period, if any, is five (5) years or less;

         (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables as defined in paragraph 9 and the applicable valuation interest rate. For contracts issued beginning January 1, 2004, the net level reserve premium is based on the ultimate mortality rates in the 2001 CSO Mortality Table; and

         (c) The initial surrender charge is not less than 100 percent of the first year annualized specified premium for the secondary guarantee period.

Drafting Note: Policies with a secondary guarantee are described in paragraph 29.

iii. This appendix shall not apply to any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

iv. This appendix shall not apply to any variable universal life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

v. This appendix shall not apply to a group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year.

b. Conditions

i. Calculation of the minimum valuation standard for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits (other than universal life policies), or both, shall be in accordance with the provisions of paragraphs 21 through 28.

ii. Calculation of the minimum valuation standard for flexible premium and fixed premium universal life insurance policies, that contain provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period shall be in accordance with the provisions of paragraphs 29 through 32.

Definitions

4. "Basic reserves" means reserves calculated in accordance with Appendix A-820, paragraphs 9 through 11.

5. "Contract segmentation method" means the method of dividing the period from issue to mandatory expiration of a policy into successive segments, with the length of each segment being defined as the period from the end of the prior segment (from policy inception, for the first segment) to the end of the latest policy year as determined below. For contracts beginning January 1, 2004, all calculations are made using the 2001 CSO Mortality Rate, and, if elected, the optional minimum mortality standard for deficiency reserves stipulated in paragraph 17. (or any other valuation mortality table adopted by the National Association of Insurance Commissioners (NAIC) after the effective date of this appendix for this purpose), and, if elected, the optional minimum mortality standard for deficiency reserves stipulated in paragraph 17 of this appendix. The length of a particular contract segment shall be set equal to the minimum of the value *t* for which G_t is greater than R_t (if G_t never exceeds R_t the segment length is deemed to be the number of years from the beginning of the segment to the mandatory expiration date of the policy), where G_t and R_t are defined as follows:

$$G_t = \frac{GPx+k+t}{GP_{x+k+t-1}}$$

where: x = original issue age;

k = the number of years from the date of issue to the beginning of the segment;

t = 1, 2, ...; *t* is reset to 1 at the beginning of each segment;

$GP_{x+k+t-1}$ = Guaranteed gross premium per thousand of face amount for year *t* of the segment, ignoring policy fees only if level for the premium paying period of the policy.

$R_t = \dfrac{q_{x+k+t}}{q_{x+k+t-1}}$ However, R_t may be increased or decreased by one percent in any policy year, at the company's option, but R_t shall not be less than one;

where: x, k and t are as defined above, and

The value of "$q_{x+k+t-1}$" is the valuation mortality rate for deficiency reserves in policy year k+t, but using the unmodified select mortality rates if modified select mortality rates are used in the computation of deficiency reserves.

However, if GP_{x+k+t} is greater than 0 and $GP_{x+k+t-1}$ is equal to 0, G_t shall be deemed to be 1000. If GP_{x+k+t} and $GP_{x+k+t-1}$ are both equal to 0, G_t shall be deemed to be 0.

Drafting Note: The purpose of the one percent tolerance in the R factor is to prevent irrational segment lengths due to such things as premium rounding. For example, consider a plan in which gross premiums are designed at some point to be a ratio times the underlying ultimate mortality rates, where the ratio varies by issue age. The resulting segments may be greater than one year, because the guaranteed gross premiums are not expressed in fractional cents. The tolerance factor allows the creation of one year segments for a plan in which premiums parallel the underlying valuation mortality table.

6. "Deficiency reserves" means the excess, if greater than zero, of

   a. Minimum reserves calculated in accordance with Appendix A-820, paragraphs 17 and 18, over
   b. Basic reserves.

7. "Guaranteed gross premiums" means the premiums under a policy of life insurance that are guaranteed and determined at issue.

8. "Maximum valuation interest rates" means the interest rates defined in Appendix A-820, paragraphs 5 through 8 (Computation of Minimum Standard by Calendar Year of Issue – All Business) that are to be used in determining the minimum standard for the valuation of life insurance policies.

9. "1980 CSO valuation tables" means the Commissioners' 1980 Standard Ordinary Mortality Table (1980 CSO Table) without ten-year selection factors, referenced in Appendix A-820, and variations of the 1980 CSO Table approved by the NAIC, such as the smoker and nonsmoker versions approved in December 1983.

Drafting Note: This appendix defines the 1980 CSO Tables without the existing ten -year select mortality factors to assure that, if select mortality factors are elected, only one set of factors may be applied to the base valuation mortality table.

10. "Scheduled gross premium" means the smallest illustrated gross premium at issue for other than universal life insurance policies. For universal life insurance policies, scheduled gross premium means the smallest specified premium described in paragraph 29 c., if any, or else the minimum premium described in paragraph 29 d.

11. a. "Segmented reserves" means reserves, calculated using segments produced by the contract segmentation method, equal to the present value of all future guaranteed benefits less the present value of all future net premiums to the mandatory expiration of a policy, where the net premiums within each segment are a uniform percentage of the respective

guaranteed gross premiums within the segment. The uniform percentage for each segment is such that, at the beginning of the segment, the present value of the net premiums within the segment equals:

i. The present value of the death benefits within the segment, plus

ii. The present value of any unusual guaranteed cash value (see paragraph 24) occurring at the end of the segment, less

iii. Any unusual guaranteed cash value occurring at the start of the segment, plus

iv. For the first segment only, the excess of the Item (a) over Item (b), as follows:

(a) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for in the first segment after the first policy year, divided by the present value, at the date of issue, of an annuity of one per year payable on the first and each subsequent anniversary within the first segment on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan of insurance of the same renewal year equivalent level amount at an age one year higher than the age at issue of the policy.

(b) A net one year term premium for the benefits provided for in the first policy year.

b. The length of each segment is determined by the "contract segmentation method," as defined in paragraph 5.

c. The interest rates used in the present value calculations for any policy may not exceed the maximum valuation interest rate, determined with a guarantee duration equal to the sum of the lengths of all segments of the policy.

d. For both basic reserves and deficiency reserves computed by the segmented method, present values shall include future benefits and net premiums in the current segment and in all subsequent segments.

Drafting Note: The segmentation requirement should not be limited to plans with no cash surrender values; otherwise companies could avoid segmentation entirely by designing policies with minimal (positive) cash values. Segmentation for plans with cash surrender values should be based solely upon gross premium levels. Basing segmentation upon the level of cash surrender values introduces complications because of the inter-relationship between minimum cash surrender values and gross premium patterns. The requirements of this appendix relating to reserves for plans with unusual cash values and to reserves if cash values exceed calculated reserves serve to link required reserves and cash surrender values. The calculation of segmented reserves shall not be linked to the occurrence of a positive unitary terminal reserve at the end of a segment. The requirement of this appendix to hold the greater of the segmented reserve or the unitary reserve eliminates the need for any linkage.

12. "Tabular cost of insurance" means the net single premium at the beginning of a policy year for one-year term insurance in the amount of the guaranteed death benefit in that policy year.

13. "Ten-year select factors" means the select factors referenced in Appendix A-820.

14. a. "Unitary reserves" means the present value of all future guaranteed benefits less the present value of all future modified net premiums, where:

i. Guaranteed benefits and modified net premiums are considered to the mandatory expiration of the policy; and

ii. Modified net premiums are a uniform percentage of the respective guaranteed gross premiums, where the uniform percentage is such that, at issue, the present value of the net premiums equals the present value of all death benefits and pure endowments, plus the excess of Item (a) over Item (b), as follows:

(a) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per year payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan of insurance of the same renewal year equivalent level amount at an age one year higher than the age at issue of the policy.

(b) A net one year term premium for the benefits provided for in the first policy year.

b. The interest rates used in the present value calculations for any policy may not exceed the maximum valuation interest rate, determined with a guarantee duration equal to the length from issue to the mandatory expiration of the policy.

Drafting Note: The purpose of this paragraph is to define as specifically as possible what has become commonly called the unitary method. Appendix A-820 does not define the term “unitary” for policies with nonlevel premiums or benefits; its requirement for reserves “computed by a method that is consistent with the principles of Appendix A-820” has not been uniformly interpreted.

15. “Universal life insurance policy” means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality or expense charges are made to the policy.

General Calculation Requirements for Basic Reserves and Premium Deficiency Reserves

16. Prior to January 1, 2004, at the election of the company for any one or more specified plans of life insurance, the minimum mortality standard for basic reserves may be calculated using the 1980 CSO valuation tables with select mortality factors. Effective January 1, 2004, the 2001 CSO Mortality Table is the minimum standard for basic reserves (or any other valuation mortality table adopted by the NAIC after the effective date of the 2001 CSO table for this purpose). Prior to January 1, 2004 if select mortality factors are elected, they may be:

a. The ten-year select mortality factors referenced in Appendix A-820;

b. The select mortality factors in Attachment 1 of this appendix; or

Drafting Note: The select mortality factors for duration 1 through 15 in Attachment 1 of this appendix reflect the Society of Actuaries’ data for the years 1983 through 1986, split by sex and smoking status, with fifteen years of mortality improvement, based on Society of Actuaries’ Projection Scale A applied. A 50% margin was added. The factors were then graded to the 1980 CSO Tables over the next five durations. A 50% margin was deemed appropriate to provide a reasonable margin, with little likelihood that actual experience for significant blocks of business would exceed it.

c. Any other table of select mortality factors adopted by the NAIC after the effective date of this appendix for the purpose of calculating basic reserves.

17. Deficiency reserves, if any, are calculated for each policy as the excess, if greater than zero, of the quantity A over the basic reserve. The quantity A is obtained by recalculating the basic reserve for the policy using guaranteed gross premiums instead of net premiums when the guaranteed gross premiums are less than the corresponding net premiums. At the election of the company for any one or more specified plans of insurance, the quantity A and prior to January 1, 2004 the corresponding net premiums used in the determination of quantity A may be based upon the 1980 CSO valuation tables with select mortality factors (or any other valuation mortality table adopted by the NAIC after the effective date of this appendix). If select mortality factors are elected, they may be:

a. The ten-year select mortality factors referenced in Appendix A-820;

b. The select mortality factors in Attachment 1 of this appendix;

Effective January 1, 2004, the 2001 CSO Mortality Table is the minimum standard for deficiency reserves. If select mortality rates are used, they may be multiplied by X percent for durations in the first segment, subject to the conditions specified in Sections 17c. to iv. (a). In demonstrating compliance with those conditions, the demonstrations may not combine the results of tests that utilize the 1980 CSO Mortality Table with those tests that utilize the 2001 CSO Mortality Table, unless the combination is explicitly required by regulation or necessary to be in compliance with relevant Actuarial Standards of Practice.

Drafting Note: The select mortality factors in Attachment 1 of this appendix do not reflect the underwriting risk classes that have evolved since the period of the underlying experience. In light of this consideration and the recent recognition of the regulatory value of actuarial opinions, this appendix allows actuarial judgment to be used for deficiency reserves.

c. For durations in the first segment, X percent of the select mortality factors in Attachment 1 of this appendix, subject to the following:

i. X may vary by policy year, policy form, underwriting classification, issue age, or any other policy factor expected to affect mortality experience;

~~ii.X shall not be less than twenty percent (20%);~~

~~iii.X shall not decrease in any successive policy years;~~

~~iv.~~ii. X is such that, when using the valuation interest rate used for basic reserves, Item (a) is greater than or equal to Item (b);

(a) The actuarial present value of future death benefits, calculated using the mortality rates resulting from the application of X;

(b) The actuarial present value of future death benefits calculated using anticipated mortality experience without recognition of mortality improvement beyond the valuation date;

~~v.~~iii. X is such that the mortality rates resulting from the application of X are at least as great as the anticipated mortality experience, without recognition of mortality improvement beyond the valuation date, in each of the first five (5) years after the valuation date;

~~vi.~~iv. The appointed actuary shall increase X at any valuation date where it is necessary to continue to meet all the requirements of paragraph 17 c.;

~~vii.~~v. The appointed actuary may decrease X at any valuation date as long as X ~~does not decrease in any successive policy years and as long as it~~ continues to meet all the requirements of paragraph 17 c.; and

~~viii.~~vi. The appointed actuary shall specifically take into account the adverse effect on expected mortality and lapsation of any anticipated or actual increase in gross premiums.

(a) If X is less than 100 percent at any duration for any policy, the following requirements shall be met:

(i) The appointed actuary shall annually prepare an actuarial opinion and memorandum for the company in conformance with the asset adequacy analysis requirements as outlined in Appendix A-822; ~~and~~

(ii) The appointed actuary shall disclose, in the Regulatory Asset Adequacy Issues Summary, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; and

(iii) The appointed actuary shall annually opine for all policies subject to this appendix as to whether the mortality rates resulting from the application of X meet the requirements of paragraph 17 c. This opinion shall be supported by an actuarial report, subject to appropriate Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. The X factors shall reflect anticipated future mortality, without recognition of mortality improvement beyond the valuation date, taking into account relevant emerging experience.

d. Any other table of select mortality factors adopted by the NAIC after the effective date of this appendix for the purpose of calculating deficiency reserves.

18. This paragraph applies to both basic reserves and deficiency reserves. Any set of select mortality factors may be used only for the first segment. However, if the first segment is less than ten (10) years, the appropriate ten-year select mortality factors referenced in Appendix A-820 may be used thereafter through the tenth policy year from the date of issue.

Drafting Note: This appendix does not allow the use of select mortality factors beyond the first segment. The rationale is that the result of a premium increase that is sufficient to require a new segment will be increased lapsation, leading to mortality deterioration after the increase. Also, for policies that have reentry provisions, select mortality factors shall not be used in segments beginning after reentry unless a new policy is actually issued. However, this appendix allows the use of the ten-year select mortality factors referenced in Appendix A-820 beyond the first segment (but in no case beyond the tenth policy year) in recognition that the mortality deterioration is unlikely to occur to a significant degree within the first ten (10) years.

19. In determining basic reserves or deficiency reserves, guaranteed gross premiums without policy fees may be used where the calculation involves the guaranteed gross premium but only if the policy fee

is a level dollar amount after the first policy year. In determining deficiency reserves, policy fees may be included in guaranteed gross premiums, even if not included in the actual calculation of basic reserves.

20. Reserves for policies that have changes to guaranteed gross premiums, guaranteed benefits, guaranteed charges, or guaranteed credits that are unilaterally made by the insurer after issue and that are effective for more than one year after the date of the change shall be the greatest of the following: (1) reserves calculated ignoring the guarantee, (2) reserves assuming the guarantee was made at issue, and (3) reserves assuming that the policy was issued on the date of the guarantee.

Calculation of Minimum Valuation Standard for Policies with Guaranteed Nonlevel Gross Premiums or Guaranteed Nonlevel Benefits (Other than Universal Life Policies)

21. Basic Reserves

a. Basic reserves shall be calculated as the greater of the segmented reserves and the unitary reserves. Both the segmented reserves and the unitary reserves for any policy shall use the same valuation mortality table and selection factors. At the option of the insurer, in calculating segmented reserves and net premiums, either of the adjustments described in subparagraph i. or ii. below may be made:

i. Treat the unitary reserve, if greater than zero, applicable at the end of each segment as a pure endowment and subtract the unitary reserve, if greater than zero, applicable at the beginning of each segment from the present value of guaranteed life insurance and endowment benefits for each segment.

ii. Treat the guaranteed cash surrender value, if greater than zero, applicable at the end of each segment as a pure endowment; and subtract the guaranteed cash surrender value, if greater than zero, applicable at the beginning of each segment from the present value of guaranteed life insurance and endowment benefits for each segment.

22. Deficiency Reserves

a. The deficiency reserve at any duration shall be calculated:

i. On a unitary basis if the corresponding basic reserve determined by paragraph 21 is unitary;

ii. On a segmented basis if the corresponding basic reserve determined by paragraph 21 is segmented; or

iii. On the segmented basis if the corresponding basic reserve determined by paragraph 21 is equal to both the segmented reserve and the unitary reserve.

b. Paragraph 22 shall apply to any policy for which the guaranteed gross premium at any duration is less than the corresponding modified net premium calculated by the method used in determining the basic reserves, but using the minimum valuation standards of mortality (specified in paragraph 17) and rate of interest.

c. Deficiency reserves, if any, shall be calculated for each policy as the excess if greater than zero, for the current and all remaining periods, of the quantity A over the basic reserve, where A is obtained as indicated in paragraph 17.

d. For deficiency reserves determined on a segmented basis, the quantity A is determined using segment lengths equal to those determined for segmented basic reserves.

23. Minimum Value

a. Basic reserves may not be less than the tabular cost of insurance for the balance of the policy year, if mean reserves are used. Basic reserves may not be less than the tabular cost of insurance for the balance of the current modal period or to the paid-to-date, if later, but not beyond the next policy anniversary, if mid-terminal reserves are used. The tabular cost of insurance shall use the same valuation mortality table and interest rates as that used for the calculation of the segmented reserves. However, if select mortality factors are used, they shall be the ten-year select factors referenced in Appendix A-820. In no case may total reserves (including basic reserves, deficiency reserves and any reserves held for supplemental benefits that would expire upon contract termination) be less than the amount that the policyowner would receive (including the cash surrender value of the supplemental benefits, if any, referred to above), exclusive of any deduction for policy loans, upon termination of the policy. Effective January 1, 2004, the valuation mortality table used in determining the tabular cost of insurance shall be the ultimate mortality rates in the 2001 CSO Mortality Table.

24. Unusual Pattern of Guaranteed Cash Surrender Values

Drafting Note: This requirement is independent of both the segmentation process and the unitary process. After the greater of the segmented or the unitary reserve has been determined, then this paragraph imposes an additional floor on the ultimate reserve. The purpose of this paragraph is to assure adequate funding of significant increases in guaranteed cash surrender values.

a. For any policy with an unusual pattern of guaranteed cash surrender values, the reserves actually held prior to the first unusual guaranteed cash surrender value shall not be less than the reserves calculated by treating the first unusual guaranteed cash surrender value as a pure endowment and treating the policy as an n year policy providing term insurance plus a pure endowment equal to the unusual cash surrender value, where n is the number of years from the date of issue to the date the unusual cash surrender value is scheduled.

b. The reserves actually held subsequent to any unusual guaranteed cash surrender value shall not be less than the reserves calculated by treating the policy as an n year policy providing term insurance plus a pure endowment equal to the next unusual guaranteed cash surrender value, and treating any unusual guaranteed cash surrender value at the end of the prior segment as a net single premium, where

i. *n* is the number of years from the date of the last unusual guaranteed cash surrender value prior to the valuation date to the earlier of:

(a) The date of the next unusual guaranteed cash surrender value, if any, that is scheduled after the valuation date; or

(b) The mandatory expiration date of the policy; and

ii. The net premium for a given year during the *n* year period is equal to the product of the net to gross ratio and the respective gross premium; and

iii. The net to gross ratio is equal to Item (a) divided by Item (b) as follows:

(a) The present value, at the beginning of the *n* year period, of death benefits payable during the *n* year period plus the present value, at the beginning of the n year period, of the next unusual guaranteed cash surrender value, if any, minus the amount of the last unusual guaranteed cash surrender value, if any, scheduled at the beginning of the *n* year period.

(b) The present value, at the beginning of the *n* year period, of the scheduled gross premiums payable during the *n* year period.

c. For purposes of this paragraph, a policy is considered to have an unusual pattern of guaranteed cash surrender values if any future guaranteed cash surrender value exceeds the prior year's guaranteed cash surrender value by more than the sum of:

i. One hundred ten percent (110%) of the scheduled gross premium for that year;

ii. One hundred ten percent (110%) of one year's accrued interest on the sum of the prior year's guaranteed cash surrender value and the scheduled gross premium using the nonforfeiture interest rate used for calculating policy guaranteed cash surrender values; and

iii. Five percent (5%) of the first policy year surrender charge, if any.

25. Optional Exemption for Yearly Renewable Term Reinsurance. At the option of the company, the following approach for reserves on YRT reinsurance may be used:

Drafting Note: Traditional reserves for yearly renewable term (YRT) reinsurance, the calculations of which this section describes, are already adequate and sufficient. However, without this option in the appendix, YRT reinsurance would be subject to the more complex segmentation calculations.

a. Calculate the valuation net premium for each future policy year as the tabular cost of insurance for that future year.

b. Basic reserves shall never be less than the tabular cost of insurance for the appropriate period, as defined in paragraph 23.

c. Deficiency reserves.

i. For each policy year, calculate the excess, if greater than zero, of the valuation net premium over the respective maximum guaranteed gross premium.

ii. Deficiency reserves shall never be less than the sum of the present values, at the date of valuation, of the excesses determined in accordance with subparagraph i. above.

d. Prior to January 1, 2004, for purposes of this paragraph, the calculations use the maximum valuation interest rate and the 1980 CSO mortality tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the calculations specified in this paragraph (25) shall use the ultimate mortality rates in the 2001 CSO Mortality Table.

e. A reinsurance agreement shall be considered YRT reinsurance for purposes of this paragraph if only the mortality risk is reinsured.

f. If the assuming company chooses this optional exemption, the ceding company's reinsurance reserve credit shall be limited to the amount of reserve held by the assuming company for the affected policies.

26. Optional Exemption for Attained-Age-Based Yearly Renewable Term Life Insurance Policies. At the option of the company, the following approach for reserves for attained-age-based YRT life insurance policies may be used:

Drafting Note: Traditional reserves for attained-age-based YRT policies, the calculations of which this subsection describes, are already adequate and sufficient. However, without this option in the appendix, these policies would be subject to the more complex segmentation calculations.

a. Calculate the valuation net premium for each future policy year as the tabular cost of insurance for that future year.

b. Basic reserves shall never be less than the tabular cost of insurance for the appropriate period, as defined in paragraph 23.

c. Deficiency reserves.

   i. For each policy year, calculate the excess, if greater than zero, of the valuation net premium over the respective maximum guaranteed gross premium.

   ii. Deficiency reserves shall never be less than the sum of the present values, at the date of valuation, of the excesses determined in accordance with subparagraph i. above.

d. Prior to January 1, 2004, for purposes of this paragraph, the calculations use the maximum valuation interest rate and the 1980 CSO valuation tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the calculations specified in this paragraph shall use the ultimate mortality rates in the 2001 CSO Mortality Table.

e. A policy shall be considered an attained-age-based YRT life insurance policy for purposes of this subsection if:

   i. The premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are based upon the attained age of the insured such that the rate for any given policy at a given attained age of the insured is independent of the year the policy was issued; and

   ii. The premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are the same as the premium rates for policies covering all insureds of the same sex, risk class, plan of insurance and attained age.

f. For policies that become attained-age-based YRT policies after an initial period of coverage, the approach of this subsection may be used after the initial period if:

   i. The initial period is constant for all insureds of the same sex, risk class and plan of insurance; or

   ii. The initial period runs to a common attained age for all insureds of the same sex, risk class and plan of insurance; and

   iii. After the initial period of coverage, the policy meets the conditions of paragraph 26 e. above.

g. If this election is made, this approach shall be applied in determining reserves for all attained-age-based YRT life insurance policies issued on or after the effective date of this appendix.

27. Exemption from Unitary Reserves for Certain *n*-Year Renewable Term Life Insurance Polices. Unitary basic reserves and unitary deficiency reserves need not be calculated for a policy if the following conditions are met:

Drafting Note: Without this exemption, companies issuing certain *n*-year renewable term policies could be forced to hold reserves higher than *n*-year term reserves, even though in many cases gross premiums are well above valuation mortality rates.

a. The policy consists of a series of n-year periods, including the first period and all renewal periods, where n is the same for each period, except that for the final renewal period, n may be truncated or extended to reach the expiry age, provided that this final renewal period is less than 10 years and less than twice the size of the earlier n-year periods, and for each period, the premium rates on both the initial current premium scale and the guaranteed maximum premium scale are level;

b. Prior to January 1, 2004, the guaranteed gross premiums in all n-year periods are not less than the corresponding net premiums based upon the 1980 CSO Table with or without the ten-year select mortality factors. Effective January 1, 2004, the calculations specified in this paragraph shall use the ultimate mortality rates in the 2001 CSO Mortality Table; and

c. There are no cash surrender values in any policy year.

28. Exemption from Unitary Reserves for Certain Juvenile Policies. Unitary basic reserves and unitary deficiency reserves need not be calculated for a policy if the following conditions are met, based upon the initial current premium scale at issue:

a. At issue, the insured is age twenty-four (24) or younger;

b. Until the insured reaches the end of the juvenile period, which shall occur at or before age twenty-five (25), the gross premiums and death benefits are level, and there are no cash surrender values; and

c. After the end of the juvenile period, gross premiums are level for the remainder of the premium paying period, and death benefits are level for the remainder of the life of the policy.

Drafting Note: The jumping juvenile policy described has traditionally been valued in two segments. This exemption will allow that practice to continue without requiring the calculation of reserves on a unitary basis. However, within each segment, both basic and deficiency reserves shall comply with the segmented reserve requirements.

Calculation of Minimum Valuation Standard for Flexible Premium and Fixed Premium Universal Life Insurance Policies That Contain Provisions Resulting in the Ability of a Policyowner to Keep a Policy in Force Over a Secondary Guarantee Period

29. General

a. Policies with a secondary guarantee include:

i. A policy with a guarantee that the policy will remain in force at the original schedule of benefits, subject only to the payment of specified premiums;

ii. Prior to January 1, 2004 a policy in which the minimum premium at any duration is less than the corresponding one year valuation premium, calculated using the maximum valuation interest rate and the 1980 CSO valuation tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the one-year valuation premium shall be calculated using the ultimate mortality rates in the 2001 CSO Mortality Table; or

iii. A policy with any combination of Subparagraph i. and ii.

Drafting Note: Universal life and variable universal life policies with secondary guarantees that meet the requirements of paragraph 3a.ii. are not subject to this appendix.

b. A secondary guarantee period is the period for which the policy is guaranteed to remain in force subject only to a secondary guarantee. When a policy contains more than one secondary guarantee, the minimum reserve shall be the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees. Secondary guarantees that are unilaterally changed by the insurer after issue shall be considered to have been made at issue. Reserves described in paragraphs 30 and 31 below shall be recalculated from issue to reflect these changes.

c. Specified premiums mean the premiums specified in the policy, the payment of which guarantees that the policy will remain in force at the original schedule of benefits, but which otherwise would be insufficient to keep the policy in force in the absence of the guarantee if maximum mortality and expense charges and minimum interest credits were made and any applicable surrender charges were assessed.

d. For purposes of this paragraph, the minimum premium for any policy year is the premium that, when paid into a policy with a zero account value at the beginning of the policy year, produces a zero account value at the end of the policy year. The minimum premium calculation shall use the policy cost factors (including mortality charges, loads and expense charges) and the interest crediting rate, which are all guaranteed at issue.

e. The one-year valuation premium means the net one-year premium based upon the original schedule of benefits for a given policy year. The one-year valuation premiums for all policy years are calculated at issue. The select mortality factors defined in paragraphs 17b., 17c. and 17d. may not be used to calculate the one-year valuation premiums.

f. The one-year valuation premium should reflect the frequency of fund processing, as well as the distribution of deaths assumption employed in the calculation of the monthly mortality charges to the fund.

30. Basic Reserves for the Secondary Guarantees. Basic reserves for the secondary guarantees shall be the segmented reserves for the secondary guarantee period. In calculating the segments and the segmented reserves, the gross premiums shall be set equal to the specified premiums, if any, or otherwise to the minimum premiums, that keep the policy in force and the segments will be determined according to the contract segmentation method as defined in paragraph 5.

31. Deficiency Reserves for the Secondary Guarantees. Deficiency reserves, if any, for the secondary guarantees shall be calculated for the secondary guarantee period in the same manner as described in paragraph 22 with gross premiums set equal to the specified premiums, if any, or otherwise to the minimum premiums that keep the policy in force.

32. Minimum Reserves. The minimum reserves during the secondary guarantee period are the greater of:

a. The basic reserves for the secondary guarantee plus the deficiency reserve, if any, for the secondary guarantees; or

b. The minimum reserves required by other appendices governing universal life plans.

[NOTE as the mortality tables are not impacted, they are not included in this form A attachment to conserve space.]

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Statement of Statutory Accounting Principles No. 100

Fair Value Measurements

STATUS

Type of Issue:	Common Area
Issued:	December 5, 2009
Effective Date:	December 31, 2010
Affects:	No other pronouncements
Affected by:	No other pronouncements
Interpreted by:	No other pronouncements

Fair Value Measurements

SCOPE OF STATEMENT

1. This statement defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

SUMMARY CONCLUSION

2. This standard applies under other accounting pronouncements that require or permit fair value measurements, but this standard does not require any new fair value amendments. However, the application of this standard may change current practice. This standard does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of this standard.

Scope

3. This standard applies under other statutory accounting pronouncements that require or permit fair value measurements, except as follows

a. This standard does not eliminate the practicality exceptions to fair value measurements in accounting pronouncements within the scope of this standard.

b. This standard does not apply under *SSAP No. 22—Leases* (SSAP No. 22) and other accounting pronouncements that address fair value measurements for purposes of lease classification to measurement under SSAP No. 22. This scope exception does not apply to assets acquired or liabilities assumed in a business combination that are required to be measured at fair value under *SSAP No. 68—Business Combinations and Goodwill* (SSAP No. 68), regardless of whether those assets and liabilities are related to leases.

Definition of Fair Value

4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Components of the Fair Value Definition

5. *Asset/Liability* - A fair value measurement is for a particular asset or liability. Therefore, the measurement should consider attributes specific to the asset or liability, for example, the condition and/or location of the asset or liability and restrictions, if any, on the sale or use of the asset at the measurement date. The asset or liability might be a standalone asset or liability (for example, a financial instrument or an operating asset) or a group of assets and/or liabilities (for example, an asset group, a reporting unit, or a business).

6. *Price* - A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale). The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

7. *Principal (or Most Advantageous) Market* **-** A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. The most advantageous market is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s). In either case, the principal (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or otherwise determined using a valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

8. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs represent the incremental direct costs to sell the asset or transfer the liability in the principal (or most advantageous) market for the asset or liability. Transaction costs are not an attribute of the asset or liability; rather, they are specific to the transaction and will differ depending on how the reporting entity transacts. However, transaction costs do not include the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market. If location is an attribute of the asset or liability (as might be the case for a commodity), the price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall be adjusted for the costs, if any, that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market.

9. *Market Participants* - Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that are:

a. Independent of the reporting entity; that is, they are not related parties;

b. Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary;

c. Able to transact for the asset or liability; and

d. Willing to transact for the asset or liability; that is, they are motivated but not forced or otherwise compelled to do so.

10. The fair value of the asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity should identify characteristics that distinguish market participants generally, considering factors specific to (a) the asset or liability, (b) the principal (or most advantageous) market for the asset or liability, and (c) market participants with whom the reporting entity would transact in that market.

11. *Application to Assets* **-** A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. In broad terms, highest and best use refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

12. The highest and best use of the asset establishes the valuation premise used to measure the fair value of the asset. Specifically:

a. In-use - The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use). For example, that might be the case for certain nonfinancial assets. If the highest and best use of the asset is in-use, the fair value of the asset shall be measured using an in-use valuation premise. When using an in-use valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets as a group and that those assets would be available to market participants. Generally, assumptions about the highest and best use of the asset should be consistent for all of the assets of the group within which it would be used.

b. In-exchange - The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis. For example, that might be the case for a financial asset. If the highest and best use of the asset is in-exchange, the fair value of the asset shall be measured using an in-exchange valuation premise. When using an in-exchange valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset standalone.

13. Because the highest and best use of the asset is determined based on its use by market participants, the fair value measurement considers the assumptions that market participants would use in pricing the asset, whether using an in-use or an in-exchange valuation premise.

14. *Application to Liabilities* - Consideration of non-performance risk (own credit-risk) should not be reflected in the fair value calculation for liabilities (including derivative liabilities) at subsequent measurement. At initial recognition, it is perceived that the consideration of own-credit risk may be inherent in the contractual negotiations resulting in the liability. The consideration of non-performance risk for subsequent measurement is inconsistent with the conservatism and recognition concepts as well as the assessment of financial solvency for insurers, as a decrease in credit standing would effectively decrease reported liabilities and thus seemingly increase the appearance of solvency. Furthermore, liabilities reported or disclosed at "fair value" shall not reflect any third-party credit guarantee of debt.

Fair Value at Initial Recognition

15. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price represents the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price). Conceptually, entry prices and exit prices are different. Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

16. In many cases, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the reporting entity shall consider factors specific to the transaction and the asset or liability. For example, a transaction price might not represent the fair value of an asset or liability at initial recognition if:

a. The transaction is between related parties.

b. The transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

c. The market in which the transaction occurs is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the principal or most advantageous market. For example, those markets might be different if the reporting entity is a securities dealer that transacts in different markets, depending on whether the counterparty is a retail customer (retail market) or another securities dealer (inter-dealer market).

d. For liabilities, differences may exist as non-performance risk (own credit risk) is not reflected in the fair value (i.e., exit price) determination of all liabilities (including derivatives).

Valuation Techniques

17. Valuation techniques consistent with the market approach, income approach, and/or cost approach shall be used to measure fair value. Key aspects of those approaches are summarized below:

a. Market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

b. Income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multiperiod excess earnings method, which is used to measure the fair value of certain intangible assets.

c. Cost approach. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives).

18. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available shall be used to measure fair value. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

19. Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are used) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, new markets develop, new information becomes available, information previously used is no longer available, or valuation techniques improve. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3). The disclosure provisions of SSAP No. 3 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to Valuation Techniques

20. In this standard, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

a. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

b. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy

21. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

22. The availability of inputs relevant to the asset or liability and the relative reliability of the inputs might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation techniques. For example, a fair value measurement using a present value technique might fall within Level 2 or Level 3, depending on the

inputs that are significant to the measurement in its entirety and the level in the fair value hierarchy within which those inputs fall.

Level 1 Inputs

23. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as discussed in paragraphs 24 and 25.

24. If the reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets or liabilities individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level measurement.

25. In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date. The reporting entity should establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level measurement.

26. If the reporting entity holds a position in a single financial instrument (including a block) and the instrument is traded in an active market, the fair value of the position shall be measured within Level 1 as the product of the quoted price for the individual instrument times the quantity held. The quoted price shall not be adjusted because of the size of the position relative to trading volume (blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

27. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets

b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market)

c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

28. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the condition and/or location of the asset or liability, the extent to which the inputs relate to items that are comparable to the asset or liability, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

29. The reporting entity should evaluate the following factors to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities). The factors include, but are not limited to:

a. There are few recent transactions.

b. Price quotations are not based on current information.

c. Price quotations vary substantially either over time or among market makers (for example, some brokered markets).

d. Indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.

e. There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the reporting entity's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability.

f. There is a wide bid-ask spread or significant increase in the bid-ask spread.

g. There is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities.

h. Little information is released publicly (for example, a principal-to-principal market).

The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of the evidence, there has been a significant decrease in the volume and level of activity for the asset or liability.

30. If the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly). Further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with this standard. Significant adjustments also may be necessary in other circumstances (for example, when a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale).

31. This standard does not prescribe a methodology for making significant adjustments to transactions or quoted prices when estimating fair value. Paragraphs 17-19 discuss the use of valuation techniques in estimating fair value. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, the reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within that range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed.

32. Even in circumstances where there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Determining the price at which willing market participants would transact at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability depends on the facts and circumstances and requires the use of significant judgment. However, the reporting entity's intention to hold the asset or liability is not relevant in estimating fair value. Fair value is a market-based measurement, not an entity-specific measurement.

33. Even if there has been a significant decrease in the volume and level of activity for the asset or liability, it is not appropriate to conclude that all transactions are not orderly (that is, distressed or forced). Circumstances that may indicate that a transaction is not orderly include, but are not limited to:

a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.

b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.

c. The seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced).

d. The transaction price is an outlier when compared with other recent transactions for the same or similar asset or liability.

The reporting entity shall evaluate the circumstances to determine whether the transaction is orderly based on the weight of the evidence.

34. The determination of whether a transaction is orderly (or not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability. Accordingly, the reporting entity shall consider the following guidance:

a. If the weight of the evidence indicates the transaction is not orderly, the reporting entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price when estimating fair value or market risk premiums.

b. If the weight of the evidence indicates the transaction is orderly, the reporting entity shall consider that transaction price when estimating fair value or market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances such as the volume of the transaction, the comparability of the transaction to the asset or liability being measured at fair value, and the proximity of the transaction to the measurement date.

c. If the reporting entity does not have sufficient information to conclude that the transaction is orderly or that the transaction is not orderly, it shall consider that transaction price when estimating fair value or market risk premiums. However, that transaction price may not be determinative of fair value (that is, that transaction price may not be the sole or primary basis for estimating fair value or market risk premiums). The reporting entity shall place less weight on transactions on which the reporting entity does not have sufficient information to conclude whether the transaction is orderly when compared with other transactions that are known to be orderly.

In its determinations, the reporting entity need not undertake all possible efforts, but shall not ignore information that is available without undue cost and effort. The reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is party to the transaction.

35. Regardless of the valuation technique(s) used, the reporting entity shall include appropriate risk adjustments. Risk-averse market participants generally seek compensation for bearing the uncertainty inherent in the cash flows of an asset or liability (risk premium). A fair value measurement should include a risk premium reflecting the amount market participants would demand because of the risk (uncertainty) in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. Risk premiums should be reflective of an orderly transaction (that is, not a forced or distressed sale) between market participants at the measurement date under current market conditions.

36. When estimating fair value, this standard does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, when the reporting entity has determined that the quoted prices provided by those parties are determined in accordance with this standard. However, when there has been a significant decrease in the Volume or level of activity for the asset or liability, the reporting entity should evaluate whether those quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risks). In weighting a quoted price as an input to a fair value measurement, the reporting entity should place less weight (when compared with other indications of fair value that are based on transactions) on quotes that do not reflect the result of transactions. Furthermore, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighting the available evidence, with more weight given to quotes based on binding offers.

<u>Level 3 Inputs</u>

37. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall

be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

<u>Inputs Based on Bid and Ask Prices</u>

38. If an input used to measure fair value is based on bid and ask prices (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where in the fair value hierarchy the input falls (Level 1, 2, or 3). This standard does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread.

Disclosures

39. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, common stock), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period separately for each major category of assets and liabilities (for equity and debt securities), major category shall be defined as major security type:

a. The fair value measurements at the reporting date and the source of the fair value measurement. (Source of fair value measurement is only required in annual audited reporting periods.)

b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

   (1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)

   (2) Purchases, sales, issuances, and settlements (net)

   (3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

d. The amount of the total gains or losses for the period in subparagraph (c)(1) above included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)

e. The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.

40. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period separately for each major category of assets and liabilities (for equity and debt securities major category shall be defined as major security type):

a. The fair value measurements recorded during the period and the reasons for the measurements

b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs

d. The inputs and valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) and related inputs used to measure similar assets and/or liabilities in prior periods.

41. The quantitative disclosures required by this standard shall be presented using a tabular format. (See Exhibit A.)

42. The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this standard with the fair value information disclosed under other accounting pronouncements (for example, disclosures about fair value of financial instruments) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements, if practicable.

Disclosures about Fair Value of Financial Instruments

43. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 44. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments.

44. The disclosures about fair value prescribed in paragraph 43 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans* (SSAP No. 12), *Stock Options and Stock Purchase Plans* (SSAP No. 13), *SSAP No. 14—*

Postretirement Benefits Other Than Pensions (SSAP No. 14), and *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8* (SSAP No. 89).)

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 91R—Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R).

c. Insurance contracts, other than financial guarantees and deposit-type contracts

d. Lease contracts as defined in *SSAP No. 22—Leases* (SSAP No. 22).

e. Warranty obligations and rights.

f. Investments accounted for under the equity method.

g. Equity instruments issued by the entity.

45. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, the following shall be disclosed:

a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and

b. The reasons why it is not practicable to estimate fair value.

46. In the context of this standard, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the entity. Practicability, that is, cost considerations, also may affect the required precision of the estimate; for example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases, the fair value of that class or of the portfolio should be disclosed. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset should be disclosed.

Relevant Literature

47. This standard adopts with modification *FAS 157, Fair Value Measurements*; (FAS 157) *FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*, (FSP FAS 157-1) and *FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). Modifications from FAS 157, FSP FAS 157-1 and FSP FAS 157-4 include:

a. This standard does not adopt the scope exclusion within paragraph 2a of FAS 157 regarding share-based payment transactions. *FASB Statement No. 123, Share-Based Payment*, and its related interpretive accounting pronouncements that address share-based payment transactions are still being considered for statutory accounting. If these GAAP standards are adopted for statutory accounting, consideration will be given to incorporating an exclusion for determining fair value in accordance with the guidance under this standard. This standard is considered applicable under *SSAP No. 13—Stock Options and Stock Purchase Plans* (SSAP No. 13)

b. This standard does not adopt the scope exclusions within paragraph 3 of FAS 157 for accounting pronouncements that require or permit measurements that are similar to fair value but that are not intended to measure fair value, including (a) accounting pronouncements that permit measurements that are based on, or otherwise use, vendor-specific objective evidence of fair value and (b) inventory pricing. These items are excluded as they are not prevalent within statutory accounting.

c. This standard does not adopt guidance from FAS 157 regarding the consideration of non-performance risk (own credit risk) in determining the fair value measurement of liabilities. The consideration of own credit-risk in the measurement of fair value liabilities is inconsistent with the statutory accounting concept of conservatism and the assessment of financial solvency for insurers. The fair value determination for liabilities should follow the guidance adopted from FAS 157, with the exception of the consideration of own-performance risk.

d. This standard includes revisions to reference statutory standards or terms instead of GAAP standards or terms.

e. This standard incorporates the guidance from SSAP No. 27 regarding disclosures about fair value of financial instruments. This incorporated SSAP No. 27 guidance was adopted from *FAS 107, Disclosures about Fair Value of Financial Instruments* (FAS 107) and was revised to adopt *FSP FAS 107-1 and APB-1, Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB-1). For statutory purposes, the incorporation of this guidance within one standard results in having one comprehensive standard addressing fair value measurements and disclosures.

48. Paragraphs 40-42 adopt FAS 107 as amended by *FASB Statement No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments* (FAS 119), except that paragraph 15(c) of FAS 119 relating to disclosure of financial instruments held or issued for trading is rejected and *FASB Emerging Issues Task Force No. 85-20, Recognition of Fees for Guaranteeing a Loan*. Financial instruments named within paragraph 8 of FAS 107 that are exempt from disclosure are adopted to the extent applicable for statutory accounting and are reflected in paragraph 44. This standard also adopts revisions to FAS 107 reflected in *FSP FAS 107-1 and APB-1, Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB-1), and thus requires disclosure in both annual and quarterly financial statements. In addition, this standard rejects FASB Statement No. 126, Exemptions from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, an amendment of FAS 107. FAS 119 is addressed in SSAP No. 31.

49. This standard rejects *FSP FAS 157-2: Effective Date of FASB Statement No. 157* (FSP FAS 157-2) and *FSP FAS 157-3: Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS 157-3).

EFFECTIVE DATE AND TRANSITION

50. This standard shall be effective for December 31, 2010 annual financial statements, with interim and annual financial statement reporting thereafter. Early adoption is permitted for December 31, 2009 annual financial statements, with interim and annual reporting thereafter.

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- *FAS 107, Disclosures about Fair Value of Financial Instruments*
- *FASB Statement No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*
- *FAS 157, Fair Value Measurements*;
- *FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*;
- *FSP FAS 157-2: Effective Date of FASB Statement No. 157*
- *FSP FAS 157-3: Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*
- *FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*
- *FSP FAS 107-1 and APB-1, Interim Disclosures about Fair Value of Financial Instruments*
- *FASB Emerging Issues Task Force No. 85-20, Recognition of Fees for Guaranteeing a Loan*

RELEVANT ISSUE PAPERS

- Issue Paper No. 138—Fair Value Measurements

Exhibit A - Disclosure Illustrations:

51. **Assets Measured at Fair Value on a Recurring Basis:**

(In millions)	Level 1	Level 2	Level 3	Total
Assets at fair value:				
	$	$	$	$
Preferred stock				
Common stock				
Sub-total				
	-			
Derivative assets	-	-		
Separate account assets				
Total assets at fair value	**$**	**$**	**$**	**$**
Liabilities at fair value:				
Derivatives liabilities	$ -	$	$ -	$
Total liabilities at fair value	**$ -**	**$**	**$**	**$**

52. **Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3):**

(In millions)	**Equity Securities**	**Separate Account Assets**	**Derivative Assets**	**Derivative Liabilities**	**Total**
Balance at 1/1/0X:				$	$
Total Gains or losses (realized/unrealized)					
Included in net income		-			
Included in surplus					
Purchases, issuances and settlements		)			
Transfers in (out) of Level 3				-	-
Balance at 12/31/0X					
Total gains (losses) included in income attributable to instruments held at the reporting date	$			$	$

53. **Assets Measured at Fair Value on a Nonrecurring Basis:**

Description	12/31/0X	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Bonds					
Preferred Stock					

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Fair Value Measurements – Nonsubstantive Modifications to Statutory Accounting Guidance

SSAP No. 2—Cash, Drafts and Short-Term Investments:

13. The following disclosures shall be made for short-term investments in the financial statements:

a. Fair values in accordance with *SSAP No. 100—Fair Value Measurements* ~~*SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments*~~ ~~(SSAP No. 27~~);

SSAP No. 13—Stock Options and Stock Purchase Plans:

3. A reporting entity recognizes no compensation expense for services received in return for stock issued through noncompensatory plans. The following four characteristics are essential in a noncompensatory plan:

d. The discount from the ~~market price~~fair value of the stock is no greater than would be reasonable in an offer of stock to stockholders or others.

6. The measurement date for determining compensation cost in stock option, purchase, and award plans is the first date on which are known both (a) the number of shares that an individual employee is entitled to receive and (b) the option or purchase price, if any. That date for many or most plans is the date an option or purchase right is granted or stock is awarded to an individual employee. However, the measurement date may be later than the date of grant or award in plans with variable terms that depend on events after the date of grant or award. Thus, a reporting entity recognizes compensation cost for stock issued through compensatory plans unless the employee pays an amount that is at least equal to the quoted ~~market price~~fair value of the stock at the measurement date.

8. ~~Quoted market prices in active markets are the best evidence of fair value and shall be used as fair value, if available. If quoted market prices are not available, the estimate of fair value shall be based on the best information available in the circumstances.~~

14. Compensation expense related to stock appreciation rights and other variable stock option or award plans shall be measured at the end of each period as the amount by which the quoted ~~market price~~fair value ~~or value~~ of the shares of the enterprise's stock covered by a grant exceeds the option price or value specified under the plan and should be accrued as a charge to expense over the periods the employee performs the related services. Changes in the quoted ~~market price or value~~fair value should be reflected as an adjustment of accrued compensation and compensation expense in the periods in which the changes occur until the date the number of shares and purchase price, if any, are both known.

SSAP No. 26—Bonds, excluding Loan-Backed and Structured Securities:

4. A bond acquisition or disposal shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement bonds which shall be recorded on the funding date. At acquisition, bonds shall be reported at their cost, including brokerage and other related fees~~, which cannot exceed the fair value at the date of acquisition~~.

17. The financial statements shall include the following disclosures:

a. Fair values in accordance with *SSAP No, 100—Fair Value Measurements* ~~*SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27);~~

SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk~~,~~ and Financial Instruments with Concentrations of Credit Risk ~~and Disclosures about Fair Value of Financial Instruments~~

~~8. A reporting entity shall disclose in the notes to the financial statements the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments named in paragraph 8 of *FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments* (FAS 107). Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Separate disclosure of this information in the notes is required even if such information is presented elsewhere in the financial statements. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments.~~

~~9. For purposes of this statement, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If quoted market prices are not available, management's best estimate of fair value shall be based on the quoted market price of a financial instrument with similar characteristics, or on industry recognized valuation techniques (for example, the present value of estimated future cash flows using a discount rate commensurate with the risks involved).~~

~~10. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, the following shall be disclosed:~~

~~a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and~~
~~b. The reasons why it is not practicable to estimate fair value.~~

~~13. This statement adopts FAS 107 as amended by *FASB Statement No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments* (FAS 119), except that paragraph 15(c) of FAS 119 relating to disclosure of financial instruments held or issued for trading is rejected and *FASB Emerging Issues Task Force No. 85-20, Recognition of Fees for Guaranteeing a Loan*. In addition, this statement rejects *FASB Statement No. 126, Exemptions from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, an amendment of FAS 107*. FAS 119 is addressed in SSAP No. 31.~~

~~14. Paragraph 8 of FAS 107 discusses financial instruments which are exempt from fair value disclosure. Included as exempt instruments are insurance contracts, except for financial guaranty contracts.~~

SSAP No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)

5. At acquisition, common stocks shall be reported at their cost, including brokerage and other related fees. ~~Cost shall not exceed fair value.~~ Common stock acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date.

13. The following disclosures regarding common stocks shall be made in the financial statements:

   d. The disclosures in (i) and (ii) above should be segregated by those common stocks that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with ~~SSAP No. 27~~*SSAP No. 100—Fair Value Measurements*.

   f. When it is not practicable to estimate fair value ~~in accordance with SSAP No. 27~~, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:

SSAP No. 32—Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)

10. At acquisition, preferred stock shall be reported at cost, including brokerage and other related fees. ~~Cost shall not exceed fair value.~~ PIK stock received as dividends shall be recorded at fair value. Acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date.

29. The following disclosures regarding preferred stocks shall be made in the financial statements:

   a. *Fair values* in accordance with *SSAP No. 100—Fair Value Measurements* ~~*SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27)~~;

   f. The disclosures in (i) and (ii) above should be segregated by those preferred stocks that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with ~~SSAP No. 27~~*SSAP No. 100—Fair Value Measurements*.

   h. When it is not practicable to estimate fair value ~~in accordance with SSAP No. 27~~, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:
      i. The aggregate carrying value of the investments not evaluated for impairment, and
      ii. The circumstances that may have a significant adverse effect on the fair value.

SSAP No. 36—Troubled Debt Restructuring

10. A creditor shall account for a troubled debt restructuring according to the type of the restructuring (receipt of assets in full satisfaction, modification of terms, combination of types). Generally, troubled debt restructuring involving the transfer of assets shall be accounted for at the fair value of the assets received. Troubled debt restructuring involving modification of terms shall be accounted for at fair value (as determined by acceptable appraisal methodologies ~~or, if applicable, the value determined in accordance with the *NAIC Purposes and Procedures of the Securities Valuation Office* (SVO Purposes and Procedures)~~) in accordance ~~.~~ with *SSAP No. 100—Fair Value Measurements*. If the restructured loan is collateral dependent, fair value shall

be the fair value of the collateral. If the restructured loan is not collateral dependent, fair value shall be determined in accordance ~~with the SVO Purposes and Procedures, if applicable, or at the present value of expected future cash flows~~with SSAP No. 100. If the determined fair value of the loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a new cost basis shall be established at the fair value with the difference being recorded as a realized loss in the statement of operations. After the troubled debt restructuring, a creditor shall account for the assets consistent with the statutory guidance for such assets.

11. A creditor shall account for assets, including foreclosed property and equity interests in corporations, joint ventures, or partnerships, received in satisfaction of the loan at their fair value (as determined by acceptable appraisal methodologies~~ or, if applicable, the value determined in accordance with the SVO Purposes and Procedures~~) at the time of restructuring or at the book value of the loan if lower. If the fair value is less than the book value, the required writedown shall be recognized as a realized capital loss. The creditor shall reclassify the asset from loans to the appropriate asset account, such as real estate or other invested assets, at the time that the creditor obtains clear title to the asset except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed. After the troubled debt restructuring, a creditor shall account for the assets received in satisfaction of the loan consistent with the statutory guidance for similar assets.

SSAP No. 37—Mortgage Loans

20. The following disclosures shall be made in the financial statements:

 a. Fair values in accordance with *SSAP No. 100—Fair Value Measurement*~~ *SSAP No. 27—Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27)~~;

SSAP No. 40—Real Estate Investments

11. The current fair value of real estate shall be determined on a property by property basis (i.e., increases in the fair value of one property shall not be used to offset declines in fair value of another)~~ and shall be defined as the price that a property would bring in a competitive and open market under all conditions requisite to a fair sale (i.e., the buyer and seller acting prudently and knowledgeably with the price not affected by any undue stimulus)~~. If market quotes are unavailable, estimates of fair value shall be determined by an appraisal (internal or third party), which is based upon an evaluation of all relevant data about the market, considering the following:

 a. A physical inspection of the premises;
 b. The present value of future cash flows generated by the property (Discounted Cash Flows), or capitalization of stabilized net operating income (Direct Capitalization);
 c. Current sales prices of similar properties with adjustments for differences in the properties (Sales Comparison Approach);
 d. Costs to sell the property if the reporting entity does not have the intent or ability to hold the real estate as an investment; and
 e. Replacement costs of the improvements, less depreciation, plus the value of the land (Cost Approach).

19. A participating mortgage loan is established when the lender is entitled to participate in appreciation of the ~~market value~~fair value of mortgaged real estate, the results of operations of the mortgaged real estate project, or in both. Mortgage loan participation features should

be recorded at fair value at inception of the loan. The borrower should recognize a participation liability for the determined fair valued amount, with a corresponding debit to a debt discount account. The debt discount should be amortized by the interest method, using the effective interest rate. After inception, adjustment of the participation liability should occur at each reporting date to current fair value. The corresponding debit or credit should be to the related debt discount account. The revised debt discount should be amortized prospectively, using the effective interest rate method.

20. The real estate investment with the participating mortgage loan should be reported in accordance with paragraph 4, with no adjustment for appreciation of ~~market value~~fair value.

24. An entity that holds real estate investments with participating mortgage loan features should disclose:

a. Aggregate amount of participating mortgage obligations at the balance-sheet date, with separate disclosure of the aggregate participation liabilities and related debt discounts.

b. Terms of participations by the lender in either the appreciation in the ~~market value~~fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project, or both.

SSAP No. 43R—Loan-backed and Structured Securities - Revised

6. At acquisition, loan-backed securities, except for loan-backed or structured securities that are beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount[1] (see paragraphs 20 through 24), shall be reported at cost, including brokerage and related fees.~~ Cost shall not exceed fair value~~. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement loan-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.

48. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed securities shall be made in the financial statements:.

a. Fair values in accordance with *SSAP No. 100—Fair Value Measurements* (SSAP No. 100). ~~*SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments* (SSAP No. 27~~);

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with ~~SSAP No. 27~~SSAP No. 100.~~.~~

k. When it is not practicable to estimate fair value~~ in accordance with SSAP No. 27~~, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:
   i. The aggregate carrying value of the investments not evaluated for impairment, and
   ii. The circumstances that may have a significant adverse effect on the fair value.

[1] As referenced in the Relevant Literature section, this Statement adopts EITF 99-20, including the scope requirements of that guidance.

SSAP No. 51—Life Contracts

38. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

    a. Subject to discretionary withdrawal:

        iii. At ~~market~~ fair value, where the withdrawal of funds is payable at current ~~market value~~fair value of the assets supporting the liabilities, the assets are stated at current ~~market~~ fair value, and the liabilities are stated at the current ~~market~~ fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

        iv. Total with adjustment or at ~~market~~ fair value;

SSAP No. 52—Deposit-Type Contracts

17. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

    a. Subject to discretionary withdrawal:

        iii. At ~~market~~ fair value, where the withdrawal of funds is payable at current ~~market~~ fair value of the assets supporting the liabilities, the assets are stated at current ~~market~~ fair value, and the liabilities are stated at the current ~~market~~ fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

        iv. Total with adjustment or at ~~market~~ fair value;

SSAP No. 56—Separate Accounts

17. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, will be recorded as if the assets were held in the general account. Assets supporting all other contractual benefits shall be recorded at ~~market~~ fair value on the date of valuation, or if there is no readily available market, then in accordance with the valuation procedures in the applicable contract.

18. An AVR is generally required for separate accounts when the insurer, rather than the policyholder/contractholder, suffers the loss in the event of asset default or ~~market~~ fair value loss. An AVR is required unless:

    a. The asset default or ~~market~~ fair value risk is borne directly by the policyholders; or

20. Assets supporting typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do require an AVR because the insurer is responsible for credit related asset or ~~market~~ fair value loss.

22. An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at ~~market~~ fair value. For example, separate accounts

for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at ~~market~~ fair value.

26. Where separate account contracts have guaranteed elements, the basis for determining the value of the liability shall be consistent with the basis used for asset values (i.e., valuation interest rates as defined in Appendix A-820 shall be used when assets are recorded as if held in the general account and current interest rates based on market rates shall be used when assets are recorded at ~~market~~fair value). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

31. For each risk-based capital grouping (as detailed in paragraph 32), the following shall be disclosed:

    a. Premiums, considerations or deposits received during the year;

    b. Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at ~~market~~ fair value separately from those whose assets are carried at amortized cost/book value;

    c. Reserves by withdrawal characteristics, i.e., whether or not the separate account is subject to discretionary withdrawal or market value adjustment, or to withdrawal at book value with or without surrender charge;

32. For the disclosures required in paragraph 31, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):

    b. Nonguaranteed Separate Accounts-Variable separate accounts, where the benefit is determined by the performance and/or ~~market~~ fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.

41. This statement is effective for years beginning January 1, 2001. Contracts with assets held in a Separate Account that were issued in accordance with applicable state laws and regulations and issued prior to that effective date, for which assets and liabilities have been recorded using a consistent basis since issue, i.e., both assets and liabilities are recorded either as if in the general account ("book value") or as at ~~market~~ fair value (current interest rates based on market rates shall be used for liabilities when assets are recorded at ~~market~~ fair value), shall continue to be recorded using such basis until such time as the applicable contract terms or provisions are substantially changed, such as by a contract amendment modifying interest rate or withdrawal provisions. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. Changes that do not require change in the basis of recording would include: address changes, continued deposits, and other non-substantive changes such as these. For example, additional funds received after January 1, 2001 under contracts issued prior to January 1, 2001 may continue to be recorded using the basis in effect prior to January 1, 2001 until such time as a triggering change is made. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance

55. The assuming entity is to value the assets acquired at the date of acquisition at their ~~market~~ fair values, and the reserves are to be established according to statutory requirements

based on the benefits in the individual policies reinsured. If the liabilities exceed the assets, the difference represents goodwill that must be amortized into operations using the interest method over the life of the policies, but for a period not to exceed 10 years. Goodwill resulting from assumption reinsurance transactions shall be included in the total goodwill of an entity when calculating the amount of goodwill that is a nonadmitted asset pursuant to SSAP No. 68—Business Combinations and Goodwill. If the assets exceed the liabilities, the assuming entity shall record a deferred liability and amortize the amount into operations using the interest method over the expected life of the business but not to exceed ten years.

59. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

a. Subject to discretionary withdrawal:

iii. At ~~market~~ fair value, where the withdrawal of funds is payable at current market value of the assets supporting the liabilities, the assets are stated at current ~~market~~ fair value, and the liabilities are stated at the current ~~market~~ fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

iv. Total with adjustment or at ~~market~~ fair value;

SSAP No. 73—Health Care Delivery Assets – Supplies, Pharmaceuticals and Surgical Supplies, Durable Medical Equipment, Furniture, Medical Equipment and Fixtures, and Leasehold Improvements in Health Care Facilities

5. The reporting entity shall maintain a control system that provides for identification of quantities on hand and appropriate valuation (lower of cost or ~~market~~fair value) of supplies, pharmaceuticals and surgical supplies, and durable medical equipment.

SSAP No. 74—Accounting for Issuance of Insurance-Linked Securities Issued by a Property and Casualty Insurer through a Protected Cell

Glossary:

Fair value - See ~~GLOSSARY to the Statements of Statutory Accounting *Principles*~~*SSAP No. 100—Fair Value Measurements.*

SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions

14. Derivative instruments represent rights or obligations that meet the definitions of assets (SSAP No. 4—Assets and Nonadmitted Assets) or liabilities (SSAP No. 5) and shall be reported in financial statements. In addition, derivative instruments also meet the definition of financial instruments as defined in SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and~~,~~ Financial Instruments with Concentrations of Credit Risk. ~~and Disclosures about Fair Value of Financial Instruments~~ (SSAP No. 27). Should the cost basis of the derivative instrument be undefined (i.e., no premium is paid), the instrument shall be disclosed in accordance with paragraphs 8 through 10 of SSAP No. 27. Derivative instruments are admitted assets to the extent they conform to the requirements of this statement.

Exhibit C – SSAP No. 86

1.b.i.(e) - If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or the designated portion of the derivative shall be valued at its current fair value ~~(marked to market)~~ with gains and losses recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

1.b.ii(a) - Options, warrants, caps, or floors purchased or written shall be valued at current fair value ~~(marked to market)~~ with changes in fair value recognized currently consistent with the hedged item; this will result in unrealized gain/loss treatment with adjustment to unassigned funds (surplus).

1.b.iii. - Open derivatives hedging items recorded at fair value, where gains and losses on the hedged item are recognized currently in earnings: options, warrants, caps, or floors purchased or written shall be valued at current fair value ~~(marked to market)~~ with changes in fair value recognized currently in earnings together with the gains and losses on the hedged item.

1.b.iii.(b) - If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, recognition of changes in fair value through earnings ceases. The derivative or the designated portion of the derivative shall continue to be valued at its current fair value ~~(marked to market)~~, but thereafter gains or losses shall be recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

2.b.i.(5) - If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or a designated portion of the derivative shall be valued at its current fair value ~~(marked to market)~~ with gains and losses recorded in unrealized gains or unrealized losses to the extent that it ceased to be an effective hedge. Upon redesignation into an effective hedging relationship, the derivative's mark to fair value through unrealized gain or loss shall be reversed.

2.b.ii(a) - Swaps, collars, or forwards shall be valued at current fair value ~~(marked to market)~~ with changes in fair value recognized currently consistent with the hedged item; this will result in unrealized gain/loss treatment with adjustment to unassigned funds (surplus);

2.b.iv. - Open derivatives hedging items recorded at fair value, where gains and losses on the hedged item are recognized currently in earnings: swaps, collars and forwards shall be valued at current fair value ~~(marked to market)~~ with changes in fair value recognized currently in earnings together with the gains and losses on the hedged item.

(a) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, recognition of changes in fair value through earnings ceases. The derivative shall continue to be valued at its current fair value ~~(marked to market)~~, but thereafter gains or losses shall be recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

iv. Open futures hedging items recorded at fair value, where gains and losses on the hedging item are recognized currently in earnings shall be valued at current fair value ~~(marked to market)~~ with changes in fair value recognized currently in earnings.

SSAP No. 90—Accounting for the Impairment of Disposal of Real Estate Investments

5. A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

   a. A significant decrease in the ~~market price~~<u>fair value</u> of a long-lived asset

Fair Value

16. A discussion of fair value is contained in ~~the Glossary to the Statements of Statutory Accounting Principles~~*SSAP No. 100—Fair Value Measurement*. This statement requires properties occupied by the company, that are determined to be subject to recoverability testing as discussed in paragraphs 6 and 7, to follow the guidance in SSAP No. 40, paragraph 11.

41. The modifications to FAS 144 were made in order to maintain consistency with current statutory accounting principles and the Statement of Concepts:

d. Paragraphs 22 through 24 which discuss fair value, are rejected. The definition of fair value is in *SSAP No. 100—Fair Value Measurements*. ~~the glossary to the Statement of Statutory Accounting Principles. In addition, his statement allows a modification to use for determining the fair value of properties occupied by company.~~

SSAP No. 91—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

7. Upon completion of a transfer of assets that satisfies the conditions to be accounted for as a sale (see paragraph 5), the transferor (seller) shall:

e. Initially measure such additional assets obtained and liabilities incurred in the sale at fair value (see ~~Glossary to the Statements of Statutory Accounting *Principles*~~*SSAP No. 100—Fair Value Measurements*), or if it is not practicable to estimate the fair value of an asset or a liability, apply alternative measures (paragraph 49); and

8. The transferee shall recognize all assets obtained and any liabilities incurred, and initially measure them at fair value~~ (in aggregate, presumptively the price paid)~~.

12. If distinct servicing rights exist in accordance with the above guidelines, the reporting entity shall recognize a servicing asset or liability. When the servicing fees to be received exceed the cost of servicing the transferred assets, a servicing asset is recognized and nonadmitted. When the cost of servicing the transferred assets is greater than the servicing fees to be received, a liability shall be recorded for the excess to recognize this obligation. A corresponding loss shall be recorded through the Summary of Operations in other income. Servicing assets and servicing liabilities shall be measured initially at fair value~~, presumptively the price paid~~. Servicing assets or liabilities shall be measured subsequently at fair value at each reporting date with fluctuations in fair value reported as unrealized gains and losses. Declines in fair value which are determined to be other than temporary shall be recorded as realized losses. shall be amortized into income in proportion to, and over the period of estimated servicing income

95. A reporting entity shall disclose the following:

f. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, for each major asset type (for example, mortgage loans):

i. Its accounting policies for initially measuring the interests that continue to be held by a transferor, if any, ~~including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) ~~used in determining their fair value. (Fair value shall be determined in accordance with *SSAP No. 100—Fair Value Measurements*) ~~(Glossary to the Statements of Statutory Accounting Principles)~~; and

g. If the entity has interests that continue to be held by a transferor in securitized financial assets at the date of the latest statement of financial position presented, for each major asset type (for example, mortgage loans):

i. Its accounting policies for subsequently measuring those interests that continue to be held by a transferor, including the methodology (~~whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques)~~ used in determining their fair value. (Fair value shall be determined in accordance with *SSAP No. 100—Fair Value Measurements* ~~(Glossary to the Statements of Statutory Accounting Principles~~);

Glossary: Derivative financial instrument - A derivative instrument (as defined in *SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*) that is a financial instrument (refer to *SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk~~,~~ and Financial Instruments with Concentrations of Credit ~~Risk and Disclosures about Fair Value of Financial Instruments~~*, paragraph 2).

SSAP No. 93—Accounting for Low Income Housing Tax Credit Property Investments

1. This statement establishes statutory accounting principles for investments in federal and certain state sponsored Low Income Housing Tax Credit (LIHTC) properties. State sponsored LIHTC programs that have the following characteristics are within the scope of and shall be accounted for in accordance with this statement:

c. Resale value of the investment is not based upon the ~~market value~~fair value of the underlying real estate.

d. ~~Market value~~Fair value of the investment is directly tied to the remaining stream of tax credits and deductible losses

5. Resale valuation of these investments is based on the present value of the future stream of tax credits and deductible losses, and not the ~~market value~~fair value of the underlying real estate.

20. The significance of an investment to the reporting entity's financial position and results of operations shall be considered in evaluating the extent of disclosures of the financial position and results of operations of an investment in a LIHTC. If in the aggregate the LIHTC investments exceed 10% of the total admitted assets of the reporting entity the following disclosures shall be made:

b. For partnerships, and limited liability companies for which a quoted ~~market price~~fair value is available, the aggregate value of each partnership, or limited liability company investment based on the quoted ~~market price~~fair value; and

SSAP No. 95—Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions

14. Fair value of a nonmonetary asset transferred to or from a reporting entity in a nonmonetary transaction should be determined in accordance with *SSAP No. 100—Fair Value Measurements*. ~~by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence.~~ If one of the parties in a nonmonetary transaction could have elected to receive cash instead of the nonmonetary asset,

the amount of cash that could have been received may be evidence of the fair value of the nonmonetary assets exchanged.

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88

31. The significance of an investment to the reporting entity's financial position and results of operations shall be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. The following disclosures shall be made for all investments in SCA entities that exceed 10% of the total admitted assets of the reporting entity:

a. Financial statements of a reporting entity shall disclose (i) the name of each SCA entity and percentage of ownership of common stock, (ii) the accounting policies of the reporting entity with respect to investments in SCA entities, and (iii) the difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets (i.e., goodwill, other nonadmitted assets, ~~market~~ fair value or discounted ~~market~~ fair value adjustments) and the accounting treatment of the difference;

b. For those SCA entities for which a quoted market price is available, the aggregate value of each SCA investment based on the quoted ~~market price~~ price and the difference, if any, between the amount at which the investment is carried and the quoted ~~market price~~ price shall be disclosed;

Glossary to the Statements of Statutory Accounting Principles

Fair Value ~~—~~ Fair value is defined in *SSAP No. 100—Fair Value Measurements*.~~The fair value of an asset (or liability) is the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units times market price.~~

~~If quoted market prices are not available, the estimate of fair value shall be based on the best information available. The estimate of fair value shall consider prices for similar assets and liabilities and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. Valuation techniques for measuring financial assets and liabilities and servicing assets and liabilities shall be consistent with the objective of measuring fair value. Those techniques shall incorporate assumptions that market participants would use in their estimates of values, future revenues, and future expenses, including assumptions about interest rates, default, prepayment, and volatility. In measuring financial liabilities and servicing liabilities at fair value by discounting estimated future cash flows, an objective is to use discount rates at which those liabilities could be settled in an arm's-length transaction.~~

~~Estimates of expected future cash flows, if used to estimate fair value, shall be the best estimate based on reasonable and supportable assumptions and projections. All available evidence shall be considered in developing estimates of expected future cash flows. The weight given to the evidence shall be commensurate with the extent to which the evidence can be verified objectively. If a range is estimated for either the amount or timing of possible cash flows, the likelihood of possible outcomes shall be considered in determining the best estimate of future cash flows.~~

~~Market Value - Market value is equivalent to fair value.~~

INT 99-17: EITF 97-12: Accounting for Increased Share Authorizations in an IRS Section 423 Employee Stock Purchase Plan under APB Opinion No. 25.

2. The working group reached a consensus that EITF 97-12 should be adopted to require that additional shares granted in a stock purchase plan be classified as compensatory or noncompensatory at the grant date of the additional shares. If the discount at that date does not meet the ~~market~~ fair value discount criterion in paragraph 3(d) of SSAP No. 13, then the new grant would be treated as a compensatory award under SSAP No. 13, which would result in compensation cost.

INT 99-29: Classification of Step-up Preferred Stock

4. A strict reading of the perpetual preferred stock definition further complicates the issue in that step-ups do not have redemption features: thus, they meet the definition of perpetual preferred stock. The valuation of step-up preferred stock would not be consistent with the economic substance of the security if it were valued at ~~market~~fair value.

INT 01-14: EITF 00-16: Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation

1. *Topic No. D-83, Accounting for Payroll Taxes Associated with Stock Option Exercises* requires that payroll taxes incurred in connection with stock-based compensation be recognized as an expense, but it does not address the timing of that expense recognition. Costs incurred by companies for employer payroll taxes on employee stock-based compensation have become more significant for U.S. companies as a result of the increased use of options as a form of employee compensation and the rapid growth in the ~~market~~ fair value of underlying stocks in certain market sectors. Consequently, the predominant current practice of recognizing those costs when the event that triggers payment to the taxing authority occurs (for an option, that event is employee exercise), has been called into question.

INT 01-31: Assets Pledged as Collateral

6. The working group reached a consensus that if the collateral had not been pledged in the examples described above, it is assumed the underlying asset would be recorded as an admitted asset under SSAP No. 4 (e.g. they are readily marketable assets available to meet both current and future policyholder obligations). In addition, it is assumed that the asset would not be considered impaired under SSAP No. 5 due to a default,~~-~~ ~~market~~fair value decline, or other loss contingency.

INT 02-05: Accounting for Zero Coupon Convertible Bonds

3. A convertible bond really consists of a bond and an embedded derivative in the form of a warrant. Under GAAP, the holder accounts for the two components separately. The bond and warrants are fair valued at date of purchase. The bond is typically classified as available for sell (AFS) or held to maturity (HTM) and the scientific method of amortization is used on any premium or discount. This amortization of the premium or discount produces a market yield when combined with the coupon rate. In addition, the available for sale is ~~marked to market~~recorded at fair value with the unrealized gains and losses recorded as a component of equity in other comprehensive income. The warrant is fair valued at each reporting date and classified as trading with ~~the~~ adjustments to ~~market~~ fair value recorded through the income statement, as it is considered a derivative (no hedge).

4. For GAAP, assuming a purchase price was $900,000 at 1/1/x1 and the fair value of the warrants was $150,000 at 1/1/x1, the following entries would be recorded during the year:

At 1/1/X1:

Purchase Price		$900,000
Bond Fair Value		$750,000
Yield	8.87%	
Warrant Fair Value	$150,000	

At 12/31/X1:

Bond Fair Value		$780,000
Warrant Fair Value	$200,000	

Entries 1/1/X1:

Bonds-AFS	$750,000	
Warrants-Trading	$150,000	
Cash		($900,000)

Entries 12/31/X1:

Cash (coupon rate)	$50,000	
Bonds-AFS (amortization)	$16,554	
Investment income		($66,554)

Record discount accretion and cash from coupon rate

Bonds-AFS	13,446	
Warrants-Trading	50,000	
Unrealized gains-OCI		(13,446)
Realized gains		(50,000)

Mark AFS and Trading to ~~market~~fair value

INT 03-03: Admissibility of Investments Recorded Based on the Audited GAAP Equity of the Investee When a Qualified Opinion is Provided

2. Certain situations may exist in which a qualified opinion is provided due to a GAAP departure, while information is available to determine the appropriate balances under a GAAP basis of accounting. For example, a qualified opinion would be given if a cost sharing agreement requires the cost basis of accounting to be used to value investments in a limited partnership in which the reporting entity owned more than a 5% interest, as GAAP requires such investments to be recorded based upon the GAAP equity method. Since the notes to the financial statements disclose the ~~market~~ fair value of investments held by the limited partnership, information is readily available to allocate the unrealized appreciation on investments to determine what the appropriate GAAP equity balance would be. A qualified opinion could also result if the unrealized appreciation on investments is not allocated in accordance with a partnership agreement. Another example occurs when a qualified opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles.

INT 04-07: EITF 02-15: Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are Within the Scope of FASB Statement No. 84

3. The following is excerpted from EITF 02-15:

3. Statement 84 was issued to amend Opinion 26, to exclude from its scope convertible debt that is converted to equity securities of the debtor pursuant to conversion privileges different from those included in the terms of the debt at issuance, and the change in conversion privileges is effective for a limited period of time, involves additional consideration, and is made to induce conversion. That Statement applies only to conversions that both (a) occur pursuant to changed conversion privileges that are exercisable only for a limited period of time and (b) include the issuance of all of the equity securities issuable pursuant to conversion privileges included in the terms of the debt at issuance for each debt instrument that is converted. When convertible debt is converted to equity securities of the debtor pursuant to an inducement offer (described above), the debtor shall recognize an expense equal to the excess of the fair value of all securities and other consideration transferred in the transaction over the fair value of securities issuable pursuant to the original conversion terms.

4. A question has arisen as to whether Statement 84 applies to conversions of convertible debt when the "offer" for consideration in excess of the original conversion terms was made by the debt holder rather than the debtor. In certain circumstances, for example, a bondholder may be a third party that purchased the bonds in the open market (often at a significant discount from face value) and approached the debtor to increase the conversion terms of the notes. In many of those circumstances, the offer to induce conversion is not extended to all debt holders; rather, the conversion involves only the specific debt holder that approached the debtor. The following example is provided:

Company A issued publicly traded convertible bonds (the Bonds) during a prior period. Currently, the Bonds are trading at a price that is significantly less than the carrying value (possibly due to a decline in Company A's stock price or credit rating or both). The original conversion price of the Bonds is $50 (20 shares of common stock per bond), and Company A's common stock is currently trading at $25 per share. On an individual basis, bondholders approach Company A with an offer for Company A to purchase the Bonds by providing consideration in excess of the conversion terms. Assume that on the date of the exchange, each Bond has the following values:

Company A's carrying value of the Bonds	$1,000
Current fair ~~market~~ value of the Bonds	$ 750

A bondholder approaches Company A with the following two independent offers that are exercisable by Company A for a limited period of time:

1. Company A may purchase the Bonds in exchange for the Bonds' original conversion of 20 shares of Company A common stock ($500 fair ~~market~~ value) and $300 cash.

2. Company A may purchase the Bonds in exchange for 32 shares of Company A common stock ($800 fair ~~market~~ value).

INT 06-07: Definition of Phrase "Other Than Temporary"

2. The decision for determining when an investment is considered impaired is dictated by the applicable SSAP and the respective impairment indicators included in each of the SSAPs. If an impairment indicator is present, the determination of an impairment shall be assessed at the individual security or investment level as reported in the annual statement and supporting schedules. For those SSAPs that require the reporting entity to use the fair value to determine if an impairment has occurred, the determination of that value shall be consistent with how the term fair value is defined within ~~the Glossary of the Accounting Practices and Procedures~~

~~*Manual*~~*SSAP No. 100—Fair Value Measurements*. Once a reporting entity has determined that an impairment indicator is present, the reporting entity shall continue to evaluate whether the investment is impaired each subsequent reporting period until either (a) the investment experiences a recovery of the fair value up to (or beyond) its carrying value or (b) the investor recognizes an other-than-temporary impairment loss.

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STATEMENT OF STATUTORY ACCOUNTING PRINCIPLES NO. 62 R
PROPERTY AND CASUALTY REINSURANCE

Status

Type of Issue:	Common Area
Issued:	Finalized March 13, 2000; Substantively revised December 5, 2009
Effective Date:	January 1, 2001, Substantive revisions in paragraphs 31.e., 68-71 and 86 are effective January 1, 2010
Affects:	No other pronouncements
Affected by:	Paragraph 35 superseded by SSAP No. 75, Substantively revised in December 2009 (Detail of revisions are included within Issue Paper No. 137)
Interpreted by:	INT 01-33, INT 02-01, INT 02-06, INT 02-09, INT 02-22, INT 03-02

Property and Casualty Reinsurance

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for property and casualty reinsurance. A wide range of methods for structuring reinsurance arrangements can be employed depending on the requirements of individual companies. This statement deals with the more commonly employed methods.

SUMMARY CONCLUSION

General

2. Reinsurance is the assumption by an insurer of all or part of a risk undertaken originally by another insurer. The transaction whereby a reinsurer cedes all or part of the reinsurance it has assumed to another reinsurer is known as a retrocession.

3. Reinsurance has many beneficial purposes. Among them are that it enables an insurance entity to (a) expand its capacity, (b) share large risks with other insurers, (c) spread the risk of potential catastrophes and stabilize its underwriting results, (d) finance expanding volume by sharing the financial burden of reserves, (e) withdraw from a line or class of business, and (f) reduce its net liability to amounts appropriate to its financial resources.

4. Reinsurance agreements are generally classified as treaty or facultative. Treaty reinsurance refers to an arrangement involving a class or type of business written, while facultative reinsurance involves individual risks offered and accepted.

5. Reinsurance coverage can be pro rata (i.e., proportional reinsurance) where the reinsurer shares a pro rata portion of the losses and premium of the ceding entity or excess of loss (i.e., non-proportional) where the reinsurer, subject to a specified limit, indemnifies the ceding entity against the amount of loss in excess of a specified retention. Most reinsurance agreements fall into one of the following categories:

I. Treaty Reinsurance Contracts—Pro Rata:

A. Quota Share Reinsurance—The ceding entity is indemnified against a fixed percentage of loss on each risk covered in the agreement;

B. Surplus Share Reinsurance—The ceding entity establishes a retention or "line" on the risks to be covered and cedes a fraction or a multiple of that line on each policy subject to a specified maximum cession;

II. Treaty Reinsurance Contracts—Excess of Loss:

A. Excess Per Risk Reinsurance—The ceding entity is indemnified, subject to a specified limit, against the amount of loss in excess of a specified retention with respect to each risk covered by a treaty;

B. Aggregate Excess of Loss Reinsurance—The ceding entity is indemnified against the amount by which the ceding entity's net retained losses incurred during a specific period exceed either a predetermined dollar amount or a percentage of the entity's subject premiums for the specific period subject to a specified limit;

III. Treaty Reinsurance Contracts—Catastrophe: The ceding entity is indemnified, subject to a specified limit, against the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events;

IV. Facultative Reinsurance Contracts—Pro Rata: The ceding entity is indemnified for a specified percentage of losses and loss expenses arising under a specific insurance policy in exchange for that percentage of the policy's premium;

V. Facultative Reinsurance Contracts—Excess of Loss: The ceding entity is indemnified, subject to a specified limit, for losses in excess of its retention with respect to a particular risk.

Characteristics of Reinsurance Agreements

6. Common contract provisions that may affect accounting practices include:

a. Reporting responsibility of the ceding entity—Details required and time schedules shall be established;

b. Payment terms—Time schedules, currencies intended, and the rights of the parties to withhold funds shall be established;

c. Payment of premium taxes—Customarily the responsibility of the ceding entity, a recital of nonliability of the reinsurer may be found;

d. Termination—May be on a cut-off or run-off basis. A cut-off provision stipulates that the reinsurer shall not be liable for loss as a result of occurrences taking place after the date of termination. A run-off provision stipulates that the reinsurer shall remain liable for loss under reinsured policies in force at the date of termination as a result of occurrences taking place after the date of termination until such time as the policies expire or are canceled; and

e. Insolvency clause—Provides for the survival of the reinsurer's obligations in the event of insolvency of the ceding entity, without diminution because of the insolvency.

7. Reinsurance contracts shall not permit entry of an order of rehabilitation or liquidation to constitute an anticipatory breach by the reporting entity, nor grounds for retroactive revocation or retroactive cancellation of any contracts of the reporting entity.

Required Terms for Reinsurance Agreements

8. In addition to credit for reinsurance requirements applicable to reinsurance transactions generally, no credit or deduction from liabilities shall be allowed by the ceding entity for reinsurance recoverable where the agreement was entered into after the effective date of these requirements (see paragraphs ~~86~~ 90 and ~~87~~91) unless each of the following conditions is satisfied:

a. The agreement must contain an acceptable insolvency clause;

b. Recoveries due the ceding entity must be available without delay for payment of losses and claim obligations incurred under the agreement, in a manner consistent with orderly payment of incurred policy obligations by the ceding entity;

c. The agreement shall constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly, from the reinsurer to the ceding entity or from the ceding entity to the reinsurer;

d. The agreement must provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period.

The report of premiums and losses shall set forth the ceding entity's total loss and loss expense reserves on the policy obligations subject to the agreement, so that the respective obligations of the ceding entity and reinsurer will be recorded and reported on a basis consistent with this statement; and

e. With respect to retroactive reinsurance agreements, the following additional conditions apply:

i. The consideration to be paid by the ceding entity for the retroactive reinsurance must be a sum certain stated in the agreement;

ii. Direct or indirect compensation to the ceding entity or reinsurer is prohibited;

iii. Any provision for subsequent adjustment on the basis of actual experience in regard to policy obligations transferred, or on the basis of any other formula, is prohibited in connection with a retroactive reinsurance transaction, except that provision may be made for the ceding entity's participation in the reinsurer's ultimate profit, if any, under the agreement;

iv. A retroactive reinsurance agreement shall not be canceled or rescinded without the approval of the commissioner of the domiciliary state of the ceding entity.

Reinsurance Agreements with Multiple Cedents

9. Reinsurance agreements with multiple cedents require allocation agreements. The allocation agreement can be part of the reinsurance agreement or a separate agreement. If the agreement has multiple cedents:

a. The allocation must be in writing and

b. The terms of the allocation agreement must be fair and equitable.

Reinsurance Contracts Must Include Transfer of Risk

10. The essential ingredient of a reinsurance contract is the transfer of risk. The essential element of every true reinsurance agreement is the undertaking by the reinsurer to indemnify the ceding entity, i.e., reinsured entity, not only in form but in fact, against loss or liability by reason of the original insurance. Unless the agreement contains this essential element of risk transfer, no credit shall be recorded.

11. Insurance risk involves uncertainties about both (a) the ultimate amount of net cash flows from premiums, commissions, claims, and claims settlement expenses (underwriting risk) and (b) the timing of the receipt and payment of those cash flows (timing risk). Actual or imputed investment returns are not an element of insurance risk. Insurance risk is fortuitous—the possibility of adverse events occurring is outside the control of the insured.

12. Determining whether an agreement with a reinsurer provides indemnification against loss or liability (transfer of risk) relating to insurance risk requires a complete understanding of that contract and other contracts or agreements between the ceding entity and related reinsurers. A complete understanding includes an evaluation of all contractual features that (a) limit the amount of insurance risk to which the reinsurer is subject (e.g., experience refunds, cancellation provisions, adjustable features, or additions of profitable lines of business to the reinsurance contract) or (b) delay the timely reimbursement of claims by the reinsurer (e.g., payment schedules or accumulating retentions from multiple years).

13. Indemnification of the ceding entity against loss or liability relating to insurance risk in reinsurance requires both of the following:

a. The reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance agreements; and

b. It is reasonably possible that the reinsurer may realize a significant loss from the transaction.

14. A reinsurer shall not have assumed significant insurance risk under the reinsured contracts if the probability of a significant variation in either the amount or timing of payments by the reinsurer is remote. Implicit in this condition is the requirement that both the amount and timing of the reinsurer's payments depend on and directly vary with the amount and timing of claims settled by the ceding entity. Contractual provisions that delay timely reimbursement to the ceding entity prevent this condition from being met.

15. The ceding entity's evaluation of whether it is reasonably possible for a reinsurer to realize a significant loss from the transaction shall be based on the present value of all cash flows between the ceding and assuming companies under reasonably possible outcomes, without regard to how the individual cash flows are described or characterized. An outcome is reasonably possible if its probability is more than remote. The same interest rate shall be used to compute the present value of cash flows for each reasonably possible outcome tested. A constant interest rate shall be used in determining those present values because the possibility of investment income varying from expectations is not an element of insurance risk. Judgment is required to identify a reasonable and appropriate interest rate.

16. Significance of loss shall be evaluated by comparing the present value of all cash flows, determined as described in paragraph 15, with the present value of the amounts paid or deemed to have been paid to the reinsurer. If, based on this comparison, the reinsurer is not exposed to the reasonable possibility of significant loss, the ceding entity shall be considered indemnified against loss or liability relating to insurance risk only if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance agreements has been assumed by the reinsurer. In this narrow circumstance, the reinsurer's economic position is virtually equivalent to having written the insurance contract directly. This condition is met only if insignificant insurance risk is retained by the ceding entity on the retained portions of the underlying insurance contracts, so that the reinsurer's exposure to loss is essentially the same as the reporting entity's.

17. Payment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Therefore, any feature that may affect the timing of the reinsurer's reimbursement to the ceding entity shall be closely scrutinized.

Accounting for Reinsurance

18. Reinsurance recoverables shall be recognized in a manner consistent with the liabilities (including estimated amounts for claims incurred but not reported) relating to the underlying reinsured contracts. Assumptions used in estimating reinsurance recoverables shall be consistent with those used in estimating the related liabilities. Certain assets and liabilities are created by entities when they engage in reinsurance contracts. Reinsurance assets meet the definition of assets as defined by *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted to the extent they conform to the requirements of this statement.

19. Accounting for members of a reinsurance pool shall follow the accounting for the pool member which issued the underlying policy. Specific accounting rules for underwriting pools and associations are addressed in SSAP No. 63—Underwriting Pools and Associations Including Intercompany Pools.

20. Reinsurance recoverable on loss payments is an admitted asset. Notwithstanding the fact that reinsurance recoverables on paid losses may meet the criteria for offsetting under the provisions of SSAP No. 64—Offsetting and Netting of Assets and Liabilities (SSAP No. 64), reinsurance recoverables on paid losses shall be reported as an asset without any available offset. Unauthorized reinsurance is included in this asset and reflected separately as a liability to the extent required. Penalty for overdue authorized reinsurance shall be reflected as a liability.

21. Funds held or deposited with reinsured companies, whether premiums withheld as security for unearned premium and outstanding loss reserves or advances for loss payments, are admitted assets provided they do not exceed the liabilities they secure and provided the reinsured is solvent. Those funds which are in excess of the liabilities, and any funds held by an insolvent reinsured shall be nonadmitted.

22. Prospective reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under contracts subject to the reinsurance. Retroactive reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. A reinsurance agreement may include both prospective and retroactive reinsurance provisions.

23. The distinction between prospective and retroactive reinsurance agreements is based on whether the agreement reinsures future or past insured events covered by the underlying insurance policies. For example, in occurrence-based insurance, the insured event is the occurrence of a loss covered by the insurance contract. In claims-made insurance, the insured event is the reporting to the insurer, within the period specified by the policy, of a claim for a loss covered by the insurance agreement. A claims-made reinsurance contract that reinsures claims asserted to the reinsurer in a future period as a result of insured events that occurred prior to entering into the reinsurance agreement is a retroactive agreement. (However, a reinsurance agreement that reinsures claims reported to an insurer that are covered under currently effective claims-made insurance policies is a prospective reinsurance agreement.)

24. It is not uncommon for a reinsurance arrangement to be initiated before the beginning of a policy period but not finalized until after the policy period begins. Whether there was agreement in principle at the beginning of the policy period and, therefore, the agreement is substantively prospective shall be determined based on the facts and circumstances. However, except as respects business assumed by a U.S. reinsurer from ceding companies domiciled outside the U.S. and not affiliated with such reinsurer, or business assumed by a U.S. reinsurer where either the lead reinsurer or a majority of the capacity on the agreement is domiciled outside the U.S. and is not affiliated with such reinsurer, if an agreement entered into, renewed or amended on or after January 1, 1994 has not been finalized, reduced to a written form and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance arrangement, then the arrangement is presumed to be retroactive and shall be accounted for as a retroactive reinsurance agreement. This presumption shall not apply to: (a) facultative reinsurance contracts, nor to (b) reinsurance agreements with more than one reinsurer which are signed by the lead reinsurer (i.e., the reinsurer setting the terms of the agreement for the reinsurers) within nine months after the commencement of the policy period covered by the reinsurance agreement, nor to (c) reinsurance agreements with more than one reinsurer (whether signed by the lead reinsurer or not) which were entered into, renewed or amended on or before December 31, 1996, (and which were not renewed or amended after that date) if reinsurers representing more than 50% of the capacity on the agreement have signed cover notes, placement slips or similar documents describing the essential terms of coverage and exclusions within nine months after the commencement of the policy period covered by the reinsurance

arrangement. Also exempt from this presumption are reinsurance agreements where one of the parties is in conservation, rehabilitation, receivership or liquidation proceedings.

25. Prospective and retroactive provisions included within a single agreement shall be accounted for separately. If separate accounting for prospective and retroactive provisions included within a single agreement is impracticable, the agreement shall be accounted for as a retroactive agreement provided the conditions for reinsurance accounting are met.

Accounting for Prospective Reinsurance Agreements

26. Amounts paid for prospective reinsurance that meet the conditions for reinsurance accounting shall be reported as a reduction of written and earned premiums by the ceding entity and shall be earned over the remaining contract period in proportion to the amount of reinsurance protection provided or, if applicable, until the reinsurer’s maximum liability under the agreement has been exhausted. If the amounts paid are subject to adjustment and can be reasonably estimated, the basis for amortization shall be the estimated ultimate amount to be paid. Reinstatement premium, if any, shall be earned over the period from the reinstatement of the limit to the expiration of the agreement.

27. Changes in amounts of estimated reinsurance recoverables shall be recognized as a reduction of gross losses and loss expenses incurred in the current period statement of income. Reinsurance recoverables on paid losses shall be reported as an asset, reinsurance recoverables on loss and loss adjustment expense payments, in the balance sheet. Reinsurance recoverables on unpaid case-basis and incurred but not reported losses and loss adjustment expenses shall be netted against the liability for gross losses and loss adjustment expenses.

Accounting for Retroactive Reinsurance Agreements

28. Certain reinsurance agreements which transfer both components of insurance risk cover liabilities which occurred prior to the effective date of the agreement. Due to potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results, special accounting treatment for these agreements is warranted.

29. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;

b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;

c. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;

d. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;

e. The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;

f. The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity under such agreement, or adjusted as provided in subparagraph 29.j.;

g. For each agreement, the reduction in the special surplus from retroactive reinsurance account shall be limited to the lesser of (i) the actual amount recovered in excess of consideration paid or (ii) the initial surplus gain resulting from the respective retroactive reinsurance agreement. Any remaining balance in the special surplus from retroactive reinsurance account derived from any such agreement shall be returned to unassigned funds (surplus) upon elimination of all policy obligations subject to the retroactive reinsurance agreement;

h. The ceding entity shall report the initial gain arising from a retroactive reinsurance transaction (i.e., the difference between the consideration paid to the reinsurer and the total reserves ceded to the reinsurer) as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Gain and included under Other Income;

i. The assuming entity shall report the initial loss arising from a retroactive reinsurance transaction, as defined in the preceding subparagraph 29.g., as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Loss and included under Other Income;

j. Any subsequent increase or reduction in the total reserves ceded under a retroactive reinsurance agreement shall be reported in the manner described in the preceding subparagraphs 29.h. and 29.i., in order to recognize the gain or loss arising from such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves under all retroactive reinsurance agreements in-force as of the date of the financial statement. Special surplus arising from a retroactive reinsurance transaction shall be considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when cash recoveries from the assuming entity exceed the consideration paid by the ceding entity as respects such retroactive reinsurance transaction; and

k. The consideration paid for a retroactive reinsurance agreement shall be reported as a decrease in ledger assets by the ceding entity and as an increase in ledger assets by the assuming entity.

(For an illustration of ceding entity accounting entries see Question 33 in Exhibit A.)

30. Portfolio reinsurance is the transfer of an insurer's entire liability for in force policies or outstanding losses, or both, of a segment of the insurer's business. Loss portfolio transactions are to be accounted for as retroactive reinsurance.

31. The accounting principles for retroactive reinsurance agreements in paragraph 29 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):

a. Structured settlement annuities for individual claims purchased to implement settlements of policy obligations;

b. Novations, (i.e., (i) transactions in which the original direct insurer's obligations are completely extinguished, resulting in no further exposure to loss arising on the business novated or (ii) transactions in which the original assuming entity's obligations are completely extinguished) resulting in no further exposure to loss arising on the business novated, provided that (1) the parties to the transaction are not affiliates (or if affiliates, that the transaction has the prior approval of the domiciliary regulators of the parties) and (2) the accounting for the original reinsurance agreement will not be altered from retroactive to prospective;

c. The termination of, or reduction in participation in, reinsurance treaties entered into in the ordinary course of business; ~~or~~

d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction~~.~~; or

e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements described in paragraphs 68-71.

32. Retroactive reinsurance agreements resulting in surplus gain to the ceding entity (with or without risk transfer) entered into between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) shall be reported as follows:

a. The consideration paid by the ceding entity shall be recorded as a deposit and reported as a nonadmitted asset; and

b. No deduction shall be made from loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits.

33. The accounting and reporting provisions applicable to retroactive reinsurance apply to all transactions transferring liabilities in connection with a court-ordered rehabilitation, liquidation, or receivership. The requirement to include stipulated contract provisions in the reinsurance agreements shall not apply to these transactions, with written approval of the ceding entity's domiciliary commissioner.

34. Novations meeting the requirements of subparagraph 31.b. shall be accounted for as prospective reinsurance agreements. The original direct insurer, or the original assuming insurer, shall report amounts paid as a reduction of written and earned premiums, and unearned premiums to the extent that premiums have not been earned. Novated balances (e.g., loss and loss adjustment expense reserves) shall be written off through the accounts, exhibits, and schedules in which they were originally recorded. The assuming insurer shall report amounts received as written and earned premiums, and obligations assumed as incurred losses in the statement of income.

Deposit Accounting

35. To the extent that a reinsurance agreement does not, despite its form, transfer both components of insurance risk, all or part of the agreement shall be accounted for and reported as deposits in the following manner:

a. At the outset of the reinsurance agreement the net consideration paid by the ceding entity (premiums less commissions or other allowances) shall be recorded as a deposit by the ceding entity and as a liability by the assuming entity. The deposit shall be reported as an admitted asset by the ceding entity if (i) the assuming entity is licensed, accredited or otherwise qualified in the ceding entity's state of domicile as described in Appendix A-785 or (ii) there are funds held by or on behalf of the ceding entity as described in Appendix A-785;

b. Throughout the life of the agreement, receipts and disbursements shall be recorded through the deposit/liability accounts;

c. When individual case reserves are the basis for the deposit and the assuming entity pays in excess of the amount transferred by the ceding entity, the amount paid in excess of the deposit received shall be recognized as a loss by the assuming entity and as a gain by the ceding entity as Other Income in the statement of income;

d. When the agreement is completed, or when there is a loss payment in excess of the deposit, any difference between consideration and recoveries shall be recorded in the Other Income or Loss account as a loss to the reinsurer and as a gain in the Other Income or Loss account by the reinsured;

e. With regard to bulk reserves,(i.e., IBNR) it shall be assumed that any cash transactions for the settlement of losses will reduce the asset/liability accounts by the amount of the cash transferred. When the remaining losses are revalued upward, an increase in the liability shall be recorded as a loss recognized by the assuming entity. Conversely, the ceding entity shall increase its deposit (asset) and outstanding loss liability;

f. No deduction shall be made from the loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits; and

g. The assuming entity shall record net consideration to be returned to the ceding entity as liabilities.

Assumed Reinsurance

36. Reinsurance premiums receivable at the end of the accounting period are combined with direct business receivables and reported as agents' balances or uncollected premiums. Where the ceding entity withholds premium funds pursuant to the terms of the reinsurance agreement, such assets shall be shown by the assuming entity as funds held by or deposited with reinsured companies. Reporting entities shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income.

37. If the assuming entity receives reinsurance premium prior to the effective date of the reinsurance contract, consistent with *SSAP No. 53—Property Casualty Contracts-Premiums*, paragraph 14, advance premiums shall be reported as a liability in the statutory financial statement and not considered income until the effective date of the coverage. Such amounts are not included in written premium or the unearned premium reserve. If the assuming entity receives reinsurance premium after the effective date of the reinsurance contract but prior to the due date, the amount received shall be reported as a reduction of the asset for deferred but not yet due (earned but unbilled premiums).

38. Reinsurance premiums more than 90 days overdue shall be nonadmitted except (a) to the extent the assuming entity maintains unearned premium and loss reserves as to the ceding entity, under principles of offset accounting as discussed in SSAP No. 64, or (b) where the ceding entity is licensed and in good standing in assuming entity's state of domicile. Reinsurance premiums are due pursuant to the original contract terms (as the agreement stood on the date of execution). In the absence of a specific

contract date, reinsurance premiums will be deemed due thirty (30) days after the date on which (i) notice or demand of premium due is provided to the ceding entity or (ii) the assuming entity books the premium (see SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers).

39. A lag will develop between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and entry on the books of the assuming entity. Assuming companies shall estimate unreported premiums and related costs to the extent necessary to prevent material distortions in the loss development contained in the assuming entity's annual statement schedules where calendar year premiums are compared to accident year losses.

40. Proportional reinsurance (i.e., first dollar pro rata reinsurance) premiums shall be allocated to the appropriate annual statement lines of business in the Underwriting and Investment exhibits. Non-proportional assumed reinsurance premiums shall be classified as reinsurance under the appropriate subcategories.

41. Assumed retroactive reinsurance premiums shall be excluded from all schedules and exhibits as addressed in subparagraph 29.k.

42. Amounts payable by reinsurers on losses shall be classified as unpaid losses. Assumed reinsurance payable on paid losses shall be classified as a separate liability item on the balance sheet. IBNR losses on assumed reinsurance business shall be netted with ceded losses on the balance sheet and listed separately by annual statement line of business in the Underwriting and Investment exhibits.

Ceded Reinsurance

43. Ceded reinsurance premiums payable (net of ceding commission) shall be classified as a liability. Consistent with SSAP No. 64, ceded reinsurance premiums payable may be deducted from amounts due from the reinsurer, such as amounts due on assumed reinsurance, when a legal right of offset exists.

44. With regard to reinsurance premium paid prior to the effective date of the contract, the ceding entity shall reflect the prepaid item as a write-in admitted asset and it should not be recognized in the income statement until the effective date of the coverage. Such amounts are not included in ceded written premiums or ceded unearned premium but should be subject to impairment analysis. With regard to reinsurance premium paid by ceding entity after the reinsurance contract is in effect but prior to the due date, the ceding entity shall treat this item as a reduction to the liability for ceded reinsurance premiums payable. That liability reflects not only premiums unpaid but also amounts booked but deferred and not yet due.

45. Amounts withheld by the ceding entity that would otherwise be payable under the reinsurance agreement shall be reported as funds held by entity under reinsurance treaties. Reporting entities shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous income.

46. Ceded reinsurance transactions shall be classified in the annual statement line of business which relates to the direct or assumed transactions creating the cession or retrocession.

47. Ceded retroactive reinsurance premiums shall be excluded from all schedules and exhibits as addressed in subparagraph 29.k.

Adjustable Features/Retrospective Rating

48. Reinsurance treaties may provide for adjustment of commission, premium, or amount of coverage, based on loss experience. The accounting for common examples is outlined in the following paragraphs:

Commission Adjustments

49. An accrual shall be maintained for the following adjustable features based upon the experience recorded for the accounting period:

a. Contingent or Straight Profit—The reinsurer returns to the ceding entity a stipulated percentage of the profit produced by the business assumed from the ceding entity. Profit may be calculated for any specified period of time, but the calculation is often based on an average over a period of years; and

b. Sliding Scale—A provisional rate of commission is paid over the course of the agreement, with a final adjustment based on the experience of the business ceded under the agreement.

Premium Adjustments

50. If the reinsurance agreement incorporates an obligation on the part of the ceding entity to pay additional premium to the assuming entity based upon loss experience under the agreement, a liability in the amount of such additional premium shall be recognized by the ceding entity during the accounting period in which the loss event(s) giving rise to the obligation to pay such additional premium occur(s). The assuming entity shall recognize an asset in a consistent manner. If the reinsurance agreement incorporates an obligation on the part of the assuming entity to refund to the ceding entity any portion of the consideration received by the assuming entity based upon loss experience under the agreement, an asset in the amount of any such refund shall be recognized by the ceding entity during the accounting period in which the loss event(s) giving rise to the obligation to make such refund occur(s). The initial provisional or deposit premium is recalculated retrospectively, based on loss experience under the agreement during a specified period of time; the calculation is often based on an average over a period of years. The assuming entity shall recognize a liability in a consistent manner.

Adjustments in the Amount of Coverage

51. The amount of coverage available for future periods is adjusted, upward or downward, based on loss experience under the agreement during a specified period of time. If the reinsurance agreement incorporates a provision under which the reinsurance coverage afforded to the ceding entity may be increased or reduced based upon loss experience under the agreement, an asset or a liability shall be recognized by the ceding entity in an amount equal to that percentage of the consideration received by the assuming entity which the increase or reduction in coverage represents of the amount of coverage originally afforded. The asset or liability shall be recognized during the accounting period in which the loss event(s) (or absence thereof) giving rise to the increase or decrease in reinsurance coverage occur(s), and shall be amortized over all accounting periods for which the increased or reduced coverage is applicable. The term "consideration" shall mean, for this purpose, the annualized deposit premium for the period used as the basis for calculating the adjustment in the amount of coverage to be afforded thereafter under the agreement.

Impairment

52. Include as a nonadmitted asset, amounts accrued for premium adjustments on retrospectively rated reinsurance agreements with respect to which all uncollected balances due from the ceding company have been classified as nonadmitted.

Commissions

53. Commissions payable on reinsurance assumed business shall be included as an offset to Agents' Balances or Uncollected Premiums. Commissions receivable on reinsurance ceded business shall be included as an offset to Ceded Reinsurance Balances Payable.

54. If the ceding commission paid under a reinsurance agreement exceeds the anticipated acquisition cost of the business ceded, the ceding entity shall establish a liability, equal to the difference between the anticipated acquisition cost and the reinsurance commissions received, to be amortized pro rata over the effective period of the reinsurance agreement in proportion to the amount of coverage provided under the reinsurance contract.

Provision for Reinsurance

55. The NAIC Annual Statement Instructions for Property and Casualty Companies for Schedule F—Provision for Overdue Reinsurance, provide for a minimum reserve for uncollectible reinsurance with an additional reserve required if an entity's experience indicates that a higher amount should be provided. The minimum reserve Provision for Reinsurance is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned funds (surplus). Any reserve over the minimum amount shall be recorded on the statement of income by reversing the accounts previously utilized to establish the reinsurance recoverable.

56. The provision for reinsurance is calculated separately for unauthorized and authorized companies. An authorized reinsurer is licensed, accredited or approved by the ceding entity's state of domicile; an unauthorized reinsurer is not so licensed, accredited or approved.

Disputed Items

57. Occasionally a reinsurer will question whether an individual claim is covered under a reinsurance agreement or may even attempt to nullify an entire agreement. A ceding entity, depending upon the individual facts, may or may not choose to continue to take credit for such disputed balances. A ceding entity shall take no credit whatsoever for reinsurance recoverables in dispute with an affiliate.

58. Items in dispute are those claims with respect to which the ceding entity has received formal written communication from the reinsurer denying the validity of coverage.

Uncollectible Reinsurance

59. Uncollectible reinsurance balances shall be written off through the accounts, exhibits, and schedules in which they were originally recorded.

Commutations

60. A commutation of a reinsurance agreement, or any portion thereof, is a transaction which results in the complete and final settlement and discharge of all, or the commuted portion thereof, present and future obligations between the parties arising out of the reinsurance agreement.

61. In commutation agreements, an agreed upon amount determined by the parties is paid by the reinsurer to the ceding entity. The ceding entity immediately eliminates the reinsurance recoverable recorded against the ultimate loss reserve and records the cash received as a negative paid loss. Any net gain or loss shall be reported in underwriting income in the statement of income.

62. The reinsurer eliminates a loss reserve carried at ultimate cost for a cash payout calculated at present value. Any net gain or loss shall be reported in underwriting income in the statement of income.

63. Commuted balances shall be written off through the accounts, exhibits, and schedules in which they were originally recorded.

National Flood Insurance Program

64. The National Flood Insurance Program was created by the Federal Emergency Management Agency (FEMA) and is designed to involve private insurers in a write-your-own (WYO) flood insurance program financially backed by FEMA at no risk to the insurer. To become a participating WYO entity, the entity signs a document with the Federal Insurance Administration (FIA) of the Federal Emergency Management Agency known as the Financial Assistance/Subsidy Arrangement.

65. Premium rates are set by FEMA. The WYO participating companies write the flood insurance coverage qualifying for the program on their own policies, perform their own underwriting, premium collections, claim payments, administration, and premium tax payments for policies written under the program.

66. Monthly accountings are made to FIA and participants draw upon FEMA letters of credit for deficiencies of losses, loss expenses, and administrative expenses in excess of premiums, subject to certain percentage limitations on expenses.

67. Balances due from or to FEMA shall be reported as ceded reinsurance balances receivable or payable.

Accounting for the Transfer of Property and Casualty Run-off Agreements

68. Property and casualty run-off agreements are reinsurance or retrocession agreements that are intended to transfer essentially all of the risks and benefits of a specific line of business or market segment that is no longer actively marketed by the transferring insurer or reinsurer. A property and casualty run-off agreement is not a novation as the transferring insurer or reinsurer remains primarily liable to the policyholder or ceding entity ~~(in the case of a retrocession)~~ under the original contracts of insurance or reinsurance. Reinsurance agreements between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) are not eligible for the exception for property and casualty run-off agreements in subparagraph 31.e. of SSAP No. 62.

Criteria

69. The accounting treatment for property and casualty run-off agreements must be approved by the domiciliary regulators of the transferring entity (either the original direct insurer in the case of a reinsurance agreement or the original assuming reinsurer in the case of a retrocession agreement) and the assuming entity. If the transferring entity and assuming entity are domiciled in the same state, then the regulator of the state where the majority of the transferred liabilities is located shall be asked to approve the accounting treatment. In determining whether to approve an agreement for this accounting treatment, the regulators shall require the following:

a. Assuming Entity Properly Licensed – The entity assuming the run-off agreement must have the appropriate authority or license to write the business being assumed.

b. Limits and Coverages – the reinsurance or retrocession agreement shall provide the same limits and coverages that were afforded in the original insurance or reinsurance agreement.

c. Non-recourse – The reinsurance or retrocession agreement shall not contain any adjustable features or profit share or retrospective rating, and there shall be no recourse (other than normal representations and warranties that would be associated with a purchase and sale agreement) directly or indirectly against the transferring entity.

d. Risk Transfer – the reinsurance or retrocession agreement must meet the requirements of risk transfer as described in this statement.

e. Financial Strength of Reinsurer – the assuming reinsurer shall have a financial strength rating from at least two independent rating agencies (from NAIC acceptable rating agencies) which is equal to or greater than the current ratings of the transferring entity. The lowest financial strength rating received from an NAIC acceptable rating organization rating agency will be used to compare the financial strength ratings of the transferring and assuming entities.

f. Assessments – the assuming reinsurer or retrocessionaire (if required in the original reinsurance contract) shall be financially responsible for any and all assessments, including guaranty fund assessments, that are assessed against the transferring entity related to the insurance business being assumed.

g. Applicable Only to "Run-off" Business – the reinsurance or retrocession agreement shall only cover liabilities relating to a line(s) of business or specific market segments no longer actively marketed by the transferring entity.

h. Non-cancelable Reinsurance – the reinsurance or retrocession agreement shall provide that the reinsurance or retrocessional coverage provided by the proposed agreement cannot be cancelable by either party for any reason. (However, this provision will not override standard contracts law and principles and will not prevent any remedies, including rescission or termination that might be available for breach, misrepresentation, etc.)

Statutory Schedules and Exhibits

70. At the inception of the transaction, the transferring entity shall record the consideration paid to the assuming entity as a paid loss. If the consideration paid by the transferring entity is less than the loss reserves transferred, the difference shall be recorded by the ceding entity as a decrease in losses incurred. The assuming entity shall record the consideration received as a negative paid loss. In addition, the transferring entity shall record an increase to ceded reinsurance recoverable for the amount of the transferred reserve. Journal entries illustrating these transactions, including situations in which the transaction includes an unearned premium reserve, are included in Exhibit B of this Statement.

71. The assuming entity will report the business in the same line of business as reported by the original insurer or reinsurer. The assuming entity will report the business at the same level of detail using the appropriate statutory schedules and exhibits.

Disclosures

~~68.~~72. Unsecured Reinsurance Recoverables:

a. If the entity has with any individual reinsurers, authorized or unauthorized, an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, that exceeds 3% of the entity's policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer; and

b. If the individual reinsurer is part of a group, list the individual reinsurers, each of its related group members having reinsurance with the reporting entity, and the total unsecured aggregate recoverables for the entire group.

~~69.~~73. Reinsurance Recoverables in Dispute—Reinsurance recoverable on paid and unpaid (including IBNR) losses in dispute by reason of notification, arbitration or litigation shall be identified if the amounts in dispute from any entity (and/or affiliate) exceed 5% of the ceding entity's policyholders surplus or if the aggregate of all disputed items exceeds 10% of the ceding entity's policyholders surplus. Notification means a formal written communication from a reinsurer denying the validity of coverage.

~~70.~~74. Uncollectible Reinsurance—Describe uncollectible reinsurance written off during the year reported in the following annual statement classifications, including the name(s) of the reinsurer(s):

a. Losses incurred;

b. Loss adjustment expenses incurred;

c. Premiums earned; and

d. Other.

~~71.~~75. Commutation of Ceded Reinsurance—Describe commutation of ceded reinsurance during the year reported in the following annual statement classifications, including the name(s) of the reinsurer(s):

a. Losses incurred;

b. Loss adjustment expenses incurred;

c. Premiums earned; and

d. Other.

~~72.~~76. Retroactive Reinsurance—The table illustrated in the NAIC Annual Statement Instructions for Property and Casualty Companies under Retroactive Reinsurance in the Notes to Financial Statements section shall be completed for all retroactive reinsurance agreements that transfer liabilities for losses that have already occurred and that will generate special surplus transactions. The insurer (assuming or ceding) shall assign a unique number to each retroactive reinsurance agreement and shall utilize this number for as long as the agreement exists. Transactions utilizing deposit accounting shall not be reported in this note.

~~73.~~77. Reinsurance Assumed and Ceded—The tables illustrated in the NAIC Annual Statement Instructions for Property and Casualty Companies under "Reinsurance Assumed and Ceded in the Notes to Financial Statements" section shall be completed as follows:

a. The financial statements shall disclose the maximum amount of return commission which would have been due reinsurers if all reinsurance were canceled with the return of the unearned premium reserve; and

b. The financial statements shall disclose the accrual of additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements as a result of existing contractual arrangements.

~~74.~~78. A specific interrogatory requires information on reinsurance of risk accompanied by an agreement to release the reinsurer from liability, in whole or in part, from any loss that may occur on the risk or portion thereof.

~~75.~~79. Disclosures for paragraphs ~~76-81~~ 80-85 represent annual statement interrogatories, which are required to be included with the annual audit report beginning with audit reports on financial statements as of and for the period ended December 31, 2006. The disclosures required within paragraphs ~~76-81~~80-85 shall be included in accompanying supplemental schedules of the annual audit report beginning in year-end 2006. These disclosures shall be limited to reinsurance contracts entered into, renewed or amended on or after January 1, 1994. This limitation applies to the annual audit report only and does not apply to the statutory annual statement interrogatories and the reinsurance summary supplemental filing.

~~76.~~80. Disclose if any risks are reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? If yes, indicate the number of reinsurance contracts containing such provisions and if the amount of reinsurance credit taken reflects the reduction in quota share coverage caused by any applicable limiting provision(s).

~~77.~~81. Disclose if the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop loss reinsurance coverage;

d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

~~78.~~82. Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty–five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in separate reinsurance contract.

~~79.~~83. If affirmative disclosure is required for paragraph ~~77~~ 81 or ~~78~~82, provide the following information:

a. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting paragraph ~~77~~ 81 or ~~78~~82;

b. A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purpose to be achieved; and

c. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

~~80.~~84. Except for transactions meeting the requirements of paragraph 31 of *SSAP No. 62—Property and Casualty Reinsurance*, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

~~81.~~85. If affirmative disclosure is required for paragraph ~~80~~84, explain in a supplemental filing why the contract(s) is treated differently for GAAP and SAP.

86. Disclosures for the Transfer of Property and Casualty Run-off Agreements

a. Disclose if the reporting entity has entered into any agreements which have been approved by their domiciliary regulator and have qualified pursuant to SSAP No. 62, subparagraph 31.e., Accounting for the Transfer of Property and Casualty Run-off Agreements.

b. If affirmative, provide a description of the agreement and the amount of consideration paid and liabilities transferred.

~~82.~~87. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~83.~~88. This statement adopts *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) with modification and FASB *Emerging Issues*

Task Force No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises with modification for the following:

a. Reinsurance recoverables on unpaid case-basis and incurred but not reported losses and loss adjustment expenses shall be reported as a contra-liability netted against the liability for gross losses and loss adjustment expenses;

b. Amounts paid for prospective reinsurance that meet the conditions for reinsurance accounting shall be reported as a reduction of unearned premiums;

c. The gain created by a retroactive reinsurance agreement because the amount paid to the reinsurer is less than the gross liabilities for losses and loss adjustment expenses ceded to the reinsurer is reported in the statement of income as a write-in gain in other income by the ceding entity and a write-in loss by the assuming entity. The gain created by a retroactive reinsurance agreement is restricted as a special surplus account until the actual retroactive reinsurance recovered is in excess of the consideration paid;

d. This statement requires that a liability be established through a provision reducing unassigned funds (surplus) for unsecured reinsurance recoverables from unauthorized reinsurers and for certain overdue balances due from authorized reinsurers;

e. Some reinsurance agreements contain adjustable features that provide for adjustment of commission, premium or amount of coverage, based on loss experience. This statement requires that the asset or liability arising from the adjustable feature be computed based on experience to date under the agreement, and the impact of early termination may only be considered at the time the agreement has actually been terminated;

f. Structured settlements are addressed in *SSAP No. 65—Property and Casualty Contracts*. Statutory accounting and FAS 113 are consistent in accounting for structured settlement annuities where the reporting entity is the owner and payee and where the claimant is the payee and the reporting entity has been released from its obligation. FAS 113 distinguishes structured settlement annuities where the claimant is the payee and a legally enforceable release from the reporting entity's liability is obtained from those where the claimant is the payee but the reporting entity has not been released from its obligation. GAAP requires the deferral of any gain resulting from the purchase of a structured settlement annuity where the reporting entity has not been released from its obligation; and

g. This statement requires that reinsurance recoverables on unpaid losses and loss adjustment expenses be presented as a contra-liability. Requirements for offsetting and netting are addressed in SSAP No. 64.

~~84.~~89. This statement rejects AICPA *Statement of Position No. 92-5, Accounting for Foreign Property and Liability Reinsurance*. This statement incorporates Appendix A-785 as applicable.

Effective Date and Transition

~~85.~~90. This statement shall apply to:

a. Reinsurance agreements entered into, renewed, or amended on or after January 1, 1994. An amendment is any revision or adjustment of contractual terms. The payment of premiums or reimbursement of losses recoverable under the agreement shall not constitute an amendment; and

b. Reinsurance agreements in force on January 1, 1995, which cover losses occurring or claims made on or after that date on policies reinsured under such agreements.

~~86.~~91. The guidance shall not apply to:

a. Reinsurance agreements which cover only losses occurring or claims made before January 1, 1994, and which were entered into before January 1, 1994, and were not subsequently renewed or amended; and

b. Reinsurance agreements that expired before and were not renewed or amended after January 1, 1995.

~~87.~~92. The guidance in paragraphs 48 through 52 shall be effective for all accounting periods beginning on or after January 1, 1996, and shall apply to reinsurance agreements entered into, renewed or amended on or after January 1, 1994.

93. ~~88~~This statement is effective for years beginning January 1, 2001. Changes resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Revisions to subparagraph 31.e., related paragraphs 68-71, and new disclosures in paragraph 86 documented in *Issue Paper No. 137—Transfer of Property and Casualty Reinsurance Run-off Agreements* are effective for contracts entered on or after January 1, 2010.

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*

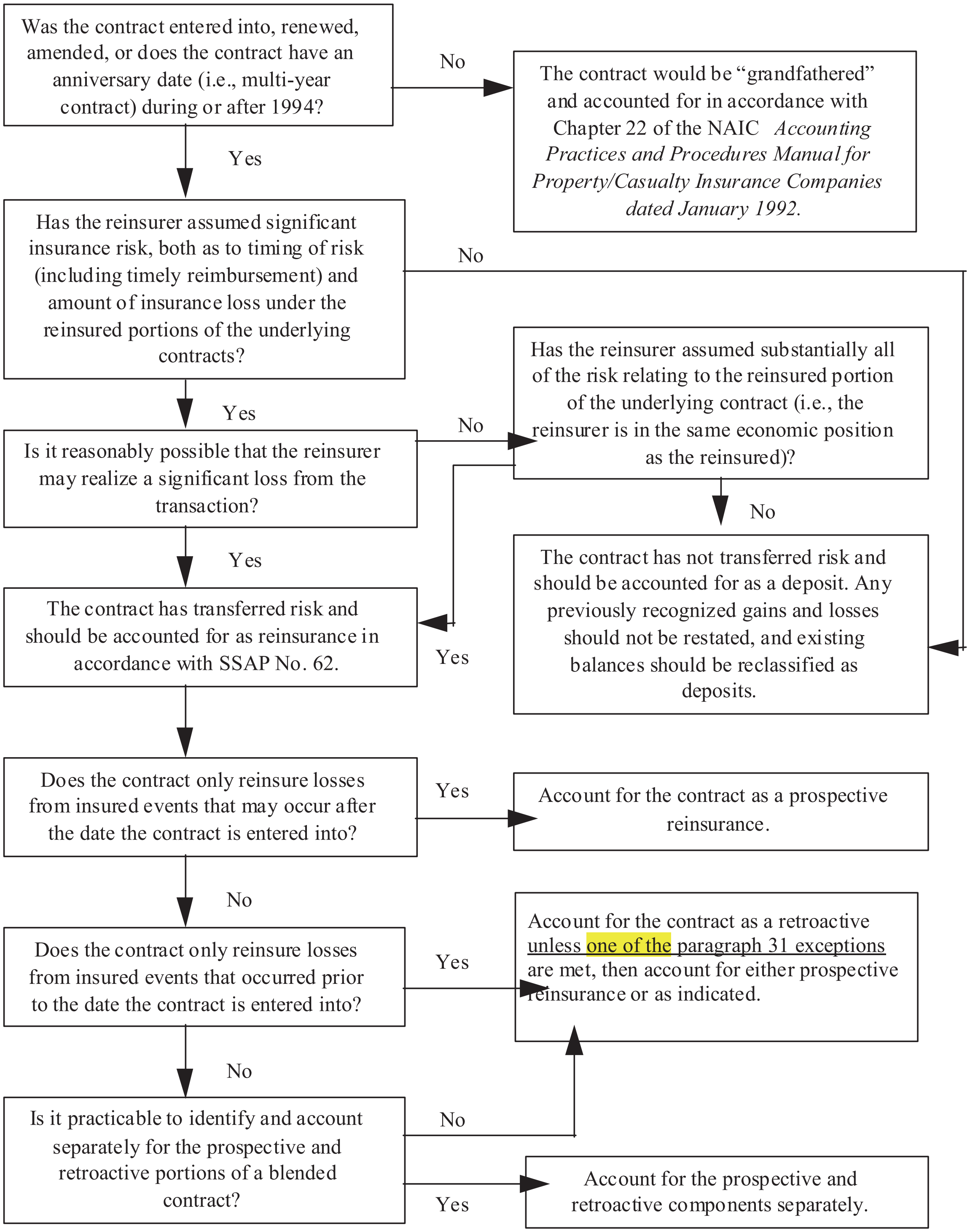
- *FASB Emerging Issues Task Force Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises*

RELEVANT ISSUE PAPERS

- Issue Paper No. 75—Property and Casualty Reinsurance

- Issue Paper No. 137—Transfer of Property and Casualty Reinsurance Run-off Agreements

CLASSIFYING REINSURANCE CONTRACTS



SSAP NO. 62—EXHIBIT A

Implementation Questions and Answers

Applicability

1. Q: The accounting practices in SSAP No. 62 specify the accounting and reporting for reinsurance contracts. What contracts are considered reinsurance contracts for purposes of applying these accounting practices?

   A: Any transaction that indemnifies an insurer against loss or liability relating to insurance risk shall be accounted for in accordance with the accounting practices included in SSAP No. 62. Therefore, all contracts, including contracts that may not be structured or described as reinsurance, shall be accounted for as reinsurance when those conditions are met.

2. Q: The provisions of this statement will apply to (a) reinsurance contracts entered into, renewed or amended on or after January 1, 1994, and (b) any other reinsurance contracts that are in force on January 1, 1995 and cover insurable events on the underlying insurance policies that occur on or after that date. What contracts would be exempt from the new accounting rules included in SSAP No. 62?

   A: The only exempt contracts are:

   1) Purely retroactive reinsurance contracts that cover only insured events occurring before January 1, 1994, provided those contracts were entered into before that date and are not subsequently amended and

   2) Contracts that expired before January 1, 1995 and are not amended after that date.

3. Q: This statement is to be applied to contracts which are amended on or after January 1, 1994. What if the change in terms is not significant, or the terms changed have no financial effect on the contract?

   A: In general, the term amendment should be viewed broadly to include all but the most trivial changes. Examples of amendments include, but are not limited to, replacing one assuming entity with another (including an affiliated entity), or modifying the contract's limit, coverage, premiums, commissions, or experience-related adjustable features. No distinction is made between financial and non-financial terms.

4. Q: Must the accounting provisions of SSAP No. 62 be applied to an *otherwise exempt* contract if the ceding entity pays additional premiums under the contract on or after January 1, 1994?

   A: The answer depends on why the additional premiums are paid. If the additional premiums are the result of a renegotiation, adjustment, or extension of terms, the contract is subject to the accounting provisions of SSAP No. 62. However, additional premiums paid without renegotiation, adjustment, or extension of terms would not make an otherwise exempt contract subject to those provisions.

5. Q: Prospective and retroactive portions of a reinsurance contract are allowed to be accounted for separately, if practicable. Can the retroactive portion of an existing contract be

segregated and, therefore, exempted with other retroactive contracts covering insured events occurring prior to January 1, 1994?

A: No. The transition provisions apply to an entire contract, which is either subject to or exempt from the revised provisions of SSAP No. 62. A ceding entity may bifurcate a contract already subject to the new accounting rules in SSAP No. 62 and then account for both the prospective and retroactive portions in accordance with the new accounting standard.

Risk Transfer

6. Q: Do the new risk transfer provisions apply to existing contracts?

A: Yes, the new risk transfer provisions apply to some existing contracts. SSAP No. 62 applies in its entirety only to existing contracts which were renewed or amended on or after January 1, 1994, or which cover losses occurring or claims made after that date. Therefore, those contracts must be evaluated to determine whether they transfer risk and qualify for reinsurance accounting. For accounting periods commencing on or after January 1, 1995, balances relating to such contracts which do not transfer insurance risk shall be reclassified as deposits and shall be accounted for and reported in the manner described under the caption Reinsurance Contracts Must Include Transfer of Risk.

SSAP No. 62 does not apply to existing contracts which were entered into before, and were not renewed or amended on or after, January 1, 1994, and which cover only losses occurring or claims made before that date, nor to contracts which expired before, and were not renewed or amended on or after, January 1, 1995. Those contracts will continue to be accounted for in the manner provided by SSAP No. 62 before these revisions.

7. Q: How does the effective date affect the assessment of whether a significant loss to the reinsurer was reasonably possible?

A: The risk transfer assessment is made at contract inception, based on facts and circumstances known at the time. Because that point in time has passed for existing contracts, some have suggested that the risk transfer provisions be applied as of the effective date. However, that approach to the risk transfer assessment would violate the requirement to consider all cash flows from the contract. Therefore, the test must be applied from contract inception, considering the effect of any subsequent contract amendments. Careful evaluation and considered judgment will be required to determine whether a significant loss to the reinsurer was reasonably possible at inception.

8. Q: Should risk transfer be reassessed if contractual terms are subsequently amended?

A: Yes. When contractual terms are amended, risk transfer should be reassessed. For example, a contract that upon inception met the conditions for reinsurance accounting could later be amended so that it no longer meets those conditions. The contract should then be reclassified and accounted for as a deposit.

9. Q: How should the risk transfer assessment be made when a contract has been amended?

A: No particular method is prescribed for assessing risk transfer in light of a contract amendment. Whether an amended contract in substance transfers risk must be determined considering all of the facts and circumstances in light of the risk transfer requirements. Judgment also will be required to determine whether an amendment in effect creates a new contract.

10. Q: For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

11. Q: If the assessment of risk transfer changes after the initial assessment at contract inception, how should the ceding entity account for the change?

A: The status of a contract should be determinable at inception and, absent amendment, subsequent changes should be very rare. If the risk of significant loss was not deemed reasonably possible at inception, and a significant loss subsequently occurred, the initial assessment was not necessarily wrong, because remote events do occur. Likewise, once a reasonable possibility of significant loss has been established, such loss need not occur in order to maintain the contract's status as reinsurance.

12. Q: SSAP No. 62 requires that reasonably possible outcomes be evaluated to determine the reinsurer's exposure to significant loss. What factors should be considered in determining whether a scenario being evaluated is reasonably possible?

A: The term *reasonably possible* means that the probability is more than remote. The test is applied to a particular scenario, not to the individual assumptions used in the scenario. Therefore, a scenario is not reasonably possible unless the likelihood of the entire set of assumptions used in the scenario occurring together is reasonably possible.

13. Q: In determining the amount of the reinsurer's loss under reasonably possible outcomes, may cash flows directly related to the contract other than those between the ceding and assuming companies, such as taxes and operating expenses of the reinsurer, be considered in the calculation?

A: No. The evaluation is based on the present value of all cash flows *between the ceding and assuming enterprises* under reasonably possible outcomes and, therefore, precludes considering other expenses of the reinsurer in the calculation.

14. Q: In evaluating the significance of a reasonably possible loss, should the reasonably possible loss be compared to gross or net premiums?

A: Gross premiums should be used.

15. Q: How does a commutation clause affect the period of time over which cash flows are evaluated for reasonable possibility of significant loss to the reinsurer?

A: All cash flows are to be assessed under reasonably possible outcomes. Therefore, unless commutation is expected in the scenario being evaluated, it should not be assumed in the calculation. Further, the assumptions used in a scenario must be internally consistent and economically rational in order for that scenario's outcome to be considered reasonably possible.

16. Q: What interest rate should be used in each evaluated scenario to make the present value calculation?

A: A reasonable and appropriate rate is required, which generally would reflect the expected timing of payments to the reinsurer and the duration over which those cash flows are expected to be invested by the reinsurer.

17. Q: SSAP No. 62 refers to payment schedules and accumulating retentions from multiple years as features that delay timely reimbursement of claims. Does the presence of those features generally prevent a contract from meeting the conditions for reinsurance accounting?

A: Yes. Payment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payments to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Therefore, any feature that may affect the timing of the reinsurer's reimbursement to the ceding entity should be closely scrutinized.

18. Q: What if a contract contains a feature such as a payment schedule or accumulating retention but could still result in the reasonable possibility of significant loss to the reinsurer?

A: Both of the following conditions are required for reinsurance accounting:

a. Transfer of significant risk arising from uncertainties about both (i) the ultimate amount of net cash flows from premiums, commission, claims, and claim settlement expenses paid under a contract (underwriting risk) and (ii) the timing of the receipt and payment of those cash flows (timing risk); and

b. Reasonable possibility of significant loss to the reinsurer.

Because both condition (a) and condition (b) must be met, failure to transfer significant timing and underwriting risk is not overcome by the possibility of significant loss to the reinsurer.

19. Q: Is it permissible to evaluate timely reimbursement on a present value basis?

A: No. The word timely is used in the ordinary temporal sense to refer to the length of time between payment of the underlying reinsured claims and reimbursement by the reinsurer.

While the test for reasonable possibility of significant loss to the reinsurer provides for a present value-based assessment of the economic characteristics of the reinsurance contract, the concept of timely reimbursement relates to the transfer of insurance risk (condition a above), not the reasonable possibility of significant loss (condition b above). Accordingly, timely reimbursement should be evaluated based solely on the length of time between payment of the underlying reinsured losses and reimbursement by the reinsurer.

20. Q: Are there any circumstances under which the conditions for risk transfer need not be met?

A: Yes. An extremely narrow and limited exemption is provided for contracts that reinsure either an individual risk or an underlying book of business that is inherently profitable. When substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer, the contract meets the conditions for reinsurance accounting. To qualify under this exception, no more than trivial insurance risk on the reinsured portions of the underlying insurance contracts may be retained by the ceding entity. The reinsurer's economic position must be virtually equivalent to having written the relevant portions of the reinsured contracts directly.

21. Q: In determining whether a reinsurance contract qualifies under the exception referred to in the preceding question, how should the economic position of the reinsurer be assessed in relation to that of the ceding entity?

A: The assessment should be made by comparing the net cash flows of the reinsurer under the reinsurance contract with the net cash flows of ceding entity on the reinsured portions of the underlying insurance contracts. This may be relatively easy for reinsurance of individual risks or for unlimited-risk quota-share reinsurance, because the premiums and losses on these types of reinsurance generally are the same as the premiums and losses on the reinsured portions of the underlying insurance policies.

In other types of reinsurance, determining the reinsurer's net cash flows relative to the insurer is likely to be substantially more difficult. For example, it generally would be difficult to demonstrate that the ceding entity's premiums and losses for a particular layer of insurance are the same as the reinsurer's premiums and losses related to that layer. If the economic position of the reinsurer relative to the insurer cannot be determined, the contract would not qualify under the exception.

<u>Accounting Provisions</u>

22. Q: An existing contract that was accounted for as reinsurance no longer qualifies for reinsurance accounting under the new accounting rules included in SSAP No. 62. How should the ceding and assuming companies account for the contract in future periods?

A: Because the statement of income cannot be restated, previously recognized gains and losses are not revised. If the contract was entered into before, and not renewed or amended on or after, January 1, 1994 and covers only losses occurring or claims made before that date, or the contract expired before January 1, 1995 and was not renewed or amended on or after that date, it would continue to be accounted for in the manner provided before these revisions.

For accounting periods commencing on or after January 1, 1995, existing balances relating to contracts which do not transfer insurance risk and which were entered into on or after January 1, 1994 (covering losses occurring or claims made after that date) would be reclassified as deposits.

Premium payments to a reinsurer would be recorded as deposits. Likewise, losses recoverable from a reinsurer would not be recognized as receivables. Rather, any reimbursement for losses would be accounted for upon receipt as a refund of a deposit.

23. Q: What is the definition of past insurable events that governs whether reinsurance coverage is prospective or retroactive? For example, could a reinsurance contract that covers losses from asbestos and pollution claims on occurrence-based insurance policies effective during previous periods be considered prospective if the reinsurance coverage is triggered by a court interpretation that a loss is covered within the terms of the underlying insurance policies?

A: The distinction between prospective and retroactive reinsurance is based on whether a contract reinsures future or past insured events covered by the underlying reinsurance contracts. In the example above, the insured event is the occurrence of loss within the coverage of the underlying insurance contracts, not the finding of a court. Therefore, the fact that the asbestos exposure or pollution is covered under insurance policies effective during prior periods makes the reinsurance coverage in this example retroactive.

24. Q: Would the answer to the above question change if the reinsurance were written on a claims-made basis?

A: No. The form of the reinsurance—whether claims-made or occurrence-based—does not determine whether the reinsurance is prospective or retroactive. A claims-made reinsurance contract that reinsures claims asserted to the reinsurer in a future period as a result of insured events that occurred prior to entering into the reinsurance contract is a retroactive contract.

25. Q: What is the effect of adjustments to future premiums or coverage in determining whether reinsurance is prospective or retroactive?

A: Adjustments to future premiums or coverage may affect the accounting for a reinsurance contract. Whenever an adjustment results in a reinsurer providing new or additional coverage for past insurable events, that coverage is retroactive. For example, if subsequent years' premiums under a multiple accident year contract create additional coverage for previous accident years, the additional coverage is retroactive, even if the original coverage provided in the contract for those accident years was prospective. Likewise, if current losses under a multiple-year contract eliminate coverage in future periods, some or all of the premiums to be paid in those future periods should be charged to the current period.

26. Q: A reinsurance contract is entered into after the contract's effective date. Is the coverage between the contract's effective date and the date the contract was entered into prospective or retroactive?

A: The portion of the contract related to the period of time between the effective date of the contract and the date the contract was entered into is retroactive because it covers insured events that occurred prior to entering into the reinsurance contract.

27. Q: How is the date the reinsurance contract was entered into determined?

A: It is not uncommon for a reinsurance arrangement to be initiated before the beginning of a policy period but not finalized until after the policy period begins. Whether there was agreement in principle at the beginning of the policy period and, therefore, the contract is substantively prospective must be determined based on the facts and circumstances. For example, a contract may be considered to have been substantively entered into even though regulatory approval of that contract has not taken place.

The absence of agreement on significant terms, or the intention to establish or amend those terms at a later date based on experience or other factors, generally indicates that the parties to the contract have not entered into a reinsurance contact, but rather have agreed to enter into a reinsurance contract at a future date. If contractual provisions under a contract substantively entered into at a future date covered insurable events prior to that date, that coverage is retroactive.

In any event, SSAP No. 62 provides that if a contract (except facultative contracts and contracts signed by the lead reinsurer and certain cover notes or similar documents signed by reinsurers representing more than 50% of the capacity on the contract) has not been finalized, reduced to written form and signed by the parties within 9 months after its effective date, it is presumed to be retroactive.

28. Q: Are contracts to reinsure calendar-year incurred losses considered blended contracts that have both prospective and retroactive elements?

A: Yes. Most reinsurance contracts covering calendar-year incurred losses combine coverage for insured events that occurred prior to entering into the reinsurance contract with coverage for future insured events and, therefore, include both prospective and retroactive elements.

In any event, SSAP No. 62 provides that if a contract (except facultative contracts, contracts signed by the lead reinsurer and certain cover notes or similar documents signed by reinsurers representing more than 50% of the capacity on the contract) has not been finalized, reduced to written form and signed by the parties within 9 months after its effective date it is presumed retroactive.

29. Q: When the prospective and retroactive portions of a contract are being accounted for separately, how should premiums be allocated to each portion of the contract?

A: No specific method for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of a contract is required. However, separate accounting for the prospective and retroactive portions of a contract may take place only when an allocation is practicable.

Practicability requires a reasonable basis for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of the contract, considering all amounts paid or deemed to have been paid regardless of the timing of payment. If a reasonable basis for allocating the premiums between the prospective and retroactive coverage does not exist, the entire contract must be accounted for as a retroactive contract.

30. Q: A retroactive reinsurance contract contains a cut-through provision that provides the ceding entity's policyholders and claimants with the right to recover their claims directly from the reinsurer. May the ceding entity immediately recognize earned surplus associated with this type of contract?

A: No. SSAP No. 62 states that earned surplus may not be recognized "until the actual retroactive reinsurance recovered exceeds the consideration paid."

31. Q: A ceding entity enters into a retroactive reinsurance agreement that gives rise to segregated surplus. If the reinsurer prepays its obligation under the contract, may the ceding entity recognize earned surplus at the time the prepayment is received?

A: Segregated surplus arising from retroactive reinsurance transactions is earned as actual liabilities that have been transferred are recovered or terminated. Therefore, earned surplus is based on when the reinsurer settles its obligations to the ceding entity, and it may be appropriate to recognize earned surplus at the time the prepayment is received.

However, all of the facts and circumstances must be considered to determine whether the ceding entity has substantively recovered the liabilities transferred to the reinsurer. For example, if the ceding entity agrees to compensate the reinsurer for the prepayment, such as by crediting the reinsurer with investment income on prepaid amounts or balances held, the ceding entity has not, in substance, recovered its transferred liabilities but rather has received a deposit from the reinsurer that should be accounted for accordingly.

32. Q: If the ceding entity does not expect to receive any recoveries because the reinsurer has agreed to reimburse claimants under the reinsured contracts directly, would the ceding entity be considered to have recovered or terminated its transferred liabilities?

A: No. In the example given, the reinsurer is substantively acting as disbursing agent for the ceding entity. Therefore, the ceding entity cannot be said to have recovered amounts due from the reinsurer before payment is made to the claimant.

33. Q: What accounting entries would a ceding entity make to report a retroactive reinsurance contract?

A: Accounting Entries for a Ceding Entity to Report a Retroactive Reinsurance Contract:

Entry 1

Retroactive Reinsurance Reserves Ceded or Assumed (B/S)	10,000	
Retroactive Reinsurance Gain (I/S)		2,000
Cash		8,000

To record initial portfolio transfer see items #3 and #8. The ceding entity must establish the segregated surplus per item #4.

Entry 1A

Retro. Reins. Gain	2,000	
Profit/Loss Account		2,000

To close gain from retroactive transaction.

<u>Entry 1B</u>

Profit/Loss Account	2,000	
Special Surplus from Retro. Reins.		2,000

To close profit from retroactive reinsurance to special surplus.

<u>Entry 2</u>

Cash	2,000	
Retroactive Reinsurance Reserves Ceded or Assumed (B/S)		2,000

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $8,000, and special surplus from retroactive reinsurance account equals $2,000; therefore, segregated surplus account is not changed per item #10.

<u>Entry 3</u>

Retroactive Reinsurance Reserves Ceded or Assumed (B/S)	3,000	
Retroactive Reinsurance Gain (I/S)		3,000

To record subsequent revision of the initial reserves ceded per item #10. The segregated surplus account is increased to $5,000 as a result of this upward development.

<u>Entry 3A</u>

Retro. Reinsurance Gain	3,000	
Profit/Loss Account		3,000

To close profit from retroactive reinsurance.

<u>Entry 3B</u>

Profit/Loss (I/S)	3,000	
Special Surplus from Retro. Reins.		3,000

To close profit and loss account to special surplus. (Retroactive reinsurance reserves ceded or assumed account balance equals $11,000. Special Surplus from retroactive reinsurance balance equals $5,000.)

<u>Entry 4</u>

Cash	4,000	
Retroactive Reinsurance Reserves Ceded or Assumed (B/S)		4,000

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $7,000, therefore segregated surplus account is not changed per item #10.

<u>Entry 5</u>

Cash	3,000	
Retroactive Reinsurance Reserves Ceded or Assumed (B/S)		3,000

To record recovery of paid losses from reinsurer. Outstanding ceded reserves after recovery equals $4,000, therefore the following entry is needed per items #6 and #10.

Entry 5A

Special Surplus—Retro. Reins.	1,000	
Unassigned Funds		1,000

Retroactive Reinsurance reserves ceded or assumed after this entry equals $4,000.

Entry 6

Retroactive Reinsurance Loss (I/S)	1,000	
Retroactive Reinsurance Reserves Ceded or Assumed (B/S)		1,000

To record subsequent revision of the initial reserves ceded per item #10. The segregated surplus account is decreased as a result of this downward development to $3,000. The following entry is needed per items #6 and #10.

Entry 6A

Profit/Loss Account	1,000	
Retro. Reins. Loss		1,000

To close loss to profit and loss account.

Entry 6B

Special Surplus from Retro. Reins.	1,000	
Profit/Loss Account		1,000

To close profit and loss account to special surplus. (Remaining balance of retroactive reinsurance reserve ceded or assumed account equals $3,000.) (Special surplus from retro. reins. account balance equals $3,000.)

Entry 7

Cash	2,500	
Retroactive Reinsurance Gain (I/S)	500	
Retroactive Reinsurance Reserves Ceded or Assumed (B/S)		3,000

Entry 7A

Profit and Loss Account	500	
Retro. Reins. Gain		500

To close other income to profit and loss account.

Entry 7B

Special Surplus from Retro. Reins.	500	
Profit/Loss Account		500

To close profit and loss account to special surplus. (Remaining balance of special surplus from retro. reins. account equals $2,500.) (Remaining balance of retroactive reinsurance reserve ceded or assumed account -0-.)

Entry 7C

Special Surplus from Retro. Reins.	2,500	
Unassigned Funds		2,500

To close remaining special surplus account to unassigned surplus.

34. Q: How should the parties account for an adverse loss development reinsurance contract where, as of the statement date, the attachment level of the contract exceeds the ceding company's current case and IBNR reserves for the covered accident years (i.e. no surplus gain and no reinsurance recoverable as of the statement date), and the ceding company transferred cash to the reinsurer at the inception of the contract?

A: An adverse loss development reinsurance contract covering prior accident years meets the definition of "retroactive reinsurance" set forth in paragraph 22 of SSAP No. 62:

> ….reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance….

Subparagraph 29.k. of SSAP No. 62 specifically provides that the consideration paid for a retroactive reinsurance contract is to be recorded as a decrease in ledger assets by the ceding entity and an increase in ledger assets by the assuming entity.

Question 33 illustrates the accounting entries for retroactive reinsurance contracts.

If the retroactive reinsurance contract transfers both components of insurance risk then, pursuant to paragraph 29 of SSAP No. 62, the ceding company would record the consideration paid as a decrease in ledger assets, recognize an expense for the reinsurance ceded through Other Income or Loss accounts as a write-in item identified as "Retroactive Reinsurance Ceded", and record the recoverable from the reinsurer as a contra liability.

No contra liability is established until and unless (and then only to the extent that) the ceding company establishes reserves which exceed the attachment point.

For the contract described, at inception no contra liability is recorded to offset current liability for the business ceded, since the ceded retroactive reinsurance premium relates to coverage in excess of the current liabilities recorded by the ceding company.

Once the ceding company's recorded liabilities exceed the attachment point of the adverse loss development reinsurance contract and triggers reinsurance recoverable from the reinsurer, a contra liability is established by the ceding company for the amount of the reinsurance recoverable. Any surplus resulting from the retroactive reinsurance is carried as a write-in item on the balance sheet designated as "Special Surplus from Retroactive

Reinsurance Account." The surplus gain may not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid.

If any portion of a retroactive reinsurance contract does not transfer insurance risk, then the portion which does not transfer risk is accounted for as a deposit pursuant to paragraph 35 of SSAP No. 62. The deposit is reported as an admitted asset of the ceding company if the reinsurer is licensed, accredited or otherwise qualified in the ceding company's state of domicile as described in Appendix A-785, or if there are funds held by or on behalf of the ceding company as described in that appendix. Receipts and disbursements under the contract are recorded through the deposit/liability accounts. Amounts received in excess of the deposit made are recognized as a gain in the Other Income or Loss account.

Accounting entries for a ceding entity to report a retroactive reinsurance contract at the inception of which the cedent's reserves are lower than the attachment point of the reinsurance coverage:

Assume the company pays $16m to purchase adverse development coverage of $50m, above an attachment point.

Entry 1: Payment of Retrospective Reinsurance Premium

Retrospective Reinsurance Expense*	$16m	
Cash		$16m

The company pays $16m premium for the retrospective reinsurance contract.
*This is an Other Expense item, it does not flow through Schedule F or Schedule P.

Entry 2: Adverse Development Reaches the Attachment Point

Losses Incurred	$25m	
Gross Loss Reserve		$25m
Recoverable on Retro Reinsurance Contract**	$25m	
Other Income*		$9m
Contra – Retro Reinsurance Expense*		$16m
Surplus***	$9m	
Segregated Surplus***		$9m

The company incurs $25m development on reserves related to the contract.
*These are Other Income/Expense items do not flow through Schedule F or Schedule P.
**A contra-liability write-in item, not netted against loss reserves.
***Surplus is segregated in the amount of [$25m - $16m = $9m] recoverables less consideration paid.

Entry 3: Cash is Recovered on Paid Losses

Cash	$20m	
Recoverable on Retrospective Reinsurance Contract		$20m
Segregated Surplus	$4m	
Surplus		$4m

The company recovers $20m cash from reinsurer on this retro contract. Segregated Surplus decreases in the amount of [$20m - $16m = $4m] (decreases for amount recovered in excess of consideration paid).

35. Q: How should a ceding company account for payment of the premium for a retroactive reinsurance contract by the ceding company's parent company or some other person not a party to the reinsurance contract (for example, adverse loss development reinsurance contracts purchased by the parent company in the context of the purchase or sale of the ceding company)?

A: If the reinsurance premium is not paid directly by the ceding company but is instead paid on behalf of the ceding company by the ceding company's parent company or some other entity not a party to the reinsurance contract, then the ceding company should (1) record an increase in gross paid in and contributed surplus in the amount of the reinsurance premium to reflect the contribution to surplus by the parent or third party payor, and (2) record an expense in the amount of the reinsurance premium and account for the contract as provided in Questions 33 and 34.

SSAP NO. 62—EXHIBIT B

P&C Runoff Reinsurance Transactions

The following provides illustrative journal entries for P&C Runoff Reinsurance Transactions.

Example 1: Transfer of existing block of runoff business with no residual UPR on books of Transferor

Cedent/Transferor		**DR**	**CR**
Day 1 - Cedent transfers 50,000 in reserves for 50,000			
Ceded Reinsurance Recoverable (U&I Part 2A & Sch. F)	Contra Liab ↑	50,000	
Cash	Asset ↓		50,000
Losses Paid (U/W Part 2 & Sch. P)	I/S ↓	50,000	
Change in Reserves - Incurred Losses (U&I Part 2.)	I/S ↑		50,000
Unlike novation –gross reserves stay on books of transferor			
Day 360 - Negative Development on Transferred Business - 3,000:			
Reinsurance Recoverable on Unpaid Losses (Sche. F)	Contra Liab ↑	3,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		3,000
Day 540 – Reinsurer Pays the Loss @ Reported Reserve			
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↓	53,000	
Ceded Reinsurance Recoverable (U&I Part 2A & Sch. F)	Contra Liab ↓		53,000
Reinsurer/ Transferee			
Day 1 - Cedent transfers 50,000 in reserves for 50,000			
Cash	Asset ↑	50,000	
Reported Losses on Reins. Assumed (U&I Part 2A & Sch. P)	Liab ↑		50,000
Change In Reserves – Incurred Losses (U&I Part 2)	I/S ↓	50,000	
Losses Paid or Incurred (negative) (U&I Part 2 &Sch. P)	I/S ↑		50,000
Day 360 - Negative Development on Transferred Business - 3,000:			
Change in Reserves – Incurred Losses (U&I Part 2)	I/S↓	3,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		3,000
Day 540 – Reinsurer Pays the Loss			
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↓	53,000	
Cash	Asset ↓		53,000

Comments:
Since the Transferor is ceding incurred losses neither party should have premium impacted. To do that would distort many financial ratios.

Example 2: Transfer of existing block of runoff business with some residual UPR of 10,000 on books of Transferor (this should be less common).

Cedent/Transferor		**DR**	**CR**
Day 1 - Cedent transfers 50k in reserves & 10k UPR for 60,000			
Ceded Reinsurance Recoverable (U&I Part 2A & Sch. F)	Contra Liab ↑	50,000	
Unearned Premium Reserve (U&I Part 1& 1A)	Liab ↓	10,000	
Cash	Asset ↓		60,000
Ceded Premium Written (U&I Part 1B)	I/S ↓	10,000	
Losses Paid (U&I Part 2 & Sch. P)	I/S ↓	50,000	
Change in Reserves - Incurred Losses (U&I Part 2.)	I/S ↑		50,000
Change in UPR (U&I Part 1& 1A)	I/S ↑		10,000
Unlike novation –gross reserves stay on books of transferor			
Day 180 – Premium is Fully Earned (Assumes 80% Loss Ratio)			
Ceded Reinsurance Recoverable (U&I Part 2A & Sch. F)	Contra Liab ↑	8,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		8,000
To mirror the increase in unpaid losses by the transferee			
Day 360 - Negative Development on Transferred Business -3,000:			
Reinsurance Recoverable on Unpaid Losses (Sch. F)	Contra Liab ↑	3,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		3,000
Day 540 – Reinsurer Pays the Loss @ Reported Reserves (50+8+3)			
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↓	61,000	
Ceded Reinsurance Recoverable (U&I Part 2A & Sch. F)	Contra Liab ↓		61,000

Reinsurer/ Transferee			
Day 1 - Cedent transfers 50k in reserves & 10k UPR for 60,000			
Cash	Asset ↑	60,000	
Reported Losses on Reins. Assumed (U&I Part 2A & Sch. P)	Liab ↑		50,000
Unearned Premium Reserve (U&I Part 1& 1A)	Liab ↑		10,000
Assumed Premium Written (U&I Part 1B)	I/S ↑		10,000
Change In Reserves – Incurred Losses (U&I Part 2)	I/S ↓	50,000	
Change in UPR (U&I Part 1& 1A)	I/S ↓	10,000	
Losses Paid or Incurred (negative) (U&I Part 2 &Sch. P)	I/S ↑		50,000
Day 180 – Premium is Fully Earned (Assumes 80% Loss Ratio)			
Unearned Premium Reserve (U&I Part 1& 1A)	Liab ↓	10,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		8,000
Change In Reserves – Incurred Losses (U&I Part 2)	I/S↓	8,000	
Change in UPR (U&I Part 1& 1A)	I/S ↑		10,000
To record the increase in unpaid losses by the transferee			
Day 360 - Negative Development on Transferred Business -3,000:			
Change In Reserves – Incurred Losses (U&I Part 2)	I/S↓	3,000	
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↑		3,000
Day 540 – Reinsurer Pays the Loss @ Reported Reserves (50+8+3)			
Reserves for Unpaid Losses (U&I Part 2A & Sch. P)	Liab ↓	61,000	
Cash	Asset ↓		61,000

Comments:
In this second example, the portion of the runoff business that has an UPR associated with it is essentially booked as prospective reinsurance. Other elements of the example are the same except that we assumed an 80% loss ratio on the unearned portion of the business.

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Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Disclosures for Financial Guarantee Insurance Contracts

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☐	☐
New Issue or SSAP	☐	☐	☐

Description of Issue:
During the Spring 2009 National Meeting, the Statutory Accounting Principles Working Group considered comments received on the exposed *Issue Paper No. 136—Accounting for Financial Guarantee Contracts* (Issue Paper No. 136). This Issue Paper proposed adoption, with modification, of FAS *163, Accounting for Financial Guarantee Contracts* (FAS 163). After considering the comments received, the Working Group formed a Subgroup comprised of New York, Maryland and Wisconsin. This Financial Guarantee Subgroup was then directed to 1) prioritize adopting enhanced financial guarantee disclosures effective for the 2009 reporting period, 2) coordinate with the Financial Guaranty Insurance Guideline Working Group, and 3) conduct conference calls to address the technical comments received from the initial exposure of Issue Paper No. 136.

This agenda submission form is in response to the Subgroup's priority of adopting enhanced financial guarantee disclosures effective for the 2009 reporting period. The Subgroup has requested that this new agenda submission form be exposed for public comment during the 2009 Summer National Meeting. As illustrated, this agenda submission form proposes the incorporation of several disclosures within SSAP No. 60. The Subgroup believes these disclosures are necessary as SSAP No. 60 does not currently have any disclosure requirements specific to financial guarantee insurers. (Current disclosure requirements within SSAP No. 60 are simply limited to disclosures required by other statements within the Accounting Practices and Procedures Manual.)

The Subgroup agreed to propose disclosures that are applicable under current statutory accounting guidance, but that are similar to the intent of disclosures within FAS 163. It is anticipated that disclosures adopted from the issuance of this new agenda submission form will be modified in the event that statutory guidance on financial guarantee contracts is revised in accordance with FAS 163. However, as it is uncertain whether revisions to mirror FAS 163 guidance would be adopted, the Subgroup believes the Working Group should proceed with adopting disclosure requirements that reflect the current statutory guidance to enable users to assess the financial condition of financial guarantee insurers and understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

<u>Financial Guarantee Subgroup Proposed revisions to SSAP No. 60: (tracked changes illustrate the proposed revisions to SSAP No. 60)</u>

Disclosures

13. Financial guaranty insurers shall make all disclosures required by <u>paragraphs 14-16 as well as</u> other statements within the Accounting Practices and Procedures Manual, including but not limited to<u>,</u> the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

<u>14. An insurance enterprise shall disclose information that enables users of its financial</u>

statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. A schedule of premiums expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums, including:

(1) Expected future premiums – Beginning of Year

(2) Less - Premium payments received for existing installment contracts

(3) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration. For installment premiums for which the insured obligation is retired early, the outstanding principal is paid down by the issuer, and/or other situations that impact the receipt and recognition of future installment premiums, describe the situation impacting the future installment premiums, the monetary impact to future installment premiums and, if applicable, disclosure of any resulting premium receivables that will be earned when received.

e. A schedule of the future expected premium revenue as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability:

(1) The rate used to discount the claim liability. This rate shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (such as changes in the discount rate, the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average contract period

(3) Insured contractual payments outstanding, segregating principal and interest

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability

(8) Reinsurance recoverables

(9) Unearned premium revenue.

~~14~~17. Refer to the preamble for further discussion regarding disclosure requirements.

The Financial Guarantee Subgroup also proposes inclusion of an Appendix to SSAP No. 60, illustrating the expected disclosure of insured financial obligations with credit deterioration:

Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	**B**	**C**	**D**	**Total**
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	$ 565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Claim liability reported in the balance sheet (a)	$ 120,000,000	$ 148,000,000	$ 170,000,000	$ 99,000,000	$ 537,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

Existing Authoritative Literature:
SSAP No. 60—Financial Guaranty Insurance (SSAP No. 60) establishes statutory accounting principles for financial guaranty insurance and addresses areas where financial guaranty insurance accounting differs from other lines of insurance. Currently, no specific disclosure requirements for financial guarantee insurance contracts are included within SSAP No. 60.

FAS 60, Accounting and Reporting by Insurance Enterprises (FAS 60) was rejected for statutory accounting.

FAS 163, Accounting for Financial Guarantee Insurance Contracts (FAS 163) is currently pending statutory accounting consideration. The disclosure requirements proposed within this agenda submission form are similar to the intent of disclosures within FAS 163, but have been modified to reflect existing statutory requirements. As it is uncertain when consideration of FAS 163 will be finalized for statutory accounting, the Subgroup proposes that the Working Group proceed with adopting disclosure requirements that would currently allow users to assess the financial condition of insurers and provide information to that will affect the present and future recognition and measurement of financial guarantee contracts.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None.

Staff Recommendation:

Summary Recommendation:
NAIC staff agrees that disclosure requirements specific to financial guarantee contracts should be incorporated within statutory accounting principles. Such disclosures will provide additional information to assess the financial condition of insurers as well as provide information that will affect the present and future recognition and measurement of financial guarantee contracts.

NAIC staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 60, to incorporate the financial guarantee disclosures and illustrative example within SSAP No. 60, as proposed by the Financial Guarantee Subgroup of the Statutory Accounting Principles Working Group. (Consistent with existing statutory accounting policies, disclosures are considered nonsubstantive, and will be effective upon adoption. It is projected that enhanced disclosures will be adopted for 2009 reporting.)

Staff Review Completed by:
Julie Gann
NAIC
May 2009

Status:
On June 13, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to *SSAP No. 60—Financial Guaranty Insurance* (SSAP No. 60) proposing the incorporation of several disclosures and an appendix illustration, as presented above. The proposed disclosures are similar to the intent of disclosures within *FAS 163, Accounting for Financial Guarantee Contracts* (FAS 163), but have been modified to be applicable under current statutory accounting guidance for financial guarantee insurance contracts. It is anticipated that enhanced disclosures will be adopted for 2009 reporting.

In August 2009, comment letters were received from MBIA, AMBAC and CIFG in response to the Statutory Accounting Principles Working Group public exposure of agenda item #2009-09. NAIC staff distributed these comment letters to the SAPWG Financial Guaranty Subgroup in order for the Working Group to receive the Subgroup's suggestions for consideration during the Fall National Meeting. In response to the Subgroup's comment letter review, the Subgroup suggested that the Working Group retain all of the disclosures, but incorporate some modifications to clarify the disclosures and to reduce significant system changes. (Key modifications include utilizing management estimates for all 'expected' amounts and terms, as well as clarifying when discounting should be utilized.) In addition, the Subgroup also suggested retaining the Appendix A - Illustration to ensure the necessary disclosure information is easily identifiable within the notes to the financial statements. The Subgroup recognized that there is a 'financial guaranty insurance exhibit' already included in the blanks, but the Subgroup wanted to retain this additional illustration as it classifies financial guaranty obligations in a concise format in accordance with the performance risk of the insured obligation.

On September 21, 2009, the Statutory Accounting Principles Working Group agreed to re-expose financial guaranty disclosures with the proposed revisions suggested by the Financial Guaranty Subgroup. The exposed disclosures, with tracked changes representing the Subgroup's suggestions, are provided below:

<u>Revised Proposed Disclosures to SSAP No. 60:</u>

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. <u>(For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.)</u>

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue <u>(undiscounted)</u> as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. A schedule of premiums <u>(undiscounted)</u> expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

(1) Expected future premiums – Beginning of Year

(4) Less - Premium payments received for existing installment contracts

(5) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration. ~~For installment premiums for which the insured obligation is retired early, the outstanding principal is paid down by the issuer, and/or other situations that impact the receipt and recognition of future installment premiums, describe the situation impacting the future installment premiums, the monetary impact to future installment premiums and, if applicable, disclosure of any resulting premium receivables that will be earned when received.~~

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability:

(1) The rate used to discount the claim liability. This rate[1] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (~~such as changes in the discount rate,~~ the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

[1] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average[2] contract period

(3) Insured contractual payments outstanding[3], segregating principal and interest

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability[4]

(8) Reinsurance recoverables[5]

(9) Unearned premium revenue.

~~14~~17. Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result,

[2] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts.
[3] Contractual payments outstanding shall be based on management's estimates of receivables.
[4] This amount may not reconcile to the financial statements
[5] This amount may not reconcile to the financial statements

the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	$ 565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Claim liability reported in the balance sheet (a)	$ 120,000,000	$ 148,000,000	$ 170,000,000	$ 99,000,000	$ 537,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

In November 2009, a comment letter was received from AMBAC in response to the Statutory Accounting Principles Working Group public exposure of agenda item #2009-09. The Financial Guaranty Subgroup reviewed the comment letter received, and recommends that the Working Group retain the disclosures and appendix illustration, but incorporate several of the clarifying revisions requested by AMBAC. The following illustrates the exposed guidance, with the Subgroup's proposed footnote clarifications:

Revised Proposed Disclosures to SSAP No. 60 – 11/9/09:

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.)

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue (undiscounted) as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. A schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

(1) Expected future premiums – Beginning of Year

(6) Less - Premium payments received for existing installment contracts

(7) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration.

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability[1]

(1) The rate used to discount the claim liability. This rate[2] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

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[1] The reference to "claim liability" throughout the disclosure requirements shall reflect the "reserves for unpaid losses and loss adjustment expenses" from paragraphs 6 and 7 of this Statement.

[2] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

(2) Remaining weighted-average[3] contract period

(3) Insured contractual payments outstanding[4], segregating principal and interest

(4) Gross claim liability[5]

(5) Gross potential recoveries[6]

(6) Discount, net (both claim liability and potential recoveries)[7]

(7) Net claim liability[8]

(8) Reinsurance recoverables[9]

(9) Unearned premium revenue~~.~~[10]

~~14~~17. Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

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[3] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[4] Contractual payments outstanding shall be based on management's estimates of receivables. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[5] Represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAP No. 55 and SSAP No. 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.

[6] Includes (a) subrogation recoveries, which are deducted from the gross claim liabilities in accordance with paragraph 12 of SSAP No. 55 and (b) ceded reinsurance recoveries on unpaid losses, which are deducted from the gross claim liability in accordance with paragraph 83.a. of SSAP No. 62.

[7] Represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.

[8] ~~This amount may not reconcile to the financial statements~~Represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the sum of line 10, column 8 and column 9 (financial guaranty net unpaid losses and net unpaid loss adjustment expenses) of the Underwriting and Investment Exhibit, Part 2a – Unpaid Losses and Loss Adjustment Expenses.

[9] ~~This amount may not reconcile to the financial statements~~Represents reinsurance recoverables on paid losses which is reported as an asset with paragraph 20 of SSAP No. 62. This line should reconcile to "Amounts recoverable from reinsurers" on the balance sheet.

[10] Unearned premium revenue should reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums.

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

d. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	$ 565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Claim liability reported in the balance sheet (a)	$ 120,000,000	$ 148,000,000	$ 170,000,000	$ 99,000,000	$ 537,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remaining obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

Revised Proposed Disclosures to SSAP No. 60 – 12/1/09: (Changes from 11/9/09 are tracked and shaded)

Note – The proposed revisions from 11/9/09 were distributed to the financial guaranty companies with a request to provide comment by November 30, 2009. During this timeframe, comments were received from MBIA and AMBAC. Comments incorporated into the proposed revisions based on comments received are shaded.

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.) In all instances, the insurer shall disclose when they elect to reflect timeframes or recognition principles from FAS 163 as permitted within the disclosure requirements.

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

(1) The unearned premium revenue ~~(undiscounted)~~ as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception[1].

b. A schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

(1) Expected future premiums – Beginning of Year

~~(8)~~(2) Less - Premium payments received for existing installment contracts

~~(9)~~(3) Add – Expected premium payments for new installment contracts

(4) Adjustments to the expected future premium payments

(5) Expected future premiums – End of Year

[1] If desired, a reporting entity that follows FAS 163 for GAAP may elect to report this disclosure in accordance with the revenue recognition principles of FAS 163.

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration.

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability[2]

(1) The rate used to discount the claim liability. This rate[3] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

[2] The reference to "claim liability" throughout the disclosure requirements shall reflect the "reserves for unpaid losses and loss adjustment expenses" from paragraphs 6 and 7 of this Statement.

[3] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average[4] contract period

(3) Insured contractual payments outstanding[5], segregating principal and interest

(4) Gross claim liability[6]

(5) Gross potential recoveries[7]

(6) Discount, net (both claim liability and potential recoveries)[8]

(7) Net claim liability[9]

(8) Reinsurance recoverables[10]

(9) Unearned premium revenue~~.~~[11]

~~14~~17. Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

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[4] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[5] Contractual payments outstanding shall be based on management's estimates of receivables. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[6] Represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAP No. 55 and SSAP No. 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.

[7] Includes (a) subrogation recoveries, which are deducted from the gross claim liabilities in accordance with paragraph 12 of SSAP No. 55 and (b) ceded reinsurance recoveries on unpaid losses, which are deducted from the gross claim liability in accordance with paragraph 83.a. of SSAP No. 62.

[8] Represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.

[9] ~~This amount may not reconcile to the financial statements~~Represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the sum of line 10, column 8 and column 9 (financial guaranty net unpaid losses and net unpaid loss adjustment expenses) of the Underwriting and Investment Exhibit, Part 2a – Unpaid Losses and Loss Adjustment Expenses.

[10] ~~This amount may not reconcile to the financial statements~~Represents reinsurance recoverables on paid losses which is reported as an asset with paragraph 20 of SSAP No. 62. This line should reconcile to "Amounts recoverable from reinsurers" on the balance sheet.

[11] Unearned premium revenue (UPR) should be consistent with the UPR measurement principles of SSAP No. 60. UPR reported in this schedule may not ~~should~~reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums. To the extent that this amount does not reconcile to line 10, column 5 of the *Underwriting and Investment Exhibit, Part 1a – Recapitulation of Premiums*, provide an additional reconciliation to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a in a footnote to the tabular disclosures required in paragraph 16.

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

e. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
~~Claim liability reported in the balance sheet [a]~~	~~$ 120,000,000~~	~~$ 148,000,000~~	~~$ 170,000,000~~	~~$ 99,000,000~~	~~$ 537,000,000~~
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

~~(a) The claim liability is determined on a contract-by-contract basis. As such, instances may arise where the unearned premium revenue exceeds the present value of the expected net cash outflows (and therefore, the net claim liability less the unearned premium revenue may not equal the claim liability reported in the balance sheet).~~

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remain g obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed disclosures to SSAP No. 60, with minor revisions. The adopted disclosures are required for 2009 year-end reporting, with annual reporting required thereafter. Interim reporting is also required if a significant change has occurred. The adopted disclosure requirements are as follows:

Disclosures

13. Financial guaranty insurers shall make all disclosures required by paragraphs 14-16 as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within paragraph 15 and 16, all "expected" amounts and terms should be determined in accordance with management estimates.) In all instances, the insurer shall disclose when they elect to reflect timeframes or recognition principles from FAS 163 as permitted within the disclosure requirements.

14. An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

15. To meet the disclosure objective in paragraph 14, an insurance enterprise shall disclose the following information for each annual reporting statement, and in any interim period if a significant change has occurred in that interim period:

a. For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

   (1) The unearned premium revenue as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception[1].

b. A schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

   (1) The four quarters of the subsequent annual period and each of the next four annual periods

   (2) The remaining periods aggregated in five-year increments

c. A rollforward of the expected future premiums (undiscounted), including:

   (1) Expected future premiums – Beginning of Year

   (2) Less - Premium payments received for existing installment contracts

   (3) Add – Expected premium payments for new installment contracts

   (4) Adjustments to the expected future premium payments

   (5) Expected future premiums – End of Year

d. For non-installment contracts for which premium revenue recognition has been accelerated, the amount and reasons for acceleration.

[1] If desired, a reporting entity that follows FAS 163 for GAAP may elect to report this disclosure in accordance with the revenue recognition principles of FAS 163.

e. A schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

(1) The four quarters of the subsequent annual period and each of the next four annual periods

(2) The remaining periods aggregated in five year increments

f. For the claim liability[2]

(1) The rate used to discount the claim liability. This rate[3] shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

(2) The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

g. A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

(1) A description of each grouping or category used to track and monitor deteriorating insured financial obligations

(2) The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

(3) The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

16 An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

a. A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations (see Appendix A):

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average[4] contract period

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[2] The reference to "claim liability" throughout the disclosure requirements shall reflect the "reserves for unpaid losses and loss adjustment expenses" from paragraphs 6 and 7 of this Statement.

[3] The annual discount rate calculated pursuant to this paragraph shall be utilized for the subsequent year's quarterly financial statements. Per paragraph 7, the discount rate shall be adjusted at the end of each year.

(3) Insured contractual payments outstanding[5], segregating principal and interest

(4) Gross claim liability[6]

(5) Gross potential recoveries[7]

(6) Discount, net (both claim liability and potential recoveries)[8]

(7) Net claim liability[9]

(8) Reinsurance recoverables[10]

(9) Unearned premium revenue[11]

17. ~~14.~~ Refer to the preamble for further discussion regarding disclosure requirements.

SSAP No. 60 - Appendix A – Disclosure Illustration

A1. The example below assumes the insurance enterprise uses a surveillance list with four surveillance categories to track and monitor its insured financial obligations. The surveillance list and four surveillance categories are used for illustrative purposes only. The surveillance categories shown below describe the claim liability before the mitigating effects of potential recoveries. The following are brief descriptions of each surveillance category to provide context to the example:

---

[4] Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[5] Contractual payments outstanding shall be based on management's estimates of receivables. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.

[6] Represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAP No. 55 and SSAP No. 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.

[7] Includes (a) subrogation recoveries, which are deducted from the gross claim liabilities in accordance with paragraph 12 of SSAP No. 55 and (b) ceded reinsurance recoveries on unpaid losses, which are deducted from the gross claim liability in accordance with paragraph 83.a. of SSAP No. 62.

[8] Represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.

[9] Represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the sum of line 10, column 8 and column 9 (financial guaranty net unpaid losses and net unpaid loss adjustment expenses) of the Underwriting and Investment Exhibit, Part 2a – Unpaid Losses and Loss Adjustment Expenses.

[10] Represents reinsurance recoverables on paid losses which is reported as an asset with paragraph 20 of SSAP No. 62. This line should reconcile to "Amounts recoverable from reinsurers" on the balance sheet.

[11] Unearned premium revenue (UPR) should be consistent with the UPR measurement principles of SSAP No. 60. UPR reported in this schedule may not reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums. To the extent that this amount does not reconcile to line 10, column 5 of the *Underwriting and Investment Exhibit, Part 1a – Recapitulation of Premiums*, provide an additional reconciliation to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a in a footnote to the tabular disclosures required in paragraph 16.

a. Category A includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

b. Category B includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

c. Category C includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

f. Category D includes insured financial obligations where an event of default has occurred.

	Surveillance Categories				
	A	B	C	D	Total
Number of policies	37	16	5	4	62
Remaining weighted-average contract period (in years)	16	14	11	12	
Insured contractual payments outstanding:					
Principal	$ 656,000,000	$ 409,000,000	$ 196,000,000	$ 111,000,000	$ 1,372,000,000
Interest	478,000,000	298,000,000	150,000,000	73,000,000	999,000,000
Total	$ 1,134,000,000	$ 707,000,000	$ 346,000,000	$ 184,000,000	$ 2,371,000,000
Gross claim liability	$ 1,045,000,000	$ 690,000,000	$ 330,000,000	$ 184,000,000	$ 2,249,000,000
Less:					
Gross potential recoveries	752,000,000	381,000,000	29,000,000	7,000,000	1,169,000,000
Discount, net	159,000,000	153,000,000	125,000,000	78,000,000	515,000,000
Net claim liability	$ 134,000,000	$ 156,000,000	$ 176,000,000	$ 99,000,000	565,000,000
Unearned premium revenue	$ 7,000,000	$ 4,000,000	$ 2,000,000	$ - (b)	$ 13,000,000
Reinsurance recoverables	$ 10,000,000	$ 19,000,000	$ 25,000,000	$ 27,000,000	$ 81,000,000

(b) In this instance, it is assumed that once an insured financial obligation is in Category D, the only remain g obligation of the insurance enterprise is making claim payments. As such, all related balances of the insured financial obligation are written off, including the unearned premium revenue.

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Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Securities with Multiple NAIC Designations

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐

Description of Issue:

The recent economic turmoil has resulted in large part from the deterioration of the mortgage markets, for which many securities were given the highest quality rating by the Nationally Recognized Statistical Ratings Organizations (NRSROs). Recent NRSRO downgrades of Residential Mortgage Backed Securities (RMBS) have highlighted concerns of tying regulatory capital requirements to credit ratings. The Rating Agency Working Group held hearings in 2009, and rating agencies have also indicated concerns with relying on credit ratings for that purpose.

The Valuation of Securities Task Force has recently adopted a proposal (known as the RMBS proposal) which provides for a new process for determining the NAIC designation for this class of securities. Essentially, the final NAIC designation will no longer be based solely on the ARO rating for some securities. For each security subject to this process, there will be multiple NAIC designations and the final NAIC designation will be determined through a two step process.

As the NAIC designation has an impact on the value reported on the annual statement, and the NAIC designation for some loan-backed securities will be determined in a different way, changes to statutory accounting are needed to accommodate this change in determining the NAIC designation.

Existing Authoritative Literature:
SSAP No.43 Revised—Loan-backed and Structured Securities (SSAP No. 43R) provides the following.

> *Reporting and Impairment Guidance for All Loan-Backed and Structured Securities*
>
> 25. Loan-backed securities shall be valued and reported in accordance with this statement, the *NAIC Purposes and Procedures of the Securities Valuation Office* manual, and the designation assigned in the NAIC Valuations of Securities product prepared by the NAIC Securities Valuation Office. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
>
> 26. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance *with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

27. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs 32-36). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):

Issues related to the RMBS proposal have been discussed at the Valuation of Securities Task Force and the Rating Agency Working Group. The VOSTF agreed to pursue the RMBS proposal in October 2009.

In September, 2009, the National Association of Insurance Commissioners (NAIC) held a public hearing to explore the reliance by financial and insurance regulators on ratings of creditworthiness produced by Nationally Recognized Statistical Ratings Organizations (NRSRO).

The NAIC Executive and Plenary are scheduled to discuss the issue on November 5, 2009.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
See minutes of other NAIC groups cited in the history section.

Recommended Conclusion or Future Action on Issue:
Attached is a draft copy of changes to SSAP No. 43R to be consistent with the RMBS proposal. As the RMBS proposal has received extensive discussion at other NAIC groups, expedited exposure is requested to allow changes to be effective for year end 2009 reporting.

The Working Group should also be aware that additional classes of loan-backed securities will likely be considered for future reporting.

Recommending Party:
Matti Peltonen,
New York Insurance Department
Chair of the Valuation of Securities Task Force
October, 27, 2009

Staff Recommendation:
NAIC Staff has reviewed the language, and notes it is consistent with our understanding of the RMBS proposal. Staff recommends exposure of the revisions to SSAP No. 43R, which adds a new paragraph 26 and renumbers subsequent paragraphs, as shown in the attached (**Attachment 2**). Staff is undecided whether this is a substantive or a nonsubstantive change, as staff can see possible arguments for both sides. However, given that this might be seen as a change in accounting method, and it is important to make clear both the effective date and a prospective method of adoption, staff has drafted this in the nature of a substantive change. To provide clarity regarding timing and method of adoption, wording is also added to the effective date section to allow for prospective application and year-end 2009 reporting.

For year end 2009, it is expected that there will be many manual processes that will need to be developed to allow for this proposal. NAIC Staff has also developed examples that are useful for understanding the guidance; some of the information in the examples is may be considered reporting guidance (**Attachment 1**). Staff proposes that these examples should ultimately be in some type of accounting and reporting temporary guidance document, rather than in SSAP No. 43R. NAIC Staff recommends that the Working Group receive comments on the examples, finalize the examples and recommend their inclusion in the guidance documents that will be needed for year end 2009 reporting.

NAIC Staff also recommends that after finalization of the revisions to SSAP No. 43R, that that the currently exposed Issue Paper 140—*Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities (SSAP No. 43R),* **not be finalized** until it is amended to reflect whatever substantive changes are adopted (if the change is deemed substantive).

New paragraph 26 wording is as follows:

Reporting and Impairment Guidance for All Loan-Backed and Structured Securities

25. Loan-backed securities shall be valued and reported in accordance with this statement, the *NAIC Purposes and Procedures of the Securities Valuation Office* manual, and the designation assigned in the NAIC Valuations of Securities product prepared by the NAIC Securities Valuation Office. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

26. The *NAIC Purposes and Procedures of the Securities Valuation Office manual* identifies which method loan-backed securities are subject to in determining NAIC designation. Securities within the scope of this statement will determine the NAIC designation as follows:

a. For loan-backed securities subject to a single designation:
The NAIC designation is the single designation assigned to a particular CUSIP in the Valuation of Securities product (either assigned by the NAIC Securities Valuation Office, or determined by the Filing Exempt process). This designation establishes the carrying value method as described in paragraph 25 and is reported in Schedule D. or

b. For loan-backed securities subject to multiple designations:
Securities subject to multiple designations shall use a two-step process for determining the carrying value method and final NAIC designation;

i. Step 1: The current amortized cost of a loan-backed security is compared to the range of values assigned to the six (6) NAIC designations for each CUSIP to establish the **initial** NAIC designation. The carrying value method, either the amortized cost or the lower of amortized cost or fair value, is then determined as described in paragraph 25 based upon the **initial** NAIC designation.

ii. Step 2: The final NAIC designation that shall be used for reporting is determined by comparing the carrying value of a security (based on paragraph 26 b.i.) to the range of values assigned to the six (6) NAIC designations for each CUSIP. This final NAIC designation shall be applicable for all statutory accounting and reporting purposes (including establishing the AVR charges), except for establishing the appropriate carrying value method in Step 1(paragraph 26 b.i.).

Illustration of Two-Step Method for Determining Designation and Reported Value:

1. Identify CUSIP for security subject to multiple designations

2. Calculate current amortized cost for security subject to multiple designations (amortized cost shall be utilized for this step, regardless if security was previously held at fair value.)

3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation

4. Determine NAIC valuation method by applying the initial NAIC designation to SSAP 43R, Paragraph 25.

5. Report appropriate carrying value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified.

6. Compare carrying value to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation to be reported in Schedule D.

Assumed range of values for example CUSIP:

Ranges of Values			
Designation	Price	P/C and Health RBC %	Life RBC %
1	51-60	0.3%	0.4%
2	61-70	1.0%	1.3%
3	71-80	2.0%	4.6%
4	81-85	4.5%	10%
5	86-90	10%	23%
6	91+	30%	30%

For all Scenarios: Par Value = $100, Fair Value = $60
The same CUSIP is considered for all scenarios, illustrating that different companies may apply different valuations and RBC thresholds depending on the company's specific carrying value for the security.

Scenario 1a – Property and Casualty Company – Amortized Cost is $75

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $75
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 3
4. Determine NAIC valuation method for Initial NAIC 3 = Lower of Amortized Cost or Fair Value for reporting entities without an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $60 fair value.
6. Compare carrying value ($60) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 1. (This will result in an RBC Charge of 0.3%)

Scenario 1b – Life Company – Amortized Cost is $75

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $75
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 3
4. Determine NAIC valuation method for Initial NAIC 3 = Amortized Cost for reporting entities that maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value for the NAIC valuation method identified = $75 amortized cost.
6. Compare carrying value ($75) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 3. (This will result in a pre-tax RBC Charge of 4.6%)

Scenario 2a – Property and Casualty Company – Amortized Cost is $60

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $60
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 1
4. Determine NAIC valuation method for Initial NAIC 1 = Amortized Cost for reporting entities that do not maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $60 amortized cost.
6. Compare carrying value ($60) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 1. (This will result in an RBC Charge of 0.3%)

Scenario 2b – Life Company – Amortized Cost is $60

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $60
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 1
4. Determine NAIC valuation method for Initial NAIC 1 = Amortized Cost for reporting entities that maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $60 amortized cost.
6. Compare carrying value ($60) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 1. This will result in a pre-tax RBC Charge of 0.4%)

Scenario 3a – Property and Casualty Company – Amortized Cost is $100

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $100
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 6
4. Determine NAIC valuation method for Initial NAIC 6 = Lower of Amortized Cost or Fair Value for reporting entities that do not maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $60 fair value.
6. Compare carrying value ($60) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 1. (This will result in an RBC Charge of 0.3%)

Scenario 3b – Life Company – Amortized Cost is $100

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $100

3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 6
4. Determine NAIC valuation method for Initial NAIC 6 = Lower of Amortized Cost or Fair Value for reporting entities that maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $60 fair value.
6. Compare carrying value ($60) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 1. (This will result in a pre-tax RBC Charge of 0.4%)

Scenario 4a – Property and Casualty Company – Amortized Cost is $65

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $65
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 2
4. Determine NAIC valuation method for Initial NAIC 2 = Amortized Cost for reporting entities that do not maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $65 amortized cost.
6. Compare carrying value ($65) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 2. (This will result in an RBC Charge of 1%)

Scenario 4b – Life Company – Amortized Cost is $65

1. Identify specific CUSIP = X123456X
2. Calculate current amortized cost for CUSIP = $65
3. Compare current amortized cost to Ranges of Values for each designation for the CUSIP and identify Initial NAIC designation = 2
4. Determine NAIC valuation method for Initial NAIC 2 = Amortized Cost for reporting entities that maintain an AVR
5. Report appropriate Carrying Value in Schedule D Book/Adjusted Carrying Value column for the NAIC valuation method identified = $65 amortized cost.
6. Compare carrying value ($65) to the Ranges of Values for each designation for the CUSIP and identify Final NAIC designation in Schedule D = 2. (This will result in a pre-tax RBC Charge of 1.3%)

Staff Review Completed by:
Robin Marcotte, October, 2009

Status:
On November 2, 2009, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to SSAP No. 43R, as illustrated below, to reflect the revised “Residential Mortgage-Backed Securities Designation Process” originating from the Valuation of Securities Task Force.

On December 5, 2009, the Statutory Accounting Principles Working Group adopted the nonsubstantive exposed revisions, illustrated below, as final. No changes were made to Issue Paper No. 140, as the change was deemed nonsubstantive.

~~With tracked changes to show as adopted by the Accounting Practices and Procedures Task Force and Financial Condition E Committee 9-17-09~~

Statement of Statutory Accounting Principles No. 43 - Revised

Loan-backed and Structured Securities

Status

Type of Issue:	Common Area
Issued:	September 17, 2009
Effective Date:	January 1, 2001; September 30, 2009; and December 5, 2009
Affects:	Supersedes SSAP No. 98; supersedes paragraph 13 of SSAP No. 99
Affected by:	Substantively revised in September 2009
Interpreted by:	INT 00-11, INT 02-07; INT 06-07, INT 07-01

Loan-backed and Structured Securities

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in loan-backed securities and structured securities. In accordance with *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R), retained beneficial interests from the sale of loan-backed securities and structured securities are accounted for in accordance with this statement. In this statement loan-backed securities and structured securities are collectively referred to as loan-backed securities.

SUMMARY CONCLUSION

2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor can look only to the issuer's assets (primarily the trusteed assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans or other securities. Some sponsors do guarantee the performance of the underlying loans.

5. Loan-backed securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

6. The scope of this statement encompasses all types of loan-backed and structured securities, including, but not limited to, the following:

   a. Loan-backed and structured securities acquired at origination,

   b. Loan-backed and structured securities acquired subsequent to origination for which it is probable, at acquisition, that the reporting entity will be **able** to collect all contractually required payments receivable, and are accounted for at acquisition under SSAP No. 91R,

   c. Loan-backed and structured securities for which it is probable, either known at acquisition or identified during the holding period[1], that the reporting entity will be **unable** to collect all contractually required payments receivable, and

   d. Beneficial interests that continue to be held by a reporting entity (transferor) in securitization transactions that are accounted for as sales under SSAP No. 91R and purchased beneficial interests in securitized financial assets[2].

[1] Securities classified within the type of paragraph 6.a. or 6.b. may be required to change classification to type 6.c. when it becomes probable that the reporting entity will be unable to collect all contractually required payments receivable.

7. At acquisition, loan-backed securities, except for loan-backed or structured securities that are beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount[3] (see paragraphs 20 through 24), shall be reported at cost, including brokerage and related fees. Cost shall not exceed fair value. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement loan-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.

8. Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method and shall be recorded as an adjustment to investment income. The interest method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the loan-backed securities is expected to occur, not the stated maturity period.

9. Interest shall be accrued using the effective-yield method using the redemption prices and redemption dates used for amortizing premiums and discounts. Interest income consists of interest collected during the period, the change in the due and accrued interest between the beginning and end of the period as well as reductions for premium amortization and interest paid on acquisition of loan-backed securities, and the addition of discount accrual. Contingent interest may be accrued if the applicable provisions of the underlying contract and the prerequisite conditions have been met.

10. For reporting entities required to maintain an IMR, the accounting for realized capital gains and losses on sales of loan-backed securities shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses on sales of loan-backed securities shall be recorded on the trade date and shall be reported as net realized capital gains or losses in the Statement of Income.

11. A loan-backed security may provide for a prepayment penalty or acceleration fee in the event the investment is liquidated prior to its scheduled termination date. These fees shall be reported as investment income when received.

Collection of All Contractual Cashflows is Probable

12. The following guidance applies to loan-backed and structured securities for which it is probable that the investor will be able to collect all contractually required payments receivable. (Paragraphs 17-19 provide guidance for securities in which collection of all contractual cash flows is not probable and paragraphs 20-24 provide guidance for beneficial interests.) Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security. Differences in cash flows can also result from other changes in the cash flows from the underlying assets. If assets are delinquent or otherwise not generating cash flow, which should be reflected in the cash flow analysis through diminishing security cash flows, even if assets have not been liquidated and gain/losses have not been booked.

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[2] The accounting requirements related to these type of securities included in paragraphs 20 through 24 shall be determined at acquisition or initial transfer.

[3] As referenced in the Relevant Literature section, this Statement adopts EITF 99-20, including the scope requirements of that guidance.

13. Changes in currently estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities shall be reviewed periodically, at least quarterly. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

14. Loan-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions, using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities. However, if at anytime during the holding period, the reporting entity determines it is no longer probable that they will collect all contractual cashflows, the reporting entity shall apply the accounting requirements in paragraphs 17 through 19.

15. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

16. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Collection of All Contractual Cashflows is Not Probable

17. The following guidance applies to loan-backed and structured securities with evidence of deterioration of credit quality since origination for which it is probable, either known at acquisition or identified during the holding period, that the investor will be unable to collect all contractually required payments receivable, except for those beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount determined at acquisition (see paragraphs 20 through 24).

18. The reporting entity shall recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan-backed or structured security as interest income on an effective-yield basis over the life of the loan-backed or structured security (accretable yield).[4] Any excess of contractually required cash flows over the cash flows expected to be collected is the nonaccretable difference. Expected prepayments shall be treated consistently for determining cash flows expected to be collected and projections of contractual cash flows such that the nonaccretable difference is not affected.

[4] A loan-backed or structured security may be acquired at a discount because of a change in credit quality or rate or both. When a loan-backed or structured security is acquired at a discount that relates, at least in part, to the security's credit quality, the effective interest rate is the discount rate that equates the present value of the investor's estimate of the security's future cash flows with the purchase price of the loan-backed or structured security.

Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

19. An investor shall continue to estimate cash flows expected to be collected over the life of the loan-backed or structured security. If, upon subsequent evaluation:

a. The fair value of the loan-backed or structured security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary. For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with paragraph 19.b.), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.

b. Based on current information and events, if there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan-backed or structured security as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment less (2) cash collected less (3) other-than-temporary impairments plus (4) amount of yield accreted to date. The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3), with the amount of periodic accretion adjusted over the remaining life of the loan-backed or structured security (prospective method).

Beneficial Interests

20. The following paragraphs provide statutory accounting guidance for interest income and impairment for a reporting entity that continues to hold an interest in securitized financial assets accounted for as sales under SSAP No. 91R, or that purchases a beneficial interest in securitized financial assets that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount, determined at acquisition or the date of transfer[5]. Beneficial interests that are of high credit quality and cannot contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded investment, shall be accounted for in accordance with paragraphs 12 through 16.

21. The reporting entity shall recognize the excess of all cash flows attributable to the beneficial interest estimated at the acquisition/transaction date (referred to herein as the transaction date) over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the holder of the beneficial interest is the reporting entity that transferred the financial assets for securitization, the initial investment would be the allocated carrying amount after application of the relative fair value allocation method required by SSAP No. 91R. The amount of accretable yield shall not be displayed in the balance sheet.

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[5] The accounting requirements related to these type of securities included in paragraphs 20 through 24 shall be determined at acquisition or initial transfer. As referenced in the Relevant Literature section, this Statement adopts EITF 99-20, including the scope requirements of that guidance.

22. The reporting entity that holds a beneficial interest shall continue to update the estimate of cash flows over the life of the beneficial interest. If upon evaluation:

a. Based on current information and events it is probable that there is a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected, then the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of estimated cash flows over the beneficial interest's reference amount (the reference amount is equal to (1) the initial investment less (2) cash received to date less (3) other-than-temporary impairments recognized to date [as described in paragraph 22(b)] plus (4) the yield accreted to date. The adjustment shall be accounted for prospectively as a change in estimate in conformity with SSAP No. 3, with the amount of periodic accretion adjusted over the remaining life of the beneficial interest. Based on estimated cash flows, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety.

b. The fair value of the beneficial interest has declined below its reference amount; a reporting entity shall determine whether the decline is other-than-temporary. If, based on current information and events it is probable that there has been an adverse change in estimated cash flows (in accordance with paragraph 22(a) above), then (1) an other-than-temporary impairment shall be considered to have occurred and (2) the beneficial interest shall be written down to the current estimate of cash flows at the financial reporting date discounted at a rate equal to the current yield used to accrete the beneficial interest with the resulting change being recognized as a realized loss. Determining whether there has been a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected (taking into consideration both the timing and amount of the estimated cash flows) involves comparing the present value of the remaining cash flows as estimated at the initial transaction date (or at the last date previously revised) against the present value of the cash flows estimated at the current financial reporting date. The cash flows shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is less than the present value of the current estimate of cash flows expected to be collected, the change is considered favorable (that is, an other-than-temporary impairment shall be considered to have not occurred). If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is greater than the present value of the current estimated cash flows, the change is considered adverse (that is, an other-than-temporary impairment shall be considered to have occurred). However, absent any other factors that indicate an other-than-temporary impairment has occurred, changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest generally shall not result in the recognition of an other-than-temporary impairment[6] (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).

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[6] Changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater) generally should not result in the recognition of an other-than-temporary impairment. For plain-vanilla, variable-rate beneficial interests, the yield is changed to reflect the revised interest rate based on the contractual interest rate reset formula. For example, if a beneficial interest pays interest quarterly at a rate equal to LIBOR plus 2 percent, the yield of that beneficial interest is changed prospectively to reflect changes in LIBOR. However, changes in the fair value of a plain-vanilla, variable-rate beneficial interest due to credit events should be considered when evaluating whether there has been an other-than-temporary impairment.

23. All cash flows estimated at the transaction date are defined as the holder's estimate of the amount and timing of estimated future principal and interest cash flows used in determining the purchase price or the holder's fair value determination for purposes of determining a gain or loss under SSAP No. 91R. Subsequent to the transaction date, estimated cash flows are defined as the holder's estimate of the amount and timing of estimated principal and interest cash flows based on the holder's best estimate of current information and events. A change in estimated cash flows is considered in the context of both timing and amount of the estimated cash flows.

24. In situations in which it is not practicable for a transferor to estimate the fair value of the beneficial interest at the initial transfer date, interest income shall not be recognized using the interest method. For these beneficial interests (that is, those beneficial interests that continue to be held by a transferor that are recorded at $0 pursuant to SSAP No. 91R), the transferor shall use the cash basis for recognizing interest income because the beneficial interest will have an allocated carrying amount of zero.

Reporting and Impairment Guidance for All Loan-Backed and Structured Securities

25. Loan-backed securities shall be valued and reported in accordance with this statement, the *NAIC Purposes and Procedures of the Securities Valuation Office* manual, and the designation assigned in the NAIC Valuations of Securities product prepared by the NAIC Securities Valuation Office. For reporting entities that maintain an Asset Valuation Reserve (AVR), loan-backed securities shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

26. The *NAIC Purposes and Procedures of the Securities Valuation Office manual* identifies which method loan-backed securities are subject to in determining NAIC designation. Securities within the scope of this statement will determine the NAIC designation as follows:

a. For loan-backed securities subject to a single designation:
The NAIC designation is the single designation assigned to a particular CUSIP in the Valuation of Securities product (either assigned by the NAIC Securities Valuation Office, or determined by the Filing Exempt process). This designation establishes the carrying value method as described in paragraph 25 and is reported in Schedule D. or

b. For loan-backed securities subject to multiple designations:
Securities subject to multiple designations shall use a two-step process for determining the carrying value method and final NAIC designation;

i. Step 1: The current amortized cost of a loan-backed security is compared to the range of values assigned to the six (6) NAIC designations for each CUSIP to establish the **initial** NAIC designation. The carrying value method, either the amortized cost or the lower of amortized cost or fair value, is then determined as described in paragraph 25 based upon the **initial** NAIC designation.

ii. Step 2: The final NAIC designation that shall be used for reporting is determined by comparing the carrying value of a security (based on paragraph 26 b.i.) to the range of values assigned to the six (6) NAIC designations for each CUSIP. This final NAIC designation shall be applicable for all statutory accounting and reporting purposes (including establishing the AVR charges), except for establishing the appropriate carrying value method in Step 1(paragraph 26 b.i.).

~~26.~~27. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance *with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

~~27.~~28. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs ~~32~~33-~~36~~37). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

~~28.~~29. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss (including any cumulative-effect adjustments recognized in accordance with paragraphs ~~55~~ 56 through ~~57~~ 58 of this Statement).

~~29.~~30. If an entity intends to sell the loan-backed or structured security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

~~30.~~31. If an entity does not intend to sell the loan-backed or structured security, the entity shall assess whether it has the intent and ability[7] to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

~~31.~~32. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security and the entity has the intent and ability to hold. Therefore, in those situations, an other-than temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a non-interest related decline[8] exists), and an other-than-temporary impairment shall be considered to have occurred. A decrease in cashflows expected to be collected on a loaned-backed or structured security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

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[7] This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this Statement (amortized cost).

[8] A non-interest related decline is a decline in value due to fundamental credit problems of the issuer. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due. An interest related decline in value may be due to both increases in the risk-free interest rate and general credit spread widening.

~~32.~~33. In determining whether a non-interest related decline exists, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired loan-backed or structured security, discounted at the security's effective interest rate.

a. For securities accounted for under paragraphs 12 through 16 – the effective interest rate of the loan-backed or structured security is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).[9]

b. For securities accounted for under paragraphs 17 through 19 – the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment.

c. For securities accounted for under paragraphs 20 through 24 – the reporting entity shall apply the guidance in paragraph 22.b.

~~33.~~34. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. (This guidance includes loan-backed securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized.)

~~34.~~35. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate in accordance with paragraph 32. (This guidance includes loan-backed securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities due to the reporting requirements.)

~~35.~~36. For reporting entities required to maintain an AVR or IMR, the accounting for the other-than-temporary impairment shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Non-interest related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

~~36.~~37. For situations where an other-than-temporary impairment is recognized pursuant to paragraphs ~~33~~34 and ~~34~~35 of this Statement, the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. Therefore, the prospective adjustment method shall be used for periods subsequent to loss recognition.

[9] See Footnote 1.

~~37.~~38. In periods subsequent to the recognition of an other than temporary impairment loss for a loan-backed or structured security, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. A reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

a. For securities accounted for under paragraphs 12 through 19, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield in accordance with paragraphs 17 through 19. The security shall continue to be subject to impairment analysis for each subsequent reporting period. The new amortized cost basis shall not be changed for subsequent recoveries in fair value. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

b. For beneficial interests accounted for under paragraphs 20 through 24, a reporting entity shall apply the guidance in paragraphs 21 through 22 to account for changes in cash flows expected to be collected.

~~38.~~39. It is inappropriate to automatically conclude that a security is not other-than-temporarily impaired because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents an other-than-temporary impairment. Further analysis and judgment are required to assess whether a decline in fair value indicates that it is probable that the holder will not collect all of the contractual or estimated cash flows from the security. In addition, the length of time and extent to which the fair value has been less than cost can indicate a decline is other than temporary. The longer and/or the more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that it is probable that the holder will not collect all of the contractual or estimated cash flows from the issuer of the security.

~~39.~~40. In making its other-than-temporary impairment assessment, the holder shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows. Such information generally shall include the remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral. To achieve that objective, the holder shall consider, for example, industry analyst reports and forecasts, sector credit ratings, and other market data that are relevant to the collectibility of the security. The holder also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by "nontraditional loans"[10]). Thus, the holder shall consider whether a security backed by currently

[10] A nontraditional loan may have features such as (a) terms that permit principal payment deferral or payments smaller than interest accruals (negative amortization), (b) a high loan-to-value ratio, (c) multiple loans on the same collateral that when combined result in a high loan-to value ratio, (d) option adjustable-rate mortgages (option ARMs) or similar products that may expose the borrower to future increases in repayments in excess of increases that result solely from increases in the market interest rate (for example, once negative amortization results in the loan reaching a maximum principal accrual limit), (e) an initial interest rate that is below the market interest rate for the initial period of the loan term and that may increase significantly when that period ends, and (f) interest-only loans that should be considered in developing an estimate of future cash flows.

performing loans will continue to perform when required payments increase in the future (including "balloon" payments). The holder also shall consider how the value of any collateral would affect the expected performance of the security. If the fair value of the collateral has declined, the holder needs to assess the effect of that decline on the ability of the holder to collect the balloon payment.

Origination Fees

~~40.~~41. Origination fees represent fees charged to the borrower in connection with the process of originating or restructuring a transaction. The fees include, but are not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to such a transaction. Origination fees shall not be recorded until received in cash. Origination fees intended to compensate the reporting entity for interest rate risks (e.g., points), shall be amortized into income over the term of the loan-backed security consistent with paragraph 8 of this statement. Other origination fees shall be recorded as income upon receipt.

Origination, Acquisition, and Commitment Costs

~~41.~~42. Costs related to origination when paid in the form of brokerage and other related fees shall be capitalized as part of the cost of the loan-backed security, consistent with paragraph 7 of this statement. All other costs, including internal costs or costs paid to an affiliated entity related to origination, purchase, or commitment to purchase loan-backed securities, shall be charged to expense when incurred.

Commitment Fees

~~42.~~43. Commitment fees are fees paid to the reporting entity that obligate the reporting entity to make available funds for future borrowing under a specified condition. A fee paid to the reporting entity to obtain a commitment to make funds available at some time in the future, generally, is refundable only if the loan-backed security is issued. If the loan-backed security is not issued, then the fees shall be recorded as investment income by the reporting entity when the commitment expires.

~~43.~~44. A fee paid to the reporting entity to obtain a commitment to borrow funds at a specified rate and with specified terms quoted in the commitment agreement, generally, is not refundable unless the commitment is refused by the reporting entity. This type of fee shall be deferred, and amortization shall depend on whether or not the commitment is exercised. If the commitment is exercised, then the fee shall be amortized in accordance with paragraph 8 of this statement over the life of the loan-backed security as an adjustment to the investment income on the loan-backed security. If the commitment expires unexercised, the commitment fee shall be recognized in income on the commitment expiration date.

Giantization/Megatization of FHLMC or FNMA Mortgage Backed Securities

~~44.~~45. Giantization/megatization of mortgage backed securities is defined as existing pools of FHLMC or FNMA mortgage-backed securities (MBS) with like coupon and prefix which are repooled together by the issuing agency creating a new larger security. The new Fannie Mae "Mega" or Freddie Mac "Giant" is a guaranteed MBS pass-through representing an undivided interest in the underlying pools of loans.

~~45.~~46. The benefits derived from giantization/megatization include:

a. Increased liquidity: Smaller MBS pools (particularly those with current face of less than $1 million) are less liquid than mortgage pools with current faces exceeding $5 million. Repooling smaller MBS pools into one larger pool improves the marketability for the aggregate package;

b. Geographic diversity: Regrouping of multiple pools generally will create greater geographic pool loan diversity resulting in less prepayment variation due to regional economic factors;

c. Reduced administrative expenses: The reduced number of pools lowers bank custodial fees, pricing/factor service fees, and increases efficiency for the accounting and investment departments.

~~46.~~47. Repooled FHLMC and FNMA securities meet the definition of substantially the same as defined in *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The transaction shall not be considered a sale/purchase and no gain or loss shall be recognized. To properly document the repooling, the transaction shall be reported through Schedule D of the Annual Statement as a disposition and an acquisition.

~~47.~~48. Transaction fees charged by the issuing agencies shall be capitalized and amortized over the life of the repooled security.

Disclosures

~~48.~~49. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed securities shall be made in the financial statements. Regardless of the allowances within paragraph 59 of the Preamble, the disclosures in paragraph ~~48f~~49f, ~~48g~~ 49g and ~~48h~~ 49h are required in separate, distinct notes to the financial statements:

a. Fair values in accordance with SSAP No. 27—Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments (SSAP No. 27);

b. Concentrations of credit risk in accordance with SSAP No. 27;

c. Basis at which the loan-backed securities are stated;

d. The adjustment methodology used for each type of security (prospective or retrospective);

e. Descriptions of sources used to determine prepayment assumptions.

f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.

g. For each security with a recognized other-than-temporary impairment, currently held by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

   i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

   ii. The other-than-temporary impairment recognized in earnings as a realized loss.

   iii. The fair value of the security.

iv. The amortized cost basis after the current-period other-than-temporary impairment.

h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of securities with unrealized losses.

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 27.

j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

k. When it is not practicable to estimate fair value in accordance with SSAP No. 27, the investor should disclose the following additional information, if applicable:

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

~~49.~~50. Refer to the preamble for further discussion regarding disclosure requirements. All disclosures within this Statement shall be included within the interim and annual statutory financial statements.

Relevant Literature

~~50.~~51. This statement adopts *FASB Emerging Issues Task Force No. 99-20*, *Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security and FASB Staff Position EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20.* This statement adopts paragraphs 5, 7 and 9 of AICPA *Statement of Position 03-03, Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-03) for loan-backed and structured securities only. With the exception of this specific adoption, consideration of SOP 03-03 is still pending consideration for statutory accounting.

~~51.~~52. This statement rejects *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*.

~~52.~~53. This statement also rejects *FASB Emerging Issues Task Force No. 89-4, Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate, FASB Emerging Issues Task Force No. 90-2, Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security, FASB Emerging Issues Task Force No. 93-18, Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate*, and *FASB Emerging Issues Task Force No. 96-12, Recognition of Interest Income and Balance Sheet Classification of Structured Notes*.

Effective Date and Transition

~~53.~~54. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

~~54.~~55. For securities purchased prior to January 1, 1994, where historical cash flows are not readily available for applying the retrospective method, the reporting entity may use January 1, 1994 as the acquisition date and the then book value as the cost for purposes of determining yield adjustments in future periods.

~~55.~~56. This revised statement (except for the new paragraph 26 inserted in December 2009) supersedes SSAP No. 98 and paragraph 13 of SSAP No. 99 effective September 30, 2009. For reporting entities that either early adopted the requirements of SSAP No. 98 or previously adopted a statutory accounting policy that was in accord with the prescriptions of SSAP No. 98, for which an other-than-temporary impairment was previously recognized, and if such reporting entities do not intend to sell the security, and have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, those reporting entities shall recognize the cumulative effect of reversing the impact of the adoption of SSAP No. 98, or an equivalent statutory accounting policy, and paragraph 13 of SSAP No. 99 as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements.

~~56.~~57. The accounting and reporting requirements of this revised statement (except for the new paragraph 26 inserted in December 2009) shall be applied to existing and new investments held by a reporting entity on or after September 30, 2009. For loan-backed and structured securities held at the beginning of the interim period of adoption (July 1, 2009) and continue to be held as of September 30, 2009, for which an other-than-temporary impairment was previously recognized under SSAP No. 43, if a reporting entity does not intend to sell the security, and has the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the reporting entity shall recognize the cumulative effect of initially applying this revised statement as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements. The cumulative effect on unassigned funds (surplus) shall be calculated by comparing the present value of the cash flows expected to be collected determined in accordance with the methodology in paragraph ~~32~~33, as applicable, with the amortized cost basis of the loan-backed and structured security as of the beginning of the interim period in which this revised statement is adopted (July 1, 2009). The cumulative-effect adjustment shall include related tax effects. The discount rate used to calculate the present value of the cash flows expected to be collected shall be the rate in effect before recognizing any other-than-temporary impairments and not a rate that has been adjusted to reflect those impairments.

~~57.~~58. The amortized cost basis of a security for which an other-than-temporary impairment was previously recognized shall be adjusted by the amount of the cumulative-effect adjustment before taxes. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income (see paragraph ~~37~~38).

~~58.~~59. In the period of adoption, an entity shall provide the disclosures required by SSAP No. 3 for changes in accounting principles.

60. In December 2009, a new paragraph 26 was inserted and subsequent paragraphs were renumbered. These changes were related to a new method of determining the final NAIC designation. Substantive revisions related to determining the final NAIC designation, are effective for reporting periods ending on or after December 31, 2009. Changes related to determining the final NAIC designation will be accounted for on a prospective basis. No cumulative effect adjustments or application

of the NAIC designation guidance to prior events or periods are permitted, similar to a change in accounting estimate.

AUTHORITATIVE LITERATURE

Statutory Accounting

- NAIC *Purposes and Procedures of the Securities Valuation Office*
- NAIC *Valuations of Securities* manual prepared by the Securities Valuation Office

RELEVANT ISSUE PAPERS

- Issue Paper No. 43—Loan-backed and Structured Securities
- Issue Paper No. 140—Loan-backed and Structured Securities, Revised September, 2009

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Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Pending Listing
November 17, 2009

Ref #	Stmt. Ref.	Title	Proposed By	Description of Proposed Change	Priority	Date Added	Status
2007-03	6, 64	Reporting of premium receivables with credit balances on group contracts	Emerging Accounting Issue WG Referral	Asks questions about the proper reporting of premium receivable with credit balances on group contracts (gross or net reporting)	A	2/26/2007	Staff to prepare language for consideration.
2007-04	26-30, 32	Investments in Lots	Emerging Accounting Issue WG Referral	Addresses footnote 1 to paragraph 7 of FSP FAS 115-	A	2/26/2007	Staff has begun work on this issue.
2008-23	61	Modal Reinsurance Premium	CA DOI	Recommends clarifications to SSAP No. 62, related to when the reinsurance payment is less frequent than premium from the insured.	A	8/11/2008	Fall 2008 - Item was deferred to allow for further good faith efforts to resolve this accounting issue. Winter 2008 - Deferred action with conference calls anticipated.
2009-18	43R	Securities with Multiple NAIC Designations	VOSTF	Chnages to provide consistency with RMBS proposa;	A	10/29/2009	Fall 2009 - Revisions exposed for comment. **Discussion planned Winter 2009**.
2009-19	*43R*	*Question and Answer Implementation Guide*	*NAIC*	*Proposes nonsubstantive revisions to SSAP No. 43R to incorporate a Question and Answer Implementation Guide as well as revisions to the quarterly disclosure requirements.*	*A*	*11/17/2009*	***Discussion Planned Winter 2009***
2009-20	*IP 99*	*ASU 2009-20 - Omnibus Update - Amendments to Various Topics for Technical Corrections*	*GAAP Hierarchy*	*Proposes rejection as not applicable to statutory accounting*	*A*	*11/17/2009*	***Discussion Planned Winter 2009***

Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Substantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2001-32	SSAP No. 62	Quarterly Computation of Provision for Reinsurance	NAIC Staff	Nonsubstantive modification to provide computation of Provision for Reinsurance in SSAP No. 62	A	12/10/2001	Moved from nonsubstantive list on 12/10/01 for further study. Reinsurance Subgroup will address.
2002-10	SSAP No. 61 SSAP No. 62	Consistent application of 90 day nonadmission rule for reinsurance recoverable	Referral from EAIWG	Nonadmission and the 90 Day Rule	A	6/10/2002	Reinsurance Subgroup has been formed and will report to the WG
2003-01	SSAP No. 21	Investments in Guaranteed Investment Contracts	SVO Oversight Working Group	Form A recommends referral to the VOSTF.	A	3/10/2003	Substantive change to SSAP No. 21 referred to the Invested Assets WG for comment.
2003-12	SSAP No. 5, INT 01-03 & INT 01-31	Consideration of FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others	GAAP Hierarchy	Review of GAAP pronouncement to determine applicability to SAP.	A	6/23/2003	June 2003 - NAIC staff directed to draft an IP. October 2008 - Staff has prepared an Issue Paper proposing adoption with modification of FIN 45. Substantive revisions are proposed for inclusion in SSAP No. 5 to clarify that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 and FSP FIN 45-4 are also proposed for adoption. Winter 2008 - Exposed Issue Paper No. 135 for comment. Spring 2009 - The Working Group directed staff to modify Issue Paper No. 135 prominently including related party guarantees guidance within the body of the accounting guidance. Interested parties agreed to provide input on valuation of guarantees between related parties. Summer 2009 - Exposed revised Issue Paper No. 135. Fall 2009 - Adopted Issue Papers and directed staff to expose SSAP No. 5R for comment. **Discussion expected in Winter 2009.**
2003-16	SSAP No. 53 and others	Statutory Accounting Treatment of Bail Premiums	American Surety Company	Proposes changing how bail bond premium is reported and accounted for, in addition immigration bonds will also be considered	A	6/23/2003	Bail Bond Subgroup will meet in 2009.
2003-22	INT 03-02	Modification to an Existing Intercompany Pooling Arrangements.	Referral from EAIWG	Review intercompany pooling guidance in SSAP No. 61, SSAP No. 62 and SSAP No. 63 for clarification.	A	6/23/2003	Referred the issue to the Reinsurance Subgroup of the SAPWG.
2004-33	IP No. __	EITF 03-8: Accounting for Claims Made and Retroactive Insurance Contracts by the Insured Entity.	Referral from EAIWG to SAPWG	EITF 03-8 presents guidance for claims-made reinsurance policies that specifically scopes in insurance companies. New SAP guidance may be necessary.	A	12/6/2004	Working Group review pending.
2006-13	SSAP 13	FAS 123(R): Share-based Payment (FAS 123(R))	GAAP Hierarchy	Proposes moving the item to the substantive active listing and directing NAIC staff to draft an Issue Paper.	A	6/12/2006	Comments on Issue Paper No. 129 will be discussed with interested parties.
2006-14	SSAP 35	Modify SSAP No. 35 for Property and Casualty Assessments	Interested Parties	Proposes Modifications to SSAP No 35 for property and casualty assessments	A	6/12/2006	Received an update on Guaranty Fund Subgroup, noting that survey results will be distributed in 2nd quarter 2007. Fall 2008 - Interested parties comments indicate that they will be submitting a proposal to amend SSAP No. 35 to the SSAP No. 35 Subgroup. The proposal recommends adoption of AICPA SOP 97-3, Accounting for Guaranty Fund and Other Insurance Related Assessments with certain limitations that would be carried over from SSAP 35 into the new guidance, e.g., the requirement to report assessments in Taxes, Licenses and Fees and the recognition criteria from SSAP No. 5. Winter 2008 - Received interested party proposal for adoption SOP 97-3. Noted that proposal would be considered by the Guaranty Fund Subgroup. Summer 2009 - Received update that Subgroup will have a call in the third quarter. Fall 2009 - Subgroup advised that an issue paper will be drafted to propose adoption of SOP 97-3. **Discussion expected in Winter 2009.**

Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Substantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2006-18	SSAP 10	FIN 48 - Accounting for Uncertainty in Income Taxes	GAAP Hierarchy	Amend SSAP No. 10 to adopt FIN 48 with modification.	A	8/18/2006	Referred the draft issue paper and comments received from interested parties to the Subgroup for review in March 2007. At the June 2007 National Meeting, item continued to be deferred pending the FIN 48 subgroup's review of interested parties' proposed alternative to Issue Paper No. 130. At 2007 Fall National Meeting, item was deferred with continued discussions of the Subgroup expected during the fourth quarter. During 2007 Winter National Meeting, an updated Form A was submitted by interested parties. A conference call is expected during December 2007 to discuss the interested parties proposal. During the Spring 2008 National Meeting, the FIN 48 subgroup provided an update to the Working Group. Fall 2008 - Received update noting that staff was directed to draft a SSAP with the summary conclusion contained in the Issue Paper.
2006-21	SSAP 21	FSP FTB 85-4-1: Accounting for Life Settlement Contracts by Third-Party Investors	GAAP Hierarchy	Form A recommends referral to the VOSTF.	A	8/22/2006	Referred to Valuation of Securities Task Force for input on marketability and for preferred accounting method. During the 2007 Fall National Meeting the working group reviewed the referral response from the VOSTF and requested interested parties of the ACLI to provide the SVO with information necessary to perform adequate analysis. No discussion during Winter 2007. During the Spring 2008 National Meeting, this item was deferred, as the Working Group referred an ACLI comment letter to the VOS Task Force. Summer 2008 - Comments from ACLI considered, but continued deferral until the SVO is provided requisite information that affords an informed recommendation.
2006-30	SSAP 89 SSAP 11 SSAP 14	FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)	GAAP Hierarchy	Recommends moving to the Substantive Active Listing and directing staff to draft an issue paper. The Working Group may wish to consider forming a Pension and Postretirement Plan Subgroup to review the issue paper prior to exposure.	A	12/11/2006	March 2007 - Working Group requested industry comment on the consideration to eliminate the SAP modification excluding nonvested employees when accounting for pensions and OPEB plans. June 2007 - Working Group directed staff to draft an issue paper. Winer 2007 - Issue Paper 132 and Issue Paper 133 were exposed, proposing adoption with modification of FAS 158. Spring 2008 Working Group directed staff to research items discussed during the Hearing. Summer 2008 - Issue was deferred for subsequent conference call discussion. Fall 2008 - Exposed revised Issue Papers for comment. Winter 2008 - Adopted Issue Papers. Directed staff to draff SSAPs with reconsideration of the effective date to 2011 and transition guidance to 10 years. Spring 2009 - Exposed SSAP No. 92 and SSAP No. 100 for comment. Summer 2009 - Staff to make modifications as considered appropriate for statutory accounting. Fall 2009 - Update was provided, with notification that a conference call will occur to discuss the transition guidance. **Discussion planned in Spring 2009.**

Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Substantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2007-24	FAS 157	Fair Value Measurements	GAAP Hierarchy	Defines fair value and establishes a framework for measuring fair value	A	12/2/2007	During 2007 Winter, Subgroup was formed to review FAS 157 and other fair value issues with a charge to oversee and develop a new SSAP that defines fair value and establishes a framework for measuring fair value in statutory accounting. During the Spring and Summer 2008, an update was provided by the subgroup. Fall 2008 - Received update. Subgroup is reviewing a draft SSAP on Fair Value Measurements and proposed correlating revisions to other SAP guidance. Winter 2008 - Deferred subgroup recommendations until SEC study on fair value. Spring 2009 - Received update of Subgroup education session planned for March 17, 2009. Summer 2009 - Subgroup presented Issue Paper No. 138 to SAPWG and it was exposed by the Working Group. Fall 2009 - Working Group adopted Issue Paper and directed staff to expose a new SSAP. **Discussion expected in Winter 2009.**
2008-14	SSAP No. 91	Measurement of Sufficient Collateralization for Securities Lending Transactions	AIG	Proposes amendments to SSAP No. 91 to clarify that collateralization, which provides protection from counterparty default risk, should be measured as the fair value of the collateral obtained. Changes in the fair value of investments made with securities lending collateral represen a different risk and should be evaluated in accordance with existing standards of statutory accounting.	A	5/31/2008	In Summer 2008 staff was directed to undertake a project to clarify securities lending in SSAP No. 91 and develop an appendix in SSAP No. 91 with examples. Fall 2008 - Received an update. Conference call is anticipated in the fourth quarter of 2008. Winter 2008 - Disclosure requirements adopted in SSAP No. 91. Summer and Fall 2009 - Subgroup update received. **Discussion expected in Winter 2009.**
2008-20	SSAP 60	FAS 163, Accounting for Financial Guarantee Contracts	GAAP Hierarchy	Recommends adopting FAS 163 with modification. Key items that are recommended for incorporation within SSAP No. 60 include: specific disclosures for financial guaranty contracts, recognition of entire premium and unearned liability at inception for installment contracts and recognize when a claim is expected, rather then when a default has occurred.	A	7/8/2008	Fall 2008 - Directed staff to draft an Issue Paper proposing substantive revisions to SSAP No. 60 to incorporate several aspects of FAS 163. Winter 2008 - Exposed IP 136 for comment. Spring 2009 - Subgroup was formed to review the comments received on IP 136. The Subgroup will (1) prioritize adopting enhanced financial guarantee disclosures effective for the 2009 reporting period (2) coordinate with the Financial Guaranty Insurance Guideline Working Group and (3) conduct conference calls to address the technical comments. Summer and Fall 2009 - Subgroup update received. **Discussion expected Winter 2009.** (Refer also to item #2009-09.)
2008-28	62	P&C Run off Portfolios	RAA	Proposed expanding the exceptions to retroactive accounting for P&C Run-off contracts that meet certain criteria.	A	12/5/2008	Winter 2008 - Exposed this item for comment and directed staff to work with industry. Spring 2009 - Working Group directed staff to draft an Issue Paper with changes to exclude affiliated transactions for possible exposure in Summer 2009. Summer 2009 - Exposed Issue Paper No. 137 and SSAP No. 62R simultaneously for comment. Also referred revisions to the P&C Reinsurance Study Group. Fall 2009 - Adopted Issue Paper. Directed staff to re-expose SSAP No. 62R. **Discussion expected in Winter 2009.**

Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Substantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2009-06	10	Consider Increase in Admission of Deferred Tax Assets Related to Capital and Surplus Relief (EX) Working Group Recommendation	CSR(EX)WG	The Capital and Surplus Relief (EX) Working Group requested the Statutory Accounting Principles Working Group to consider revising admission of DTAs, in paragraph 10.b.i and 10.b.ii from 1 to 3 years (10.b.i), and from 10% of capital and surplus to 15% of capital and surplus (10.b.ii) including the thresholds and restrictions.	A	2/1/2009	Spring 2009 - Moved this item to the Substantive Active Listing and exposed language. The Working Group plans to conduct conference calls to discuss the recoverability of deferred tax assets, and relationship of proposed language to existing model laws. Industry was specifically requested to determine whether there is an economic need to change the language. Summer 2009 - Received comments on exposed substantive revisions. SAPWG deferred this issue. Fall 2009 - Working Group adopted revisions to allow a three year, 15% threshold for DTAs.
2009-07	INT 06-07	FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and 124-2)	GAAP hierarchy	Recommends that the Working Group move this item to the substantive active listing and direct staff to draft an Issue Paper for the development of a new SSAP that addresses guidance for OTTI.	A	6/13/2009	Summer 2009 - Moved to Substantive Active Listing and directed WG to draft an Issue Paper for a new SSAP to incorporate guidance from FSP FAS 115-2 and 124-2. Noted that WG may elect to reconsider this direction based on assessment of this FSP for statutory accounting. Fall 2009 - Working Group deferred consideration of this issue.
2009-10	61	Deferred Premium Asset and the Unearned Premium Reserve	ACLI	Recommends changes to SSAP No. 61 related to when the reinsurance payment is less frequent than premium from the insured.	A	6/13/2009	Summer 2009 - Moved to Substantive Active Listing and deferred further discussion until a joint call with LHATF. Fall 2009 - Staff directed to proceed with scheduling conference call. Noted call is needed before exposure. **Discussion planned in Spring 2009.**
2009-14	91R	Accounting for Transfers of Financial Assets, ar Amendment of FAS 140	GAAP Hierarchy	Recommends that the Working Group move this to the Substantive Active Listing and direct staff to draft an Issue Paper proposing adoption, with modification, of FAS 166 to supersede SSAP No. 91R.	A	10/5/2009	Fall 2009 - Moved to the Substantive Active Listing and directed staff to draft an Issue Paper to adopt, with modification, FAS 166 to supersede SSAP No. 91R. **Discussion expected in Winter 2009.**
2009-15	None	Amendments to FASB Interpretation No. 46(R) - Variable Interest Entities	GAAP Hierarchy	Recommends that the Working Group move this to the Substantive Active Listing and direct staff to draft an Issue Paper proposing the development of a new SSAP to address variable interest entities	A	10/5/2009	Fall 2009 - Moved to the Substantive Active Listing and directed staff to draft an Issue Paper for a new SSAP on variable interest entities. **Discussion expected in 2009 Winter.**
1999-34	FTB 97-1	Accounting under SFAS 123 for Certain Employee Stock Purchase Plans with a Look-Back Option	GAAP Hierarchy	Determine applicability to SAP and adopt if deemed appropriate	B	12/8/1998	Will be addressed once consideration of FAS 123(R) is complete. FAS 123(R) amended several sections of FTB 97-1. An issue paper for FAS 123(R) is currently under consideration.
2000-17	EITF 00-12	Accounting for Certain Transactions involving Stock Compensation an interpretation of APB No. 25	GAAP Hierarchy	Determine applicability to SAP and adopt if deemed appropriate	B	6/13/2000	EITF 00-12 will be considered after FAS 123(R) has been addressed.
2001-27	New	Pre-event Catastrophe Reserves	Catastrophe Reserves WG	Referral of Issue Paper and SSAP to adopt accounting for pre-event cat reserves	C	10/16/2001	Will be readdressed if deductibility contingency is removed by Congress and "voluntary" status is removed

A Highest priority (disposition desired within the next 12 months)
B Less than highest and more than lowest priority
C Lowest priority (action deferred pending further consideration)

Statutory Accounting Principles WG
2009 Maintenance Agenda
Nonsubstantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2002-16	SSAP No. 72	Inconsistent Treatment of Retroactive Reinsurance Transactions in Surplus Account	Texas	Sets forth consistent treatment of increases in surplus as a result of certain reinsurance transactions	A	9/11/2002	Nonsubstantive modification to SSAP No. 72 referred to the Reinsurance Subgroup
2004-17	SSAP No. 86, 51, 61 & 26	Clarification and Reporting Guidance for Financial Instruments Used to Hedge Options Embedded in Variable Annuity Guarantees	American Academy of Actuaries' VARWG	LHATF is developing a new reserving methodology for Guaranteed Minimum Death Benefits and Guaranteed Living Benefits that will include recognition of hedging instruments in the calculation of reserves, which requires modification of the AP&P Manual.	A	9/13/2004	Referred to LHATF in Sept 2004; Subgroup to be formed with members of SAPWG and LHATF.
2004-27	SSAP No. 51	Fund Demand Disclosure for Institutional Business	Referral from Blanks to SAPWG. Originated in LHATF.	Recommends additional liquidity disclosures for products under common control or ownership where the total fund demands equal or exceed $10 million or 10% of surplus for which the decision to access funds is in a single person/entity.	A	12/6/2004	December 2004 - Item to be researched. Possible addition of a disclosure requirement to SSAP No. 51. October 2008 - Proposed exposure of nonsubstantive revisions to SSAP No. 51 for fund demand disclosure requirements as well as revisions to blanks proposal #2004-31BWG. Winter 2008 - Exposed revisions to the blanks proposal as well as revisions to SSAP No. 51 to incorporate disclosures on stress liquidity risks. Spring 2009 - The Working Group will continue working on developing liquidity disclosures. Staff was directed to perform research on existing SEC disclosures and interested parties agreed to provide a recommendation. Summer 2009 - Received update on staff research. Additional information from IP's will be provided.
2007-09	26	Revision of Sch. D Categories	Blanks Investment Schedules Subgroup	Proposed revision to current SSAP No. 26 categories needed to conform to blanks change proposal to revise investment schedule categories.	A	6/2/2007	Exposed for comment. During 2007 Fall National Meeting, deferred modifications to SSAP No. 26 pending resolution of item 2007-27BWG within the Blanks Working Group.
2007-25	IP No. 99	FAS 159: The Fair Value Option for Financial Assets and Financial Liabilities	GAAP Hierarchy	Nonsubstantive change to Issue Paper No. 99 - Not Applicable to SSAP due to optionality allowed under GAAP guidance.	A	12/2/2007	Exposed change to IP 99 rejecting SOP 03-2 as not applicable to statutory accounting. Will be discussed at 2008 Spring National Meeting. During the Spring 2008 National Meeting the Working Group referred this item to the Fair Value Subgroup.
2007-28	SSAP No. 25 SSAP No. 22	FIN 46-R, FSP FIN 46R-4, FSP FIN 76R-5 - Consolidation of Variable Interest Entities an interpretation of ARB No. 51	GAAP Hierarchy	Provides guidance on consolidation, maximum loss reporting, and clarification on a technical question regarding variable interest entities.	A	12/2/2007	Exposed change to SSAP No. 25 to include implicit and explicit variable interest entities within the examples of related parties and expand disclosure requirements to include the maximum loss exposure as a result of explicit or implicit variable interest entities, rejecting other aspects in both SSAP No. 25 and SSAP No. 22. Summer 2008 - Working Group re-exposed nonsubstantive revisions to SSAP No. 25, with staff directed to work with interested parties to develop appropriate disclosure for loss exposure resulting from variable interest entities. Fall 2008 - Deferred action on this item until the FASB completes a related project regarding FIN46(R).
2007-35	FAS 157	Fair Value Measurements	Interested Parties	Consider interim disclosure of FAS 157 until SAPWG tales final action on issue.	A	12/2/2007	During the 2007 Winter Meeting, subgroup was formed to address FAS 157 in response to ref #2007-24. This interested party request was submitted to this subgroup for consideration.

Statutory Accounting Principles WG
2009 Maintenance Agenda
Nonsubstantive Listing
November 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2008-21	SSAP 54	A&H Claims with multiple dates of service	KS DOI	Recommends more explicit reserving guidance in SSAP No. 54 related to subsequent treatment for the same illness.	A	8/1/2008	Fall 2008 - Referred this item to the Accident and Health Working Group.
2009-03	INT 06-07	FSP EITF 99-20-1: Amendments to the Impairment Guidance of EITF Issue No. 99-20	NAIC Staff	Proposes the inclusion of guidance within INT 06-07 to provide additional information on determining impairment.	A	2/23/2009	Spring 2009 - Moved this items to the nonsubstantive active listing and requested that the Emerging Accounting Issues Working Group consider revising INT 06-07 to include guidance from paragraphs 9 and 10 of FSP EITF 99-20-1. The Working Group also referred this item to the Fair Value Subgroup to consider what impact the adoption of *FAS 157, Fair Value Measurements*, would have on impairment assessments based on a fair value determinant.
2009-09	60	Disclosures for Financial Guarantee Insurance Contracts	Financial Guarantee Subgroup	Proposes incorporation of financial guarantee disclosures and illustrative example within SSAP No. 60, as recommended by the Financial Guarantee Subgroup.	A	6/13/2009	Summer 2009 - Exposed revisions proposing the establishment of several disclosures within SSAP No. 60. Disclosures are similar to the intent of FAS 163, but have been modified to be applicable under current statutory accounting guidance. Fall 2009 - Re-exposed disclosures with modifications suggested by the Financial Guaranty Subgroup. **Discussion expected in Winter 2009.**
2009-12	9	Subsequent Events	GAAP Hierarchy	proposes adoption of FAS 165, and nonsubstantive revisions to SSAP No. 9, including clarifying examples on the different types of subsequent events, as well as disclosure requirements to include the dates through the subsequent events have been evaluated and the dates the financial statements are issued, or available to be issued.	A	10/5/2009	Fall 2009 - Exposed nonsubstantive revisions to SSAP No. 9 proposing adoption of FAS 165. **Discussion expected in Winter 2009.**
2009-13	Preamble	FASB Accounting Standards Codification and the Hierarchy of GAAP	GAAP Hierarchy	Proposes nonsubstantive revisions to the Preamble, INT 04-01 and INT 04-18. Also recommends directing the AP&P Manual Subgroup to review and revise statutory guidance to ensure appropriate reference to GAAP sources.	A	8/17/2009	Fall 2009 - Exposed nonsubstantive revisions the Preamble, INT 04-01 and INT 04-18. Was also referred to the AP&P Subgroup. **Discussion expected in Winter 2009.**
2009-11	Preamble Appendix D	Impact of FASB Codification on the AP&P Manual	NAIC Staff	Recommends forming a subgroup to consider changes to the AP&P Manual that will be necessitated by the pending FASB Codification and other issues	A	6/13/2009	Summer 2009 - Formed a Subgroup to consider changes to the AP&P manual to address changes due to FASB codification, PBR, and content and structural format. Fall 2009 - Subgroup update received. **Discussion planned in Winter 2009.**
2009-16	26	Bond Categories within SSAP No. 26	NAIC Staff	Recommends nonsubstantive revisions to SSAP No. 26, paragraph 17e to revise the bond categories to match the annual statement instructions.	A	8/17/2009	Fall 2009 - Exposed nonsubstantive revisions to SSAP No. 26, paragraph 17e. **Discussion planned in Winter 2009.**
2009-17	A-815	Modify Appendices A-815 and A-830 to reflect changes to model laws.	NAIC Staff	Recommends nonsubstantive revisions to A-815 to mirror changes to Model Law 815 regarding use of preferred mortality tables	A	9/1/2009	Fall 2009 - Exposed nonsubstantive revisions to A-815 and A-830. **Discussion planned in Winter 2009.**
2001-14	SSAP No. 54 & A-010	Use of Additional Contract Reserves When Calculating PDR	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to A&HWG. Reminder to A&HWG provided in January 2008.
2001-19	SSAP No. 54	Allowable Grouping of Policies for PDR	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to A&HWG - Reminder to A&HWG provided in January 2008.
2001-21	SSAP No. 54 & A-585	Redundant Paragraphs	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to LHATF and A&HWG - Reminder to A&HWG and LHATF provided in January 2008.

A Highest priority (disposition desired within the next 12 months)
B Less than highest and more than lowest priority
C Lowest priority (action deferred pending further consideration)

Draft: 12/11/09

Statutory Accounting Principles (E) Working Group
E-mail Vote
November 2, 2009

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-mail vote Nov. 2, 2009. The following members participated: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Kim Hudson (CA); Linda Sizemore and David Lonchar (DE); Jim Hanson (IL); Caroline Brock, Denise Brignac and Steward Guerin (LA); Judy Weaver (MI); Tom Burke (NH); Dennis Fernez and Matti Peltonen (NY); Dale Bruggeman and Fred Lehr (OH); Steve Johnson (PA); Danny Saenz, Doug Slape and Ignatius Wheeler (TX); Doug Stolte and David Smith (VA); and Peter Medley (WI).

1. <u>Vote to Expose SSAP No. 43R—Loan-backed and Structured Securities – Revised</u>

In accordance with a proposal from the Valuation of Securities (E) Task Force to be less reliant on the ratings from nationally significant statistical rating organizations (NRSROs) for residential mortgage-backed securities (RMBS), an SVO proposal is being considered to assign different NAIC ratings on RMBS securities based on investor carrying value. In order to make the SVO proposed process function within the NAIC *Accounting Practices and Procedures Manual*, an agenda submission form has been drafted (ref #2009-18) proposing revisions to *SSAP No. 43—Loan-backed and Structured Securities – Revised* (SSAP No. 43R). In addition to detailing the measurement method for RMBS securities in accordance with the SVO proposal, included examples assist with the understanding of the revised process. The Working Group was asked to vote via e-mail to expose agenda item #2009-18 and the proposed revisions to SSAP No. 43R. The following states responded in the affirmative for the request of exposure: California, Delaware, Iowa, Michigan, New Hampshire, New York, Ohio, Pennsylvania, Texas and Virginia. As a result of the affirmative vote, agenda item #2009-18 was exposed for comment.

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Draft: 12/11/09

Statutory Accounting Principles (E) Working Group
Conference Call
October 5, 2009

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Oct. 5 2009. The following Working Group members participated: Joseph Fritsch, Chair (NY); Kim Hudson (CA); Alan Harder, (IA); Tom Ratsch (IL); Stewart Guerin (LA); Judith A. Weaver (MI); Thomas Burke (NH); Bill Harrington (OH); Steve Johnson and Dave DelBiondo (PA); Danny Saenz (TX); Doug Stolte and David Smith (VA); and Peter Medley (WI).

1. Consideration of Maintenance Agenda—Pending Listing

Mr. Fritsch stated that this conference call would address the remaining items from the Fall National Meeting agenda and referred the Working Group to the Maintenance Agenda—Pending Listing (Page 1 of Attachment One-A).

a. Agenda Item 2009-12

Mr. Fritsch stated that this agenda item was in response to *FAS 165, Subsequent Events* (FAS 165). He noted that the guidance within FAS 165 is generally consistent with the existing guidance within *SSAP No. 9—Subsequent Events* (SSAP No. 9), with the exception of disclosing the date through which subsequent events have been evaluated and whether that date is the date the financial statements are issued. On a motion from Mr. Johnson, seconded by Ms. Weaver, the Working Group unanimously agreed to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 9 proposing adoption of FAS 165.

b. Agenda Item 2009-13

Mr. Fritsch stated that this agenda item was in response to *FAS 168, FASB Accounting Standards Codification and the Hierarchy of GAAP* (FAS 168). Julie Gann (NAIC) stated that FAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. She explained that FAS 168 establishes the Accounting Standards Codification as the source of authoritative accounting recognized by the Financial Accounting Standards Board (FASB). On a motion from Mr. Hudson, seconded by Ms. Weaver, the Working Group unanimously agreed to move this item to the nonsubstantive active listing, refer FAS 168 to the Accounting Practices and Procedures Subgroup, and expose nonsubstantive revisions to the preamble, *INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration* (INT 04-01) and *INT 04-18: EITF 00-21: Revenue Arrangements with Multiple Deliverables* (INT 04-18) to refer to the GAAP codification.

c. Agenda Item 2009-14

Mr. Fritsch stated that this agenda item was in response to *FAS 166, Accounting for Transfers of Financial Assets – an amendment to FAS 140* (FAS 166). Ms. Gann informed that this statement was issued in June 2009 and is effective under GAAP as of the beginning of the first annual reporting period after Nov. 15, 2009. She noted that this statement revises *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140) to improve guidance about the transfer of financial assets; the effects of a transfer on financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. She stated that the revisions remove the concept of a qualifying special-purpose entity (QSPE) from FAS 140 and establishes conditions for which a portion of a financial asset can be accounted for as a sale. Without meeting those conditions, a sale can only be achieved by transferring an entire financial asset or group of financial assets in a transfer that meets the sale accounting conditions.

Mr. Fritsch stated support for moving toward FAS 166, and the elimination of qualifying special-purpose entities for transparency purposes. Ed Stephenson (Group of North American Insurance Enterprises—GNAIE) provided comments representing Jackson National Life. He noted that several questions need to be addressed on whether the accounting treatment in FAS 166 is the correct choice for statutory accounting. He stated that the recent Emerging Accounting Issues (E) Working Group decision to expose INT 09-07T, with a tentative consensus proposed by interested parties, resulted in an exposed interpretation that utilizes the concept of QSPEs, and results with surplus neutrality on securitizations. He noted that moving towards FAS 166 would remove the neutrality regarding securitizations and create a less-conservative statutory approach from what currently exists. He stated that as statutory does not endorse consolidation, and that there would be other statutory complexities in considering this standard, he recommended that a subgroup of regulators and interested parties be formed to analyze the issues and draft the issue paper after review of the ramifications of the issue. Mr. Fritsch speculated how the adoption of guidance similar to FAS 166 guidance would be less conservative with the removal of the QSPE concept. Mr. Stephenson noted that the label of a QSPE will be eliminated under FAS 166, but such entities may still be formed, and FAS 166 would require fair value on both sides of the equation for transactions involving these entities. This would be different from current guidance in *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R), which promotes surplus neutrality by utilizing the allocated carrying-value on both sides of the equation. Mr. Fritsch stated that under new GAAP guidance, such entities would be required to be considered for consolidation, thus seeming to present that QSPEs should be considered affiliated entities. Mr. Fritsch stated that he would prefer to move forward with drafting and exposing an issue paper so that comments can be received to identify where more discussion is needed.

On a motion from Mr. Hudson, seconded by Mr. Johnson, the Working Group unanimously agreed to move this item to the substantive active listing and directed NAIC staff to draft, with potential interim exposure, an issue paper proposing adoption, with modification, of FAS 166 in a new SSAP to supersede *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R).

d. Agenda Item 2009-15

Mr. Fritsch stated that this agenda item was in response to *FAS 167, Amendments to FASB Interpretation No. 46R* (FAS 167). Ms. Gann informed that this statement was issued in June 2009 and is effective under GAAP as of the beginning of the first annual reporting period after Nov. 15, 2009. This statement revised *FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities* (FIN 46R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The FASB agreed to amend FIN 46R as a result of the elimination of the QSPE concept from FAS 166 as well as to address concerns that the accounting and disclosures under FIN 46R did not always provide timely and useful information about involvement with a variable interest entity. Ms. Gann noted that although the consolidation concept within FAS 167 and FIN 46R is not endorsed for statutory accounting, it is proposed that statutory accounting guidance be developed to document a reporting entity's financial interests in variable interest entities.

On a motion from Mr. Johnson, seconded by Mr. Hudson, the Working Group unanimously agreed to move this item to the substantive active listing and directed NAIC staff to draft, with potential interim exposure, an issue paper proposing the development of a new SSAP to address variable interest entities.

e. Agenda Item 2009-16

Mr. Fritsch stated that this agenda item was in response to previously adopted changes made by the Blanks (E) Working Group and proposes nonsubstantive revisions to *SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities* (SSAP No. 26) to correspond with the previously adopted blanks changes. On a motion from Mr. Hudson, seconded by Ms. Weaver, the Working Group unanimously agreed to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to paragraph 17e of SSAP No. 26 to revise the bond categories listed within that statement to correspond with the categories previously adopted by the Blanks (E) Working Group.

f. Agenda Item 2009-17

Mr. Fritsch stated that this agenda item proposes to update Appendix A-815 and Appendix A-830 within the NAIC *Accounting Practices and Procedures Manual* in response to changes to the *Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities* (#815) and *Valuation of Life Insurance Policies Model Regulation* (#830) adopted by Executive (EX) Committee and Plenary. On a motion from Mr. Hudson, seconded by Ms. Weaver, the Working Group unanimously agreed to move this item to the nonsubstantive active listing and expose nonsubstantive revisions to Appendix A-815 and Appendix A-830.

2. Consideration of Maintenance Agenda—Substantive Active List

Mr. Fritsch referred the Working Group to the Maintenance Agenda—Substantive Listing (Page 2 of Attachment One-A).

a. Agenda Item 2006-30

Ms. Gann stated that NAIC staff is currently working to update draft SSAPs for pensions and postretirement plans other than pensions, in response to the comments received during the Summer National Meeting. She noted that staff has worked with regulators and interested parties in proposing some revisions, but staff requests that the Working Group conduct a conference call this quarter to discuss the transition guidance, and the potential recognition of previously unrecognized items within the transition. It is anticipated having the revised SSAPs prepared for potential exposure at the Winter National Meeting. Ms. Gann stated that the proposed effective date of these SSAPs is Jan. 1, 2012.

b. Agenda Item 2009-07

Mr. Fritsch introduced this agenda item, noting that during the Summer National Meeting, the Working Group had moved this item to the substantive active listing and directed NAIC staff to draft an issue paper for a new SSAP to incorporate guidance from *FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and 124-2). Ms. Gann stated that with the decision to incorporate bifurcation guidance strictly for loan-backed and structured securities in *SSAP No. 43—Loan-backed and Structured Securities – Revised* (SSAP No. 43R), staff recommends that the Working Group defer further consideration of FSP FAS 115-2 and 124-2 at this time. Mr. Fritsch stated that this item would not be removed from the agenda, but would remain on the agenda if the Working Group wanted to reconsider this item. On a motion from Mr. Hudson, seconded by Mr. Johnson, the Working Group agreed to defer this agenda item.

c. Agenda Item 2009-10

Mr. Fritsch introduced this agenda item, noting it was submitted by the American Council of Life Insurers (ACLI) and pertains to the premium asset, unearned premium reserve issue. He stated that this item proposes retroactive changes, but primarily makes prospective recommendations for policies issued on or after Jan. 1, 2010, to the reinsurance guidance in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61). Mr. Fritsch stated that a conference call with the Life and Health Actuarial Task Force did not occur during the prior quarter, but is still anticipated. Mike Monahan (ACLI) requested that the Working Group expose this agenda item for comment. He noted that the revisions to model #815 addressed the actuarial concerns and this item addresses the remaining regulatory and industry accounting concerns. He stated that, with exposure, this item could be resolved with guidance in place by the end of the year. Mr. Fritsch stated that a joint call is still necessary to be sure the revisions are consistent with the Life and Health Actuarial Task Force. He requested that NAIC staff proceed with a joint call in order to receive feedback from both groups so that this item could be exposed.

3. Subgroup Updates

a. Update on the Guaranty Fund (E) Subgroup

Mr. Johnson stated that the Guaranty Fund (E) Subgroup conducted a conference call Aug. 24, 2009. The Subgroup received a presentation from the National Conference of Insurance Guaranty Funds (NCIGF) regarding the publicly available "Assessment Liability Report," as well as information on a state survey, completed in 2009 by 42 states, regarding the use of prospective-based premium assessments and *SSAP No. 35—Guaranty Fund and Other Assessments* (SSAP No. 35). During the call, the Subgroup received information on the GAAP differences between retrospective-based premium assessments (liability recognized at time of insolvency) and prospective-based premium assessments (liability recognized after an insolvency, once the obligating event — i.e., writing premiums — occurs). The Subgroup also discussed the current approach in SSAP No. 35, which requires the liability to be recognized at the time of insolvency, regardless if the assessment is prospectively or retrospectively based. He stated that the Subgroup noted that revising the statutory guidance to be in line with *SOP 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments* (SOP 97-3) as proposed by interested parties, would result in less-conservative guidance than the current statutory accounting guidelines for prospective-based premium assessments. However, the SOP 97-3 approach would mirror GAAP, and result with the recognition of liabilities that are better estimates, more consistently determined, and more verifiable that the existing statutory approach. In reviewing the survey results, several states noted that waiting to record prospective-based assessments until the obligating premium was written would not impact their assessment of the insurer. Mr. Johnson stated that a few states indicated that waiting would actually improve their assessment of the insurer as the liability information would be more accurate, whereas two states specifically noted that insurers should not wait to record the liability on the financial statements. Mr. Johnson stated that the Subgroup agreed to request that NAIC staff to move forward with drafting an issue paper, proposing adoption of SOP 97-3 for statutory accounting. He noted that the inconsistencies in reporting and the lack of verifiable information reduced the conservative benefits received under the existing guidance in SSAP No. 35. In addition, as noted within the survey results, this is not anticipated to have a material impact on most state assessments of domestic insurers. Mr. Johnson stated that the Subgroup anticipates conducting a conference call during the fourth quarter to review the proposed issue paper, with a goal of presenting a draft issue paper to the Working Group during the Winter National Meeting for exposure.

b. Update on the Fair Value (E) Subgroup

Mr. Fritsch stated that with the departure of Ramon Calderon (CA), California has decided to participate as a member of the Fair Value (E) Subgroup, but to no longer serve as chair. Although FAS 157 is currently at the Working Group level, the Subgroup has additional charges once the consideration of FAS 157 is final. Current Subgroup members or other members of the Working Group are requested to provide notice if they would like to either serve on the Subgroup or to serve as the Subgroup chair.

c. Update on the Securities Lending (E) Subgroup

Mr. Saenz stated that the during the interim the Subgroup noted that agenda item 2009-14 will potentially substantially impact SSAP No. 91R. It is anticipated that the GAAP guidance for securities lending from FAS 140 and FAS 166 will be incorporated for statutory, while maintaining the statutory collateral requirements. This approach is in line with original comments from the Subgroup to address the on-balance sheet / off-balance sheet interpretation differences between GAAP and SAP. He stated that the Subgroup will review the proposed guidance and propose additional guidance or disclosures appropriate for statutory reporting.

d. Update on the Financial Guaranty Contracts (E) Subgroup

Mr. Fritsch stated that during the past quarter, the Financial Guaranty Contracts (E) Subgroup was consulted in response to the comments received from the exposure of proposed disclosures to *SSAP No. 60—Financial Guaranty Insurance* (SSAP No. 60). He stated that the Subgroup will begin discussion on their remaining directives during the fourth quarter.

e. Update on the AP&P Manual (E) Subgroup

Robin Marcotte (NAIC) stated that the AP&P Manual (E) Subgroup conducted a conference call Sept. 9, 2009, to receive input as to updating the SAP hierarchy, updating the GAAP references throughout the SSAPs and updating Appendix D – the GAAP to SAP cross-reference chart. She stated that additional conference calls are anticipated during the fourth quarter in order to review proposed modifications to the 2010 NAIC *Accounting Practices and Procedures Manual*.

4. Consideration of Any Other Matters

a. Exposure of Draft SSAPs

Mr. Fritsch stated that SSAPs have been drafted or substantially revised in response to the Fall National Meeting adoption of *Issue Paper No. 135—Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others* (Issue Paper No. 135), Issue Paper No. 137— *Transfer of Property and Casualty Reinsurance Agreements in Run-off* (Issue Paper No. 137), and *Issue Paper No. 138—Fair Value Measurements* (Issue Paper No. 138). Ms. Gann stated that *SSAP No. 5—Liabilities Contingencies and Impairments of Assets – Revised* (SSAP No. 5R) reflects the substantive revisions from Issue Paper No. 135, and that a nonsubstantive revision to *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25) has also been drafted consistent with the recommendation included within Issue Paper 135.

Ms. Gann stated that *SSAP No. 100—Fair Value Measurements* (SSAP No. 100) has been prepared to reflect the substantive guidance adopted within Issue Paper No. 138. She noted that this SSAP reflects the proposed guidance for liabilities noted during the Fall National Meeting, in which own-creditworthiness could be considered at initial measurement, but own-creditworthiness should not be reflected in subsequent measurements. In addition, she noted that NAIC staff had spoken with Jay Muska (Travelers), as a representative of interested parties, on this issue, as directed by the Working Group during the Fall National Meeting. As a result of this call, staff has proposed guidance within the draft SSAP to clearly indicate that the fair value of all liabilities at subsequent measurement, including derivatives, shall be determined in accordance with the contractual terms of the obligation. She noted that this is not reflective of the interested party view, as they would like derivatives to be scoped out of this guidance. However, staff continues to recommend that own-creditworthiness should not be a factor considered in the fair value assessment of liabilities. Ms. Gann noted that a document of nonsubstantive revisions to other statutory accounting guidance that will be modified with the adoption of SSAP No. 100 is also proposed for exposure.

Ms. Gann stated that *SSAP No. 62—Property and Casualty Reinsurance – Revised* (SSAP No. 62R) reflects the substantive revisions from the adopted Issue Paper No. 137, including revisions discussed during the Fall National Meeting. Ms. Marcotte stated that staff is recommending exposure of this SSAP, but identified two issues that might warrant discussion before the SSAP is adopted: 1) Whether guidance would need to be added to the approval requirement in paragraph 69 if the assuming insurer is not a U.S. company; and 2) As it has been identified that these transactions might result in gains, consideration might be needed on whether such gains should be restricted.

On a motion from Mr. Hudson, seconded by Mr. Burke, the Working Group unanimously agreed to expose for public comment the SSAPS and the proposed nonsubstantive revisions to SSAP No. 25, as well as the various nonsubstantive revisions that would result from adoption of SSAP No. 100.

b. Exposure of Issue Paper No. 140

Ms. Gann stated that *Issue Paper No. 140—Substantive Revisions to SSAP No. 43—Loan-backed and Structured Securities – Revised* (Issue Paper No. 140) was drafted to provide a historical reference of the revisions derived by the adoption of SSAP No. 43R. On a motion from Mr. Hudson, seconded by Mr. Saenz, the Working Group unanimously agreed to expose Issue Paper No. 140 for public comment.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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Statutory Accounting Principles Working Group
2009 Maintenance Agenda
Pending Listing
August 17, 2009

Ref #	Stmt. Ref.	Title	Proposed By	Description of Proposed Change	Priority	Date Added	Status
2007-03	6, 64	Reporting of premium receivables with credit balances on group contracts	Emerging Accounting Issue WG Referral	Asks questions about the proper reporting of premium receivable with credit balances on group contracts (gross or net reporting)	A	2/26/2007	Staff to prepare language for consideration.
2007-04	26-30, 32	Investments in Lots	Emerging Accounting Issue WG Referral	Addresses footnote 1 to paragraph 7 of FSP FAS 115-	A	2/26/2007	Staff has begun work on this issue.
2008-23	61	Modal Reinsurance Premium	CA DOI	Recommends clarifications to SSAP No. 62, related to when the reinsurance payment is less frequent than premium from the insured.	A	8/11/2008	Fall 2008 - Item was deferred to allow for further good faith efforts to resolve this accounting issue. Winter 2008 - Deferred action with conference calls anticipated.
2009-12	*9*	*Subsequent Events*	*GAAP Hierarchy*	*Nonsubstantive revisions to SSAP No. 9 proposing adoption of FAS 165, including clarifying examples on the different types of subsequent events, as well as disclosure requirements to include the dates through the subsequent events have been evaluated and the dates the financial statements are issued, or available to be issued.*	*A*	*8/17/2009*	***Discussion planned Fall 2009***
2009-13	*Preamble*	*FASB Accounting Standards Codification and the Hierarchy of GAAP*	*GAAP Hierarchy*	*Recommends directing the AP&P Manual Subgroup to review and revise statutory guidance to ensure appropriate reference to GAAP sources.*	*A*	*8/17/2009*	***Discussion planned Fall 2009***
2009-14	*91R*	*Accounting for Transfers of Financial Assets, an Amendment of FAS 140*	*GAAP Hierarchy*	*Move to the Substantive Active Listing and direct staff to draft an Issue Paper proposing adoption, with modification, of FAS 166 to supersede SSAP No. 91R.*	*A*	*8/17/2009*	***Discussion planned Fall 2009***
2009-15	*None*	*Amendments to FASB Interpretation No. 46(R) - Variable Interest Entities*	*GAAP Hierarchy*	*Move to the Substantive Active Listing and direct staff to draft an Issue Paper proposing the development of a new SSAP to address variable interest entities*	*A*	*8/17/2009*	***Discussion planned Fall 2009***
2009-16	*26*	*Bond Categories within SSAP No. 26*	*NAIC Staff*	*Nonsubstantive revisions to SSAP No. 26, paragraph 17e to revise the bond categories to match the annual statement instructions.*	*A*	*8/17/2009*	***Discussion planned Fall 2009***
2009-17	*A-815*	*Modify Appendices A-815 and A-830 to reflect changes to model laws.*	*NAIC Staff*	*Nonsubstantive revisions to A-815 to mirror changes to Model Law 815 regarding use of preferred mortality tables*	*A*	*9/1/2009*	***Discussion planned Fall 2009***

Statutory Accounting Principles Working Group
2008 Maintenance Agenda
Substantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2001-32	SSAP No. 62	Quarterly Computation of Provision for Reinsurance	NAIC Staff	Nonsubstantive modification to provide computation of Provision for Reinsurance in SSAP No. 62	A	12/10/2001	Moved from nonsubstantive list on 12/10/01 for further study. Reinsurance Subgroup will address.
2002-10	SSAP No. 61 SSAP No. 62	Consistent application of 90 day nonadmission rule for reinsurance recoverable	Referral from EAIWG	Nonadmission and the 90 Day Rule	A	6/10/2002	Reinsurance Subgroup has been formed and will report to the WG
2003-01	SSAP No. 21	Investments in Guaranteed Investment Contracts	SVO Oversight Working Group	Form A recommends referral to the VOSTF.	A	3/10/2003	Substantive change to SSAP No. 21 referred to the Invested Assets WG for comment.
2003-12	SSAP No. 5, INT 01-03 & INT 01-31	Consideration of FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others	GAAP Hierarchy	Review of GAAP pronouncement to determine applicability to SAP.	A	6/23/2003	June 2003 - NAIC staff directed to draft an IP. October 2008 - Staff has prepared an Issue Paper proposing adoption with modification of FIN 45. Substantive revisions are proposed for inclusion in SSAP No. 5 to clarify that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 and FSP FIN 45-4 are also proposed for adoption. Winter 2008 - Exposed Issue Paper No. 135 for comment. Spring 2009 - The Working Group directed staff to modify Issue Paper No. 135 prominently including related party guarantees guidance within the body of the accounting guidance. Interested parties agreed to provide input on valuation of guarantees between related parties. Summer 2009 - Exposed revised Issue Paper No. 135. **Discussion planned in Fall 2009.**
2003-16	SSAP No. 53 and others	Statutory Accounting Treatment of Bail Premiums	American Surety Company	Proposes changing how bail bond premium is reported and accounted for, in addition immigration bonds will also be considered	A	6/23/2003	Bail Bond Subgroup will meet in 2009.
2003-22	INT 03-02	Modification to an Existing Intercompany Pooling Arrangements.	Referral from EAIWG	Review intercompany pooling guidance in SSAP No. 61, SSAP No. 62 and SSAP No. 63 for clarification.	A	6/23/2003	Referred the issue to the Reinsurance Subgroup of the SAPWG.
2004-33	IP No. __	EITF 03-8: Accounting for Claims Made and Retroactive Insurance Contracts by the Insured Entity.	Referral from EAIWG to SAPWG	EITF 03-8 presents guidance for claims-made reinsurance policies that specifically scopes in insurance companies. New SAP guidance may be necessary.	A	12/6/2004	Working Group review pending.
2006-13	SSAP 13	FAS 123(R): Share-based Payment (FAS 123(R))	GAAP Hierarchy	Proposes moving the item to the substantive active listing and directing NAIC staff to draft an Issue Paper.	A	6/12/2006	Comments on Issue Paper No. 129 will be discussed with interested parties.
2006-14	SSAP 35	Modify SSAP No. 35 for Property and Casualty Assessments	Interested Parties	Proposes Modifications to SSAP No 35 for property and casualty assessments	A	6/12/2006	Received an update on Guaranty Fund Subgroup, noting that survey results will be distributed in 2nd quarter 2007. Fall 2008 - Interested parties comments indicate that they will be submitting a proposal to amend SSAP No. 35 to the SSAP No. 35 Subgroup. The proposal recommends adoption of AICPA SOP 97-3, Accounting for Guaranty Fund and Other Insurance Related Assessments with certain limitations that would be carried over from SSAP 35 into the new guidance, e.g., the requirement to report assessments in Taxes, Licenses and Fees and the recognition criteria from SSAP No. 5. Winter 2008 - Received interested party proposal for adoption SOP 97-3. Noted that proposal would be considered by the Guaranty Fund Subgroup. Summer 2009 - Received update that Subgroup will have a call in the third quarter. **Discussion expected in Fall 2009.**

Statutory Accounting Principles Working Group
2008 Maintenance Agenda
Substantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2006-18	SSAP 10	FIN 48 - Accounting for Uncertainty in Income Taxes	GAAP Hierarchy	Amend SSAP No. 10 to adopt FIN 48 with modification.	A	8/18/2006	Referred the draft issue paper and comments received from interested parties to the Subgroup for review in March 2007. At the June 2007 National Meeting, item continued to be deferred pending the FIN 48 subgroup's review of interested parties' proposed alternative to Issue Paper No. 130. At 2007 Fall National Meeting, item was deferred with continued discussions of the Subgroup expected during the fourth quarter. During 2007 Winter National Meeting, an updated Form A was submitted by interested parties. A conference call is expected during December 2007 to discuss the interested parties proposal. During the Spring 2008 National Meeting, the FIN 48 subgroup provided an update to the Working Group. Fall 2008 - Received update noting that staff was directed to draft a SSAP with the summary conclusion contained in the Issue Paper.
2006-21	SSAP 21	FSP FTB 85-4-1: Accounting for Life Settlement Contracts by Third-Party Investors	GAAP Hierarchy	Form A recommends referral to the VOSTF.	A	8/22/2006	Referred to Valuation of Securities Task Force for input on marketability and for preferred accounting method. During the 2007 Fall National Meeting the working group reviewed the referral response from the VOSTF and requested interested parties of the ACLI to provide the SVO with information necessary to perform adequate analysis. No discussion during Winter 2007. During the Spring 2008 National Meeting, this item was deferred, as the Working Group referred an ACLI comment letter to the VOS Task Force. Summer 2008 - Comments from ACLI considered, but continued deferral until the SVO is provided requisite information that affords an informed recommendation.
2006-30	SSAP 89 SSAP 11 SSAP 14	FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)	GAAP Hierarchy	Recommends moving to the Substantive Active Listing and directing staff to draft an issue paper. The Working Group may wish to consider forming a Pension and Postretirement Plan Subgroup to review the issue paper prior to exposure.	A	12/11/2006	March 2007 - Working Group requested industry comment on the consideration to eliminate the SAP modification excluding nonvested employees when accounting for pensions and OPEB plans. June 2007 - Working Group directed staff to draft an issue paper. Winer 2007 - Issue Paper 132 and Issue Paper 133 were exposed, proposing adoption with modification of FAS 158. Spring 2008 Working Group directed staff to research items discussed during the Hearing. Summer 2008 - Issue was deferred for subsequent conference call discussion. Fall 2008 - Exposed revised Issue Papers for comment. Winter 2008 - Adopted Issue Papers. Directed staff to draff SSAPs with reconsideration of the effective date to 2011 and transition guidance to 10 years. Spring 2009 - Exposed SSAP No. 92 and SSAP No. 100 for comment. Summer 2009 - Directed staff to consider comments and make modifications as considered appropriate for statutory accounting. **Discussion planned in Fall 2009.**

Statutory Accounting Principles Working Group
2008 Maintenance Agenda
Substantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2007-24	FAS 157	Fair Value Measurements	GAAP Hierarchy	Defines fair value and establishes a framework for measuring fair value	A	12/2/2007	During 2007 Winter National Meeting, Subgroup was formed to review FAS 157 and other fair value issues with a charge to oversee and develop a new SSAP that defines fair value and establishes a framework for measuring fair value in statutory accounting. During the Spring and Summer 2008 National Meetings, an update was provided by the subgroup. Fall 2008 - Received update. Subgroup is reviewing a draft SSAP on Fair Value Measurements and proposed correlating revisions to other SAP guidance. Winter 2008 - Deferred subgroup recommendations until SEC study on fair value. Spring 2009 - Received update of Subgroup education session planned for March 17, 2009. Summer 2009 - Subgroup presented Issue Paper No. 138 to SAPWG and it was exposed by the Working Group. **Discussion planned in Fall 2009.**
2007-27	SOP 03-1	Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts	GAAP Hierarchy	Provides guidance on accounting and reporting by insurance enterprises for certain nontraditional long-duration contracts and for separate accounts.	A	12/2/2007	During 2007 Winter National Meeting, subgroup was formed to consider SOP 03-1. During the Spring and Summer 2008 National Meetings, an update was provided by the subgroup. Fall 2008 - Received update. Initial focus will be to improve disclosures, reporting schedules and annual statement instructions. Also will be proposing revisions to SSAP No. 56 that would require risk charges for both individual and group separate account products if they are backed by general account guarantees. Winter 2008- Update Received. Spring 2009 - Received update that Subgroup exposed proposed revisions to SSAP No. 56 and annual statement disclosure requirements. Summer 2009 - Received update. SAPWG anticipates receiving proposal for exposure in interim. **Discussion planned in Fall 2009.**
2008-14	SSAP No. 91	Measurement of Sufficient Collateralization for Securities Lending Transactions	AIG	Proposes amendments to SSAP No. 91 to clarify that collateralization, which provides protection from counterparty default risk, should be measured as the fair value of the collateral obtained. Changes in the fair value of investments made with securities lending collateral represen a different risk and should be evaluated in accordance with existing standards of statutory accounting.	A	5/31/2008	In Summer 2008 staff was directed to undertake a project to clarify securities lending in SSAP No. 91 and develop an appendix in SSAP No. 91 with examples. Fall 2008 - Received an update. Conference call is anticipated in the fourth quarter of 2008. Winter 2008 - Disclosure requirements adopted in SSAP No. 91. Summer 2009 - Subgroup update received. **Discussion expected Fall 2009.**
2008-20	SSAP 60	FAS 163, Accounting for Financial Guarantee Contracts	GAAP Hierarchy	Recommends adopting FAS 163 with modification. Key items that are recommended for incorporation within SSAP No. 60 include: specific disclosures for financial guaranty contracts, recognition of entire premium and unearned liability at inception for installment contracts and recognize when a claim is expected, rather then when a default has occurred.	A	7/8/2008	Fall 2008 - Directed staff to draft an Issue Paper proposing substantive revisions to SSAP No. 60 to incorporate several aspects of FAS 163. Winter 2008 - Exposed IP 136 for comment. Spring 2009 - Subgroup was formed to review the comments received on IP 136. The Subgroup will (1) prioritize adopting enhanced financial guarantee disclosures effective for the 2009 reporting period (2) coordinate with the Financial Guaranty Insurance Guideline Working Group and (3) conduct conference calls to address the technical comments. Summer 2009 - Subgroup update received. (The Working Group exposed proposed disclosures per agenda item #2009-09). **Discussion expected Fall 2009.**

Statutory Accounting Principles Working Group
2008 Maintenance Agenda
Substantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2008-28	62	P&C Run off Portfolios	RAA	Proposed expanding the exceptions to retroactive accounting for P&C Run-off contracts that meet certain criteria.	A	12/5/2008	Winter 2008 - Exposed this item for comment and directed staff to work with industry. Spring 2009 - Working Group directed staff to draft an Issue Paper with changes to exclude affiliated transactions for possible exposure in Summer 2009. Summer 2009 - Exposed Issue Paper No. 137 and SSAP No. 62R simultaneously for comment. Also referred revisions to the P&C Reinsurance Study Group. **Discussion expected in Fall 2009.**
2009-06	10	Consider Increase in Admission of Deferred Tax Assets Related to Capital and Surplus Relief (EX) Working Group Recommendation	CSR(EX)WG	The Capital and Surplus Relief (EX) Working Group requested the Statutory Accounting Principles Working Group to consider revising admission of DTAs, in paragraph 10.b.i and 10.b.ii from 1 to 3 years (10.b.i), and from 10% of capital and surplus to 15% of capital and surplus (10.b.ii) including the thresholds and restrictions.	A	2/1/2009	Spring 2009 - Moved this item to the Substantive Active Listing and exposed language. The Working Group plans to conduct conference calls to discuss the recoverability of deferred tax assets, and relationship of proposed language to existing model laws. Industry was specifically requested to determine whether there is an economic need to change the language. Summer 2009 - Received comments on exposed substantive revisions. SAPWG deferred this issue. **Discussion expected in Fall 2009.**
2009-07	INT 06-07	FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and 124-2)	GAAP hierarchy	Recommends that the Working Group move this item to the substantive active listing and direct staff to draft an Issue Paper for the development of a new SSAP that addresses guidance for OTTI.	A	6/13/2009	Summer 2009 - Moved to Substantive Active Listing and directed WG to draft an Issue Paper for a new SSAP to incorporate guidance from FSP FAS 115-2 and 124-2. Noted that WG may elect to reconsider this direction based on assessment of this FSP for statutory accounting. **Discussion expected in Fall 2009.**
2009-10	61	Deferred Premium Asset and the Unearned Premium Reserve	ACLI	Recommends changes to SSAP No. 61 related to when the reinsurance payment is less frequent than premium from the insured.	A	6/13/2009	Summer 2009 - Moved to Substantive Active Listing and deferred further discussion until a joint call with LHATF.**Discussion planned in Fall 2009.**
1999-34	FTB 97-1	Accounting under SFAS 123 for Certain Employee Stock Purchase Plans with a Look-Back Option	GAAP Hierarchy	Determine applicability to SAP and adopt if deemed appropriate	B	12/8/1998	Will be addressed once consideration of FAS 123(R) is complete. FAS 123(R) amended several sections of FTB 97-1. An issue paper for FAS 123(R) is currently under consideration.
2000-17	EITF 00-12	Accounting for Certain Transactions involving Stock Compensation an interpretation of APB No. 25	GAAP Hierarchy	Determine applicability to SAP and adopt if deemed appropriate	B	6/13/2000	EITF 00-12 will be considered after FAS 123(R) has been addressed.
2001-27	New	Pre-event Catastrophe Reserves	Catastrophe Reserves WG	Referral of Issue Paper and SSAP to adopt accounting for pre-event cat reserves	C	10/16/2001	Will be readdressed if deductibility contingency is removed by Congress and "voluntary" status is removed

A Highest priority (disposition desired within the next 12 months)
B Less than highest and more than lowest priority
C Lowest priority (action deferred pending further consideration)

Statutory Accounting Principles WG
2008 Maintenance Agenda
Nonsubstantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2002-16	SSAP No. 72	Inconsistent Treatment of Retroactive Reinsurance Transactions in Surplus Account	Texas	Sets forth consistent treatment of increases in surplus as a result of certain reinsurance transactions	A	9/11/2002	Nonsubstantive modification to SSAP No. 72 referred to the Reinsurance Subgroup
2004-17	SSAP No. 86, 51, 61 & 26	Clarification and Reporting Guidance for Financial Instruments Used to Hedge Options Embedded in Variable Annuity Guarantees	American Academy of Actuaries' VARWG	LHATF is developing a new reserving methodology for Guaranteed Minimum Death Benefits and Guaranteed Living Benefits that will include recognition of hedging instruments in the calculation of reserves, which requires modification of the AP&P Manual.	A	9/13/2004	Referred to LHATF in Sept 2004; Subgroup to be formed with members of SAPWG and LHATF.
2004-27	SSAP No. 51	Fund Demand Disclosure for Institutional Business	Referral from Blanks to SAPWG. Originated in LHATF.	Recommends additional liquidity disclosures for products under common control or ownership where the total fund demands equal or exceed $10 million or 10% of surplus for which the decision to access funds is in a single person/entity.	A	12/6/2004	December 2004 - Item to be researched. Possible addition of a disclosure requirement to SSAP No. 51. October 2008 - Proposed exposure of nonsubstantive revisions to SSAP No. 51 for fund demand disclosure requirements as well as revisions to blanks proposal #2004-31BWG. Winter 2008 - Exposed revisions to the blanks proposal as well as revisions to SSAP No. 51 to incorporate disclosures on stress liquidity risks. Spring 2009 - The Working Group will continue working on developing liquidity disclosures. Staff was directed to perform research on existing SEC disclosures and interested parties agreed to provide a recommendation. Summer 2009 - Received update on staff research. Additional information from IP's will be provided.
2007-09	26	Revision of Sch. D Categories	Blanks Investment Schedules Subgroup	Proposed revision to current SSAP No. 26 categories needed to conform to blanks change proposal to revise investment schedule categories.	A	6/2/2007	Exposed for comment. During 2007 Fall National Meeting, deferred modifications to SSAP No. 26 pending resolution of item 2007-27BWG within the Blanks Working Group.
2007-25	IP No. 99	FAS 159: The Fair Value Option for Financial Assets and Financial Liabilities	GAAP Hierarchy	Nonsubstantive change to Issue Paper No. 99 - Not Applicable to SSAP due to optionality allowed under GAAP guidance.	A	12/2/2007	Exposed change to IP 99 rejecting SOP 03-2 as not applicable to statutory accounting. Will be discussed at 2008 Spring National Meeting. During the Spring 2008 National Meeting the Working Group referred this item to the Fair Value Subgroup.
2007-28	SSAP No. 25 SSAP No. 22	FIN 46-R, FSP FIN 46R-4, FSP FIN 76R-5 - Consolidation of Variable Interest Entities an interpretation of ARB No. 51	GAAP Hierarchy	Provides guidance on consolidation, maximum loss reporting, and clarification on a technical question regarding variable interest entities.	A	12/2/2007	Exposed change to SSAP No. 25 to include implicit and explicit variable interest entities within the examples of related parties and expand disclosure requirements to include the maximum loss exposure as a result of explicit or implicit variable interest entities, rejecting other aspects in both SSAP No. 25 and SSAP No. 22. Summer 2008 - Working Group re-exposed nonsubstantive revisions to SSAP No. 25, with staff directed to work with interested parties to develop appropriate disclosure for loss exposure resulting from variable interest entities. Fall 2008 - Deferred action on this item until the FASB completes a related project regarding FIN46(R).
2007-35	FAS 157	Fair Value Measurements	Interested Parties	Consider interim disclosure of FAS 157 until SAPWG tales final action on issue.	A	12/2/2007	During the 2007 Winter Meeting, subgroup was formed to address FAS 157 in response to ref #2007-24. This interested party request was submitted to this subgroup for consideration.

Statutory Accounting Principles WG
2008 Maintenance Agenda
Nonsubstantive Listing
August 17, 2009

Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2008-21	SSAP 54	A&H Claims with multiple dates of service	KS DOI	Recommends more explicit reserving guidance in SSAP No. 54 related to subsequent treatment for the same illness.	A	8/1/2008	Fall 2008 - Referred this item to the Accident and Health Working Group.
2009-03	INT 06-07	FSP EITF 99-20-1: Amendments to the Impairment Guidance of EITF Issue No. 99-20	NAIC Staff	Proposes the inclusion of guidance within INT 06-07 to provide additional information on determining impairment.	A	2/23/2009	Spring 2009 - Moved this items to the nonsubstantive active listing and requested that the Emerging Accounting Issues Working Group consider revising INT 06-07 to include guidance from paragraphs 9 and 10 of FSP EITF 99-20-1. The Working Group also referred this item to the Fair Value Subgroup to consider what impact the adoption of *FAS 157, Fair Value Measurements*, would have on impairment assessments based on a fair value determinant.
2009-08	IP 99	FSP SOP 94-3-1 and AAG HCO-1, Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations	GAAP hierarchy	Proposes rejection of FSP SOP 94-3-1 and AAG HCO-1 for statutory accounting.	A	6/13/2009	Summer 2009 - Exposed nonsubstantive revisions to Issue Paper No. 99 rejecting FSP SOP 94-3-1 as not applicable to statutory accounting. **Discussion planned in Fall 2009.**
2009-09	60	Disclosures for Financial Guarantee Insurance Contracts	Financial Guarantee Subgroup	Proposes incorporation of financial guarantee disclosures and illustrative example within SSAP No. 60, as recommended by the Financial Guarantee Subgroup.	A	6/13/2009	Summer 2009 - Exposed revisions proposing the establishment of several disclosures within SSAP No. 60. Disclosures are similar to the intent of FAS 163, but have been modified to be applicable under current statutory accounting guidance. **Discussion planned in Fall 2009.**
2009-11	Preamble Appendix D	Impact of FASB Codification on the AP&P Manual	NAIC Staff	Recommends forming a subgroup to consider changes to the AP&P Manual that will be necessitated by the pending FASB Codification and other issues	A	6/13/2009	Summer 2009 - Formed a Subgroup to consider changes to the AP&P manual to address changes due to FASB codification, PBR, and content and structural format. **Discussion planned in Fall 2009.**
2001-14	SSAP No. 54 & A-010	Use of Additional Contract Reserves When Calculating PDR	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to A&HWG. Reminder to A&HWG provided in January 2008.
2001-19	SSAP No. 54	Allowable Grouping of Policies for PDR	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to A&HWG - Reminder to A&HWG provided in January 2008.
2001-21	SSAP No. 54 & A-585	Redundant Paragraphs	AAA question	Modification to wording for clarification	C	6/11/2001	Referred to LHATF and A&HWG - Reminder to A&HWG and LHATF provided in January 2008.

A Highest priority (disposition desired within the next 12 months)
B Less than highest and more than lowest priority
C Lowest priority (action deferred pending further consideration)

Draft: 12/11/09

Statutory Accounting Principles (E) Working Group
E-mail Vote
July 20, 2009

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-mail vote July 20, 2009. The following members participated: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Ramon Calderon and Kim Hudson (CA); Linda Sizemore and David Lonchar (DE); Jim Hanson (IL); Caroline Brock, Denise Brignac and Stewart Guerin (LA); Judy Weaver (MI); Tom Burke (NH); Dennis Fernez and Matti Peltonen (NY); Dale Bruggeman and Fred Lehr (OH); Steve Johnson (PA); Danny Saenz, Doug Slape and Ignatius Wheeler (TX); Doug Stolte and David Smith (VA); and Peter Medley (WI).

1. Vote to Expose *SSAP No. 43—Loan-backed and Structured Securities – Revised* (SSAP No. 43R)

Pursuant to ongoing discussion regarding loan-backed and structured securities, and in accordance with the direction of Mr. Fritsch and other Working Group members, NAIC staff drafted proposed substantive revisions to *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43). As illustrated within the draft revised SSAP No. 43 (SSAP No. 43R), guidance has been proposed to supersede *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43* (SSAP No. 98) and paragraph 13 of *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment* (SSAP No. 99). The substantive revisions to SSAP No. 43R include accounting guidance for securities acquired in a transfer, impairment and beneficial interests. In addition, disclosures have been modified. Pursuant to the direction of Mr. Fritsch, the Working Group was asked to vote to expose the proposed SSAP No. 43R for public comment. The following states responded in the affirmative to this motion: California, Delaware, Illinois, Iowa, Louisiana, Michigan, New York, Pennsylvania and Texas. As a result of the affirmative vote, SSAP No. 43R was exposed for comment.

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National Association of Insurance Commissioners

The Center for Insurance Policy and Research

To: Commissioner Gross (VA), Chair, Financial Condition (E) Committee

From: Joseph Fritsch (NY), Chair, Statutory Accounting Principles (E) Working Group

Date: December 1, 2009

RE: Statement Regarding Admission of Deferred Tax Assets under Statutory Accounting Principles

Background:
The ACLI requested relief from certain capital and surplus requirements in a November 11, 2008 memo. At that time, the ACLI requested that statutory accounting principles "follow GAAP rules for deferred tax assets," but understood that such a significant change to statutory accounting requirements could not be accomplished for year-end reporting. Therefore, the ACLI requested a change to a component of the deferred tax asset (DTA) admission calculation in paragraph 10 of *SSAP No. 10—Income Taxes* (SSAP No. 10) for 2008 year-end reporting that would increase the period over which the deferred tax benefits are projected to be realized to five years and increase the limit as a percent of statutory capital and surplus to 25%. The Statutory Accounting Principles (E) Working Group responded that increasing the admission of deferred tax assets would compromise regulatory objectives. However, if it was subsequently determined that action should be taken regarding the admission of deferred tax assets, the Statutory Accounting Principles (E) Working Group suggested an alternative that was more consistent with regulatory objectives. The alternative increased the realization period from one to three years and increased the percentage limitation from 10% of statutory capital and surplus to 15%. The Capital and Surplus Relief (EX) Working Group understood the concerns of the Statutory Accounting Principles (E) Working Group and incorporated this alternative, as well as other constraints into a modified proposal. The constraints added allowed additional DTA admission for insurers that are less at risk of operating losses, as realization of admitted DTAs is predicated upon future income of the insurer. While the modified proposal of the Capital and Surplus Relief (EX) Working Group reduced the level of conservatism included in the current admission calculation, the constraints added provided an alternative level of conservatism that was not previously included. This final recommendation was added to the Substantive Active List of the Maintenance Agenda and the Statutory Accounting Principles (E) Working Group conducted numerous regulator-to-regulator educational discussion sessions and an open interim conference call providing the ACLI the opportunity to comment on the merits of their request.

Recent Activity:
During the 2009 Fall National Meeting, the Statutory Accounting Principles (E) Working Group adopted certain conceptual changes to the admission criteria for DTAs outlined in SSAP No. 10. Subsequent to that meeting, the Working Group became concerned that the "guardrails" concepts regarding regulatory triggers on admitted assets, surplus and dividends could not be consistently implemented for year-end 2009. Therefore, the Working Group developed an alternative proposal that modifies the proposal adopted at the Fall National Meeting, yet still retains the risk-based capital (RBC) level constraint that only allows those insurers that exceed a certain RBC threshold to admit additional DTAs. The modifications are described below:

- Explicitly requires a statutory valuation allowance adjustment to gross DTAs based on a more-likely-than-not threshold for realization.

- Only insurers that are subject to RBC requirements or are required to file a RBC Report with their domiciliary state are provided the option to admit additional DTAs.

- Insurers that are not subject to RBC requirements are not allowed additional admission of DTAs.

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The Working Group has formally referred the issue to the Capital Adequacy (E) Task Force requesting expedited review and a determination of an appropriate RBC charge for the 2009 year-end reporting period. The Working Group has also requested that the Capital Adequacy (E) Task Force refer the issue to the American Academy of Actuaries for a more thorough study for the 2010 interim and annual reporting periods. The proposal contains a sunset provision and is only effective through 2010. The Statutory Accounting Principles (E) Working Group anticipates that it will be able to complete an evaluation of the DTA admission calculation changes by the end of the sunset period to determine if the changes contained in the proposal should be continued.

Conclusion:
The Statutory Accounting Principles (E) Working Group believes that concerns related to deeming additional DTAs as admitted assets would be addressed with an appropriate RBC adjustment or charge. With an appropriate RBC adjustment or charge established to address the risks of realization, liquidity and contingency, the Working Group believes that regulatory objectives would no longer be compromised by increasing the amount of DTAs deemed to be admitted assets. In addition, the Working Group provides the following comments:

- Surplus must be conservatively measured to ensure that policyholder, contract holder and other legal obligations are met when they come due and that insurers maintain capital and surplus at all times, and in such forms, to provide an adequate margin of safety. The Working Group believes that an appropriate RBC adjustment or charge related to DTAs that addresses the risks of realization, liquidity and contingency, would provide a margin of safety for policyholders while presenting an economic value on the statutory financial statements.

- The Working Group believes the extension of the realization period and the associated examination risk related to the increased utilization of projections and management judgment is addressed by additional disclosures related to tax character and the component of the admission calculation by tax character.

- The Working Group had concerns that, under current statutory accounting principles, it was unclear whether a valuation allowance adjustment to gross DTAs was applied on a uniform basis. Therefore, the Working Group has added explicit guidance related to the statutory valuation allowance adjustment. This addition alleviates the Working Group's concerns by adding consistency to the realization methodology utilized among insurance reporting entities.

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Drafted: 12/08/09

Blanks (E) Working Group
San Francisco, CA
December 5, 2009

The Blanks Working Group of the Accounting Practices and Procedures (E) Task Force met in San Francisco, CA, Dec. 5, 2009. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Gloria Glover (AK); Kevin Brown (DC); Alfred Franz (DE); Robin Westcott representing Al Willis (FL); Jim Hanson (IL); Kendra Godbout (ME); Dan Schaefer (MI); Jim Nixon (NE); Tom Burke (NH); John McCarter (OK); Russell Latham (OR); Mark Jaquish representing Larry Knight (TN); Ken McGuckin (VT); and Leah Cooper (WV).

1. Adopted Guidance

Mr. Garn stated that there is a handout of the minutes from the Working Group's Oct. 9 conference call regarding three items that were exposed during the Fall National Meeting. The three issues were guidance for the 2009 annual reporting period, which were exposed for a two-week comment period. The guidance includes disclosures for Note 5D(4) and Note 5D(5) for the Notes to Financial Statements, Investment Category Guidance and guidance for the reporting of interest maintenance reserve (IMR)/asset valuation reserve (AVR) 2009 annual provided in proposal 2009-37BWG, which is up for adoption at the Winter National Meeting (Attachment Two-G). Upon a motion from Ms. Cooper (WV), seconded by Mr. Hudson, the minutes were unanimously adopted (Attachment Two-F).

2. Items Previously Exposed for Comment

a. Add Instructions to Schedule T, Details of Write-ins for Line 58, Other Alien, to Clarify that the Reporting Entity Should List the Jurisdiction (Country) for the Write-in Line Description and Make the Wording of Instructions Consistent Across Statement Types (2009-33BWG Modified) Effective 01/01/2010.

   Ms. Glover stated that this proposal is intended to clarify the location of premiums by jurisdiction or country, when reported on the "other alien" line of Schedule T. She said that reporting in the past has not been as detailed as needed, and the actual alien jurisdiction should be listed. A modification to the proposal was made to indicate that if the premium being reported from an alien jurisdiction is due to the relocation of current policyholders, the amount can be aggregated and reported on the "other alien" line. The premiums from jurisdictions where there are active writings must be reported by jurisdiction and should include premium from relocated policyholders residing in the respective jurisdiction.

   A motion was made by Ms. Glover, seconded by Mr. Hudson. Milum Livesay (Genworth Financial) stated that interested parties had asked for a dollar threshold to be implemented with regards to this proposal. Ms. Glover indicated that there have been federal requests of the NAIC for this type of information, which currently is not available. The Working Group members did not agree to include a threshold modification. The Working Group voted unanimously to adopt the modifications to the proposal. Upon a motion by Ms. Glover, seconded by Mr. Nixon, the Working Group voted unanimously to adopt the modified proposal (Attachment Two-A).

b. Add Instructions to Line 24 of the Asset Page to Include Receivables for Securities not Received Within 15 Days of Settlement Date. Modify the "Exclude" Statement for Line 9 of the Asset Page to Clarify that Receivables for Securities not Received Within 15 Days of the Settlement Date are to be Excluded and Nonadmitted (2009-34BWG Modified) Effective 01/01/2010.

   Mr. Hudson stated that this proposal adds instructions to clarify that receivable for securities not received within fifteen days of the settlement date should be included in line 24 of the Assets page and excluded from line 9. There was a modification to delete the effective date of annual 2010 and have the effective date of first quarter 2011 remain. Upon a motion by Mr. Hudson, seconded by Mr. McCarter, the Working Group voted unanimously to adopt the modifications to the proposal. Upon a motion by Mr. Hudson, seconded by Mr. Hanson, the Working Group voted unanimously to adopt the modified proposal (Attachment Two-B).

c. Add a New Annual Statement Line 17.4 to the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (state page), Five Year Historical, and Insurance Expense Exhibit of the Property Statement and the Property

Supplement of the Health Statement for the Reporting of Director and Officer Business. Instructions for the Five Year Historical will also be Modified to Reflect the New Line (2009-35BWG Modified).

Roger Peterson (WI) stated that this proposal adds a line to the state page, the Underwriting and Investment Exhibits, the Five Year Historical page, and the Insurance Expense Exhibit, as well as the property supplement, for the reporting of director and officers liability coverages. The need for this new line number has developed in recent years with the additional exposures and modeling that has taken place for regulators. This breakout will give regulators more detail as to the current exposures. Mr. Garn stated that the proposal has been modified to include language in the Schedule P instructions, similar to that of the reporting for excess worker's compensation, which indicates that directors and officers coverage should be included in the other liability-claims made section for Schedule P. Claims-made is indicated because it is understood that this type of policy is generally written on a claims-made basis. Robin Marcotte (NAIC) stated that a friendly amendment was to be included to add an “or” to indicate that for line 17.4 in Schedule P should be reported as “claims-made “or” as appropriate for the contractual terms of the policy”. Upon a motion by Mr. Hudson, seconded by Ms. Glover, the Working Group voted unanimously to adopt the modifications to the proposal.

Bill Sergeant (State Farm Insurance Companies) stated that there could be a directors and officers policy included as a rider to a commercial multi-peril policy. He asked whether that business would be reported with the multi-peril policy or in the directors and officers line. Mr. Garn stated that this is something that NAIC staff would need to research. Interested parties asked that this proposal be deferred until the 2010 Spring National Meeting and refer this to the Property and Casualty Line of Business Subgroup for review. Upon a motion by Mr. Hudson, seconded by Ms. Cooper, the Working Group voted unanimously to defer this proposal and refer it to the Property and Casualty Lines of Business Subgroup.

d. Add Line Categories to Schedule S, for Life, Health and Fraternal, to Group Separately U.S. and Non-U.S. Insurers Reported in the Schedule. Modify the Instructions for the Location Column to Indicate the Use of Postal Codes in the Column to Indicate Domiciliary Jurisdiction and Change the Column Description from Location to Domiciliary Jurisdiction. Changing Property and Title Schedule F Location Column Description to be Consistent with Life, Health and Fraternal and Their Respective Annual Statement Schedules (2009-36BWG Modified) Effective 01/01/2011.

David Vacca (NAIC) stated that he has been asked to provide reinsurance data to the federal regulators and has been questioned on several occasions as to the difference in the reporting regarding the U.S. and non-Us insurers in the various statement types. This proposal allows the reporting to be consistent for all statement types. Mr. Garn stated that the proposal cover page needed to be clarified that Schedule S was referring to schedules in the “Life, Health and Fraternal” blanks.

Upon a motion by Mr. Hudson, seconded by Mr. McCarter, the Working Group voted unanimously to adopt the modifications to the proposal. Ms. Marcotte indicated that the modification should include a consistency change between annual and quarterly reporting for the domiciliary jurisdiction. The Working Group members agreed. Upon a motion by Mr. Hudson, seconded by Mr. Hanson, the Working Group voted unanimously to adopt the modified proposal (Attachment Two-C).

e. Modify Instruction for IMR (Interest Maintenance Reserve) Line 2 and AVR (Asset Valuation Reserve) Line 2 with Language for Other Than Temporary Impairments to Reflect Changes Initiated by the Adoption of *SSAP No. 43 Revised—Loan-backed and Structured Securities* Which Superseded *SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-backed and Structured Securities.* This Proposal Amends Guidance Recently Adopted by Proposal 2009-14 BWG (2009-37BWG Modified) Effective 12/31/2010.

Matti Peltonen (NY) stated that this proposal modifies the instructions for the Interest Maintenance Reserve and the Asset Valuation Reserve for Life companies resulting from changes made with in the Accounting Practices and Procedures manual. Mr. Garn stated that there is a slight modification which is to remove the reference to “guidance” on the front proposal form since the actual guidance was adopted during the Blanks Working Group conference call of Oct. 9, 2009. Upon a motion by Mr. Hudson, seconded by Ms. Cooper, the Working Group voted unanimously to adopt the modifications to the proposal. Upon a motion by Mr. Hudson, seconded by Ms. Cooper, the Working Group voted unanimously to adopt the modified proposal (Attachment Two-D).

3. Newly Submitted Items

a. Add a Question to the General Interrogatories on Establishment of an Audit Committee and Their Independence (2009-38BWG).

Mr. Vacca stated that this proposal relates to the changes in the *Annual Financial Reporting Model Regulation* (#205) — commonly referred to as the Model Audit Rule — which becomes effective Jan. 1, 2010. It adds a general interrogatory asking whether the reporting entity has established an audit committee in compliance with the Model Audit Rule. Upon a motion by Mr. Nixon, seconded by Mr. McGuckin, the Working Group voted unanimously to expose the proposal for comment.

b. Modify the Instructions and Illustration for Note 29, Premium Deficiency Reserves. The Data for the Illustration will be Data Captured (2009-39BWG).

Mr. Garn stated that this proposal modifies the instructions and illustration for Note 29 for premium deficiency reserves. Upon a motion by Mr. McGuckin, seconded by Ms. Glover, the Working Group voted unanimously to expose the proposal for comment.

c. Add a Fair Value Column to Schedule DB, Part B, Section 1. Modify Schedule DB Verification, Line 10 to Reference the New Column and Adjust Column References as Needed Due to Renumbering of the Columns as a Result of Adding the Fair Value Column (2009-40BWG)

Mr. Peltonen stated that this proposal adds a fair value column to Schedule DB. It creates more consistency with the other investment schedules and allows for more consistent reporting in the Schedule DB verification. Upon a motion by Mr. Hudson, seconded by Mr. Nixon, the Working Group voted unanimously to expose the proposal for comment.

d. Add Illustrations to Note 5D(4), (5) and (6) and Provide for Data Capture of Those Disclosures. Note 5D(2) and 5D(3) from the 2009 Reporting are Being Reversed to Provide Consistency with the Accounting Practices and Procedures Manual. Note 5D(4), 5D(5) and 5D(6) will be Data Captured (2009-41BWG).

Ms. Marcotte stated that this proposal relates to *SSAP No. 43—Loan-backed and Structured Securities – Revised* (SSAP No. 43R) and the related notes. This proposal would add an electronic data capture requirement to the notes, as well. Upon a motion by Mr. Hudson, seconded by Mr. Hanson, the Working Group voted unanimously to expose the proposal for comment.

Mr. Livesay stated that the instructions might need to be reviewed in conjunction with the SSAP No. 43R changes and that there might need to be some Web site guidance for the 2009 annual statement reporting. Ms. Marcotte stated that there might be a question-and-answer document added to the Web site to assist companies with changes related to the adoption of SSAP No. 43R. There is a new SSAP No. 43R Subgroup that has been established to review the issues related to the SSAP adoption.

e. Add New Disclosures to Note 33 for the Life and Fraternal Statements to Satisfy New Disclosure Requirements Adopted for *SSAP No. 56—Separate Accounts*. Notes 33A(2) and 33A(3) will be Data Captured (2009-42BWG).

Mr. Garn introduced the proposal as a new separate accounts note, Note 33, to satisfy the new disclosure requirements of *SSAP No. 56—Separate Accounts*. Upon a motion by Mr. Latham, seconded by Ms. Glover, the Working Group voted unanimously to expose the proposal for comment.

f. Add a General Interrogatories Exhibit to the Separate Accounts Statement with Questions to Satisfy New Disclosure Requirements for *SSAP No. 56—Separate Accounts* (2009-43BWG).

Mr. Garn introduced the proposal as it relates to *SSAP No. 56—Separate Accounts*. Upon a motion by Mr. Latham, seconded by Ms. Cooper, the Working Group voted unanimously to expose the proposal for comment.

g. Modify Instructions for Note 21, Events Subsequent, to be Consistent with the Changes Adopted for *SSAP No. 9—Subsequent Events* (2009-44BWG).

Upon a motion by Mr. Hudson, seconded by Mr. McCarter, the Working Group voted unanimously to expose the proposal for comment.

h. Add Disclosure to Note 22, Reinsurance of the Property Statement Related to Disclosure of the Transfer of Property and Casualty Run-Off Agreements Adopted in *SSAP No. 62R, Property and Casualty Reinsurance* (2009-45BWG).

Upon a motion by Ms. Cooper, seconded by Mr. Nixon, the Working Group voted unanimously to expose the proposal for comment.

i. Add Instructions and Illustrations to the Property Statement Instructions for a New Note for Financial Guaranty Insurance. The following Parts of the Note will be Data Captured: 35A(1)b, 35A(1)c, 35A(2)b, 35A(3)b and 35B (2009-46BWG).

Mr. Garn stated that this proposal adds instructions and illustration to the property statement for a new note for financial guaranty insurance. Upon a motion by Mr. Hudson, seconded by Ms. Cooper, the Working Group voted unanimously to expose the proposal for comment.

j. Add a New Note 20, Fair Value Measurement, to Reflect Additional Disclosures Required by the Adoption of *SSAP No. 100—Fair Value Measurements* and All Notes Following the New Note 20 will be Renumbered. Note 20A(1), 20A(2) and 20B(1) will be Data Captured (2009-47BWG).

Mr. Garn stated that this proposal adds a new note for reporting the fair value measurement. Upon a motion by Mr. Latham, seconded by Mr. Franz, the Working Group voted unanimously to expose the proposal for comment.

4. Editorial Changes

Mr. Garn stated that there was a slight change to the editorial changes relating to the references of the Securities Valuation Office Purposes and Procedures Manual. Upon a motion by Mr. Hudson, seconded by Ms. Cooper, the Working Group voted to unanimously adopt the editorial changes (Attachment Two-E).

5. Any Other Matters

Ms. Marcotte stated that a memorandum was received from the Life and Health Actuarial Task Force (Attachment Two-H). The memorandum indicates that with the implementation of Actuarial Guideline XLIII, effective Dec. 31, 2009, it might cause some questions regarding how to complete general interrogatory 9.2 for life entities. The Task Force recommends that the Working Group post some non-binding guidance for entities that file on the life blank for year-end 2009 reporting.

Upon a motion by Mr. Franz, seconded by Mr. Hudson, the Working Group voted unanimously to allow the posting of this guidance to the Working Group's Web page. Ms. Marcotte stated that any discussion or issue with this guidance should be presented to the Life and Health Actuarial Task Force.

Ms. Marcotte stated that there are three additional memorandums as additional handouts. Companies are required to report the disclosures that have been adopted at the Statutory Accounting Principles Working Group for year end reporting. The memorandums are informative and might contain some illustration guidance. The actual blanks instructions proposals will follow. One memorandum relates to subsequent events reporting to where there is proposal 2009-44BWG (Attachment Two-I). One memorandum relates to financial guaranty insurance, which is blanks proposal 2009-46BWG, exposed during the Winter National Meeting (Attachment Two-J). The third is on the deferred tax assets disclosures, for which a blanks proposal will be presented at the 2010 Spring National Meeting (Attachment Two-K).

The comment deadline for the 2010 Spring National Meeting, as 30 days prior to the meeting, will be Feb. 24, 2010. Having no further business, the Blanks Working Group of the Accounting Practices and Procedures (E) Task Force adjourned.

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 08/20/2009		**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2009-33BWG MOD
TELEPHONE:		Year 2011
EMAIL ADDRESS:		Changes to Existing Reporting [X]
ON BEHALF OF:		New Reporting Requirement [ ]
NAME:	**Gloria G. Glover**	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE:	**Chief Financial Examiner**	No Impact [X]
AFFILIATION:	**Alaska Division of Insurance**	Modifies Required Disclosure [ ]
ADDRESS:	**550 W. 7th Avenue, Suite 1560**	**DISPOSITION**
	Anchorage, AK 99501-3567	[ ] Rejected For Public Comment
		[ ] Referred To Another NAIC Group
		[ ] Received For Public Comment
		[X] Adopted Date 12/05/2009
		[ ] Rejected Date
		[ ] Deferred Date
		[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **QUARTERLY STATEMENT**	
[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**	[ ] **BLANK**
[X] Life and Accident & Health	[X] Property/Casualty	[X] Health
[ ] Separate Accounts	[X] Fraternal	[X] Title
[ ] Other Specify		

Anticipated Effective Date: First Quarter 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add instruction to Schedule T, Details of Write-ins at Line 58 for Other Alien to clarify the reporting entity should list the jurisdiction (country) for the write-in line description and make wording of instruction consistent across statement type.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify reporting entities should provide the specific jurisdiction (country) in the write-in line description. There have been instances where the description has been very broad listing geographic regions rather than individual jurisdictions.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: First Quarter 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL STATEMENT INSTRUCTIONS – LIFE

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated on Line 58 for Other Alien

List separately each ~~other~~ alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

ANNUAL STATEMENT INSTRUCTIONS – HEALTH

SCHEDULE T – PREMIUMS AND OTHER CONSIDERATIONS

ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Line 61 – Total (Direct Business)

The sum of Column 2, 3, 4, 5, 6 and 7, Line 61 should equal the Underwriting and Investment Exhibit, Part 1, Column 1, Line 12.

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Line 58 – Aggregate Other Alien

Enter the total of the write-ins listed in Schedule Details of Write-ins Aggregated at Line 58 for Other Alien.

All U.S. business must be allocated by state regardless of license status.

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

ANNUAL STATEMENT INSTRUCTIONS – FRATERNAL

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each ~~other~~ alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

ANNUAL STATEMENT INSTRUCTIONS – TITLE

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated at Line 58 For Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT INSTRUCTIONS – LIFE

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

CURRENT YEAR TO DATE – ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated on Line 58 for Other Alien

List separately each ~~other~~ alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT INSTRUCTIONS – HEALTH

SCHEDULE T – PREMIUMS AND OTHER CONSIDERATIONS

CURRENT YEAR TO DATE – ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Line 60 – Reporting Entity Contributions for Employee Benefit Plans

Report the reporting entity's share of costs for employee benefit plans. Exclude any premiums paid by employees; these should be allocated to the states as above.

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

CURRENT YEAR TO DATE – ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Line 58 – Aggregate Other Alien

Enter the total of write-ins listed in schedule Details of Write-ins Aggregated at Line 58 for Other Alien.

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

QUARTERLY STATEMENT INSTRUCTIONS – FRATERNAL

SCHEDULE T – DISTRIBUTION OF BUSINESS BY STATES AND TERRITORIES

CURRENT YEAR TO DATE – ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each ~~other~~ alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT INSTRUCTIONS – TITLE

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

CURRENT YEAR TO DATE – ALLOCATED BY STATES AND TERRITORIES

Detail Eliminated To Conserve Space

Line 58 – Aggregate Other Alien

Enter the total of write-ins listed in schedule Details of Write-ins Aggregated at Line 58 for Other Alien.

All U.S. business must be allocated by state regardless of license status.

Details of Write-ins Aggregated at Line 58 for Other Alien

List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.

If the premium from an alien jurisdiction is due to relocation of current policyholders, the amount may be aggregated and reported as "Other Alien". Premiums from jurisdictions in which there is active writing must be reported by jurisdiction and include premium from relocated policyholders residing in the respective jurisdiction.

A comprehensive listing of alien jurisdictions by name of country is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

Include summary of remaining write-ins for Line 58 from the Overflow page on the separate line indicated.

****DRAFTING NOTE: The instruction changes above should also be reflected in Schedule T, Part 2 for Life, Health, Property and Fraternal companies and Supplement A To Schedule T for Property companies**

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: **08/20/2009**	**FOR NAIC USE ONLY** Agenda Item # 2009-34BWG MOD Year 2011 Changes to Existing Reporting [X] New Reporting Requirement [ ]
CONTACT PERSON: **TELEPHONE:** **EMAIL ADDRESS:**	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:	No Impact [X] Modifies Required Disclosure [ ]
NAME: **Kim Hudson** **TITLE:** **AFFILIATION:** **California Department of Insurance** **ADDRESS:** **300 South Spring St.** **Los Angeles, CA 90013**	**DISPOSITION** [ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment [X] Adopted Date 12/05/2009 [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**
[X] **INSTRUCTIONS**
[X] **QUARTERLY STATEMENT**
[ ] **CROSSCHECKS**
[ ] **BLANK**

[X] Life and Accident & Health
[ ] Separate Accounts
[ ] Other Specify
[X] Property/Casualty
[X] Fraternal
[X] Health
[X] Title

Anticipated Effective Date: ~~Annual 2010 and~~ First Quarter 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add instruction to Line 24 of the asset page to include receivables for securities not received within 15 days of settlement date. Modify the exclude statement for Line 9 of the asset page to clarify exclusion of receivables for securities not received within 15 days of settlement date are to be excluded and nonadmitted.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify where to report receivables for securities not received within 15 days of the settlement date in accordance with SSAP No. 21, Other Admitted Assets.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ~~Annual 2010 and~~ First Quarter 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL & QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

ASSETS

Detail Eliminated To Conserve Space

Line 9 – Receivables for Securities

Include: Amounts received within 15 days of the settlement date that are due from brokers when a security has been sold but the proceeds have not yet been received.

Exclude: ~~All other amounts~~Receivables for securities not received within 15 days of the settlement date. These receivables are classified as other than invested assets and nonadmitted per *SSAP No. 21—Other Admitted Assets*.

Detail Eliminated To Conserve Space

Details of Write-ins Aggregated at Line 24 for Other Than Invested Assets

List separately each category of assets (other than invested assets) for which there is no pre-printed line on Page 2.

Include: Equities and deposits in pools and associations.

COLI – Report the cash value of corporate owned life insurance, including amounts under split dollar plans.

Consideration paid for retroactive reinsurance contract(s). Refer to SSAP No. 62, Property and Casualty Reinsurance.

Other Receivables – Report any other reimbursement due the reporting entity.

Prepaid pension cost and the intangible asset resulting from recording an additional liability with a description of "prepaid pension cost" and "intangible pension asset," respectively. See SSAP No. 89, Accounting for Pensions, A Replacement of SSAP No. 8, for guidance.

Receivables for securities not received within 15 days of the settlement date are classified as other than invested assets and nonadmitted per *SSAP No. 21—Other Admitted Assets*.

Detail Eliminated To Conserve Space

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: **08/20/2009**	**FOR NAIC USE ONLY**
CONTACT PERSON: **David Vacca (NAIC Staff)**	Agenda Item # 2009-36BWG MOD
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME:	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE:	No Impact [X]
AFFILIATION:	Modifies Required Disclosure [ ]
ADDRESS:	**DISPOSITION**
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 12/05/2009
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **QUARTERLY STATEMENT**	
[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**	[X] **BLANK**
[X] Life and Accident & Health	[X] Property/Casualty	[X] Health
[ ] Separate Accounts	[X] Fraternal	[X] Title
[ ] Other Specify		

Anticipated Effective Date: First Quarter 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add line categories to Schedule S, for life, health and fraternal, to group separately U.S. and Non-U.S. insurers reported in the schedule. Modify the instruction for the Location column to indicate the use of postal code in the column to indicate domiciliary jurisdiction and change the column description from Location to Domiciliary Jurisdiction. Changing property and title Schedule F Location Column description to be consistent with life, health and fraternal and their respective annual statement schedules.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to make available information on U.S. versus Non-U.S. reinsurance to regulators and bring consistency with property and title statements.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: First Quarter 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH AND FRATERNAL

SCHEDULE S – PART 1 – SECTION 1

REINSURANCE ASSUMED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURED COMPANY AS OF DECEMBER 31, CURRENT YEAR

This section should include data on all reinsurance assumed for life insurance, annuities, deposit fund and other liabilities without life or disability contingencies, and related benefits by reinsured company as of December 31, current year.

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
General Account	
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Non-Affiliates	0699999
Total General Account	0799999
Separate Accounts	
Affiliates	
U.S. Affiliates	0899999
Non-U.S. Affiliates	0999999
Total Affiliates	1099999
Non-Affiliates	
U.S. Non-Affiliates	1199999
Non-U.S. Non-Affiliates	1299999
Total Non-Affiliates	1399999
Total Separate Accounts	1499999
Total U.S. (Sum of 0199999, 0499999, 0899999 and 1199999)	1599999
Total Non-U.S. (Sum of 0299999, 0599999, 0999999 and 1299999)	1699999
Total (Sum of 0799999 and 1499999)	1799999
~~General Account, Affiliates~~	~~0199999~~
~~General Account, Non-Affiliates~~	~~0299999~~
~~Total General Account~~	~~0399999~~
~~Separate Accounts, Affiliates~~	~~0499999~~
~~Separate Accounts, Non-Affiliates~~	~~0599999~~
~~Total Separate Accounts~~	~~0699999~~
~~Total~~	~~0799999~~

Column 5 – Domiciliary Jurisdiction~~Location~~

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

~~Show also domiciliary state or country.~~

Detail Eliminated To Conserve Space

SCHEDULE S – PART 1 – SECTION 2

REINSURANCE ASSUMED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURED COMPANY AS OF DECEMBER 31, CURRENT YEAR

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Non-Affiliates	0699999
Total U.S. (Sum of 0199999 and 0499999)	0799999
Total Non-U.S. (Sum of 0299999 and 0599999)	0899999
Total (Sum of 0399999 and 0699999)	0999999
~~Totals, Affiliates~~	~~0199999~~
~~Totals, Non-Affiliates~~	~~0299999~~
~~Totals~~	~~0399999~~

Column 5 – Domiciliary Jurisdiction~~Location~~

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

~~Show also domiciliary state or country.~~

Detail Eliminated To Conserve Space

SCHEDULE S – PART 2

REINSURANCE RECOVERABLE ON PAID AND UNPAID LOSSES LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
Life and Annuity	
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Non-Affiliates	0699999
Total Life and Annuity	0799999
Accident and Health	
Affiliates	
U.S. Affiliates	0899999
Non-U.S. Affiliates	0999999
Total Affiliates	1099999
Non-Affiliates	
U.S. Non-Affiliates	1199999
Non-U.S. Non-Affiliates	1299999
Total Non-Affiliates	1399999
Total Accident and Health	1499999
Total U.S. (Sum of 0199999, 0499999, 0899999 and 1199999)	1599999
Total Non-U.S. (Sum of 0299999, 0599999, 0999999 and 1299999)	1699999
Total (Sum of 0799999 and 1499999)	1799999
~~Life and Annuity, Totals, Affiliates~~	~~0199999~~
~~Life and Annuity, Totals, Non-Affiliates~~	~~0299999~~
~~Life and Annuity, Totals~~	~~0399999~~
~~Accident and Health, Totals, Affiliates~~	~~0499999~~
~~Accident and Health, Totals, Non-Affiliates~~	~~0599999~~
~~Accident and Health, Totals~~	~~0699999~~
~~Life and Annuity and Accident and Health, Totals~~	~~0799999~~

Column 5 – Domiciliary Jurisdiction~~Location~~

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

~~Show also, domiciliary state or country.~~

Detail Eliminated To Conserve Space

SCHEDULE S – PART 3 – SECTION 1

REINSURANCE CEDED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

NOTE: This schedule is to include Exhibit 7 cessions. Include actual reinsurance ceded on group cases but exclude jointly underwritten group contracts.

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
General Account	
Authorized	
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Authorized Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Authorized Non-Affiliates	0699999
Total General Account Authorized	0799999
Unauthorized	
Affiliates	
U.S. Affiliates	0899999
Non-U.S. Affiliates	0999999
Total Unauthorized Affiliates	1099999
Non-Affiliates	
U.S. Non-Affiliates	1199999
Non-U.S. Non-Affiliates	1299999
Total Unauthorized Non-Affiliates	1399999
Total General Account Unauthorized	1499999
Total General Account Authorized and Unauthorized	1599999

Separate Accounts

Authorized

Affiliates

U.S. Affiliates 1699999
Non-U.S. Affiliates 1799999
Total Authorized Affiliates 1899999

Non-Affiliates

U.S. Non-Affiliates 1999999
Non-U.S. Non-Affiliates 2099999
Total Authorized Non-Affiliates 2199999

Total Separate Accounts Authorized 2299999

Unauthorized

Affiliates

U.S. Affiliates 2399999
Non-U.S. Affiliates 2499999
Total Unauthorized Affiliates 2599999

Non-Affiliates

U.S. Non-Affiliates 2699999
Non-U.S. Non-Affiliates 2799999
Total Unauthorized Non-Affiliates 2899999

Total Separate Accounts Unauthorized 2999999

Total Separate Accounts Authorized and Unauthorized 3099999

Total U.S. (Sum of 0199999, 0499999, 0899999, 1199999, 1699999, 1999999, 2399999 and 2699999)........ 3199999

Total Non-U.S. (Sum of 0299999, 0599999, 0999999, 1299999, 1799999, 2099999, 2499999 and 2799999)........ 3299999

Total (Sum of 1599999 and 3099999) 3399999

~~Total Authorized General Account – Affiliates .... 0199999~~
~~Total Authorized General Account – Non-Affiliates .... 0299999~~
~~Total Authorized General Account .... 0399999~~

~~Total Unauthorized General Account – Affiliates .... 0499999~~
~~Total Unauthorized General Account – Non-Affiliates .... 0599999~~
~~Total Unauthorized General Account .... 0699999~~

~~Total Authorized and Unauthorized General Account .... 0799999~~

~~Separate Accounts Authorized – Affiliates .... 0899999~~
~~Separate Accounts Authorized – Non-Affiliates .... 0999999~~
~~Separate Accounts Authorized .... 1099999~~

~~Separate Accounts Unauthorized – Affiliates .... 1199999~~
~~Separate Accounts Unauthorized – Non-Affiliates .... 1299999~~
~~Separate Accounts Unauthorized .... 1399999~~

~~Total Authorized and Unauthorized Separate Accounts .... 1499999~~

~~Totals .... 1599999~~

Column 5 – Domiciliary Jurisdiction~~Location~~

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

~~Show also, domiciliary state or country.~~

Detail Eliminated To Conserve Space

SCHEDULE S – PART 3 – SECTION 2

REINSURANCE CEDED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

Include actual reinsurance ceded on group cases but exclude jointly underwritten group contracts.

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
General Account	
Authorized	
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Authorized Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Authorized Non-Affiliates	0699999
Total General Account Authorized	0799999
Unauthorized	
Affiliates	
U.S. Affiliates	0899999
Non-U.S. Affiliates	0999999
Total Unauthorized Affiliates	1099999
Non-Affiliates	
U.S. Non-Affiliates	1199999
Non-U.S. Non-Affiliates	1299999
Total Unauthorized Non-Affiliates	1399999
Total General Account Unauthorized	1499999
Total General Account Authorized and Unauthorized	1599999

Separate Accounts

Authorized

Affiliates

U.S. Affiliates 1699999
Non-U.S. Affiliates 1799999
Total Authorized Affiliates 1899999

Non-Affiliates

U.S. Non-Affiliates 1999999
Non-U.S. Non-Affiliates 2099999
Total Authorized Non-Affiliates 2199999

Total Separate Accounts Authorized 2299999

Unauthorized

Affiliates

U.S. Affiliates 2399999
Non-U.S. Affiliates 2499999
Total Unauthorized Affiliates 2599999

Non-Affiliates

U.S. Non-Affiliates 2699999
Non-U.S. Non-Affiliates 2799999
Total Unauthorized Non-Affiliates 2899999

Total Separate Accounts Unauthorized 2999999

Total Separate Accounts Authorized and Unauthorized 3099999

Total U.S. (Sum of 0199999, 0499999, 0899999, 1199999, 1699999, 1999999, 2399999 and 2699999) 3199999

Total Non-U.S. (Sum of 0299999, 0599999, 0999999, 1299999, 1799999, 2099999, 2499999 and 2799999) 3299999

Total (Sum of 1599999 and 3099999) 3399999

~~Total Authorized General Account – Affiliates .... 0199999~~
~~Total Authorized General Account – Non-Affiliates .... 0299999~~
~~Total Authorized General Account .... 0399999~~

~~Total Unauthorized General Account – Affiliates .... 0499999~~
~~Total Unauthorized General Account – Non-Affiliates .... 0599999~~
~~Total Unauthorized General Account .... 0699999~~

~~Total Authorized and Unauthorized General Account .... 0799999~~

~~Separate Accounts Authorized – Affiliates .... 0899999~~
~~Separate Accounts Authorized – Non-Affiliates .... 0999999~~
~~Separate Accounts Authorized .... 1099999~~

~~Separate Accounts Unauthorized – Affiliates .... 1199999~~
~~Separate Accounts Unauthorized – Non-Affiliates .... 1299999~~
~~Separate Accounts Unauthorized .... 1399999~~

~~Total Authorized and Unauthorized Separate Accounts .... 1499999~~

~~Totals .... 1599999~~

Column 5 – Domiciliary Jurisdiction~~Location~~

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

~~Show also, domiciliary state or country.~~

Detail Eliminated To Conserve Space

SCHEDULE S – PART 4

REINSURANCE CEDED TO UNAUTHORIZED COMPANIES

Contains data on life and accident and health insurance in force that is reinsured with companies not authorized in the state of domicile of the reporting insurance company. The purpose of this schedule is to display reinsurance ceded data used in the development of the liability for reinsurance in unauthorized companies. This liability serves to offset those assets and liability reductions that reflect the result of reinsurance ceded with unauthorized companies.

NOTE: This schedule includes Exhibit 7 cessions.

Securities held on deposit or held in a trust account should be valued at their fair market value. NAIC published market values must be used when available.

Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

If an insurer has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number:

Group or Category	Line Number
General Account	
Life and Annuity	
Affiliates	
U.S. Affiliates	0199999
Non-U.S. Affiliates	0299999
Total Affiliates	0399999
Non-Affiliates	
U.S. Non-Affiliates	0499999
Non-U.S. Non-Affiliates	0599999
Total Non-Affiliates	0699999
Total Life and Annuity	0799999

Accident and Health

Affiliates

U.S. Affiliates 0899999
Non-U.S. Affiliates 0999999
Total Affiliates 1099999

Non-Affiliates

U.S. Non-Affiliates 1199999
Non-U.S. Non-Affiliates 1299999
Total Non-Affiliates 1399999

Total Accident and Health 1499999

Total General Account 1599999

Separate Accounts

Affiliates

U.S. Affiliates 1699999
Non-U.S. Affiliates 1799999
Total Separate Accounts Affiliates 1899999

Non-Affiliates

U.S. Non-Affiliates 1999999
Non-U.S. Non-Affiliates 2099999
Total Separate Accounts Non-Affiliates 2199999

Total Separate Accounts 2299999

Total U.S. (Sum of 0199999, 0499999, 0899999, 1199999, 1699999 and 1999999) 2399999

Total Non-U.S. (Sum of 0299999, 0599999, 0999999, 1299999, 1799999 and 2099999) 2499999

Total (Sum of 1599999 and 2299999) 2599999

~~General Account Life and Annuity – Affiliates .... 0199999~~
~~General Account Life and Annuity – Non-Affiliates .... 0299999~~
~~General Account Total Life and Annuity .... 0399999~~

~~General Account Accident and Health – Affiliates .... 0499999~~
~~General Account Accident and Health – Non-Affiliates .... 0599999~~
~~General Account Total Accident and Health .... 0699999~~

~~Total General Account .... 0799999~~

~~Separate Accounts – Affiliates .... 0899999~~
~~Separate Accounts – Non-Affiliates .... 0999999~~
~~Total Separate Accounts .... 1099999~~

~~Total (General Account & Separate Accounts combined) .... 1199999~~

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH AND FRATERNAL

SCHEDULE S – CEDED REINSURANCE

SHOWING ALL NEW REINSURANCE TREATIES – CURRENT YEAR TO DATE

Detail Eliminated To Conserve Space

Column 5 – Domiciliary Jurisdiction~~Location~~

For each domestic reinsurer or U.S. branch listed, this column should be completed with the domiciliary jurisdiction – city and state. For alien reinsurers, this column should be completed with the country where the alien is domiciled.

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT BLANK – PROPERTY AND TITLE

SCHEDULE F – CEDED REINSURANCE

SHOWING ALL NEW REINSURERS – CURRENT YEAR TO DATE

Detail Eliminated To Conserve Space

Column 4 – Domiciliary Jurisdiction~~Location~~

For each domestic reinsurer or U.S. branch listed, the column should be completed with the domiciliary jurisdiction – city and state. For alien reinsurers, the column should be completed with the country where the alien is domiciled.

Report the two-character postal code abbreviation for the domiciliary jurisdiction. A comprehensive listing of postal code abbreviations for foreign countries is available at **www.nationsonline.org/oneworld/countrycodes.htm**.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

Detail Eliminated To Conserve Space

ANNUAL STATEMENT BLANK – LIFE, HEALTH AND FRATERNAL

SCHEDULE S – PART 1 – SECTION 1

Reinsurance Assumed Life Insurance, Annuities, Deposit Funds and Other Liabilities
Without Life or Disability Contingencies, and Related Benefits Listed by Reinsured Company as of December 31, Current Year

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Reinsured	5 Domiciliary Jurisdiction~~Location~~	6 Type of Reinsurance Assumed	7 Amount of In Force at End of Year	8 Reserve	9 Premiums	10 Reinsurance Payable on Paid and Unpaid Losses	11 Modified Coinsurance Reserve	12 Funds Withheld Under Coinsurance

Detail Eliminated To Conserve Space

SCHEDULE S – PART 1 – SECTION 2

Reinsurance Assumed Accident and Health Insurance Listed by Reinsured Company as of December 31, Current Year

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Reinsured	5 Domiciliary Jurisdiction~~Location~~	6 Type of Reinsurance Assumed	7 Premiums	8 Unearned Premiums	9 Reserve Liability Other Than For Unearned Premiums	10 Reinsurance Payable on Paid and Unpaid Losses	11 Modified Coinsurance Reserve	12 Funds Withheld Under Coinsurance

Detail Eliminated To Conserve Space

SCHEDULE S – PART 2

Reinsurance Recoverable on Paid and Unpaid Losses Listed by Reinsuring Company as of December 31, Current Year

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Company	5 Domiciliary Jurisdiction~~Location~~	6 Paid Losses	7 Unpaid Losses

Detail Eliminated To Conserve Space

SCHEDULE S – PART 3 – SECTION 1

Reinsurance Ceded Life Insurance, Annuities, Deposit Funds and Other Liabilities
Without Life or Disability Contingencies, and Related Benefits Listed by Reinsuring Company as of December 31, Current Year

1	2	3	4	5	6	7	Reserve Credit Taken		10	Outstanding Surplus Relief		13	14
							8	9		11	12		
NAIC Company Code	Federal ID Number	Effective Date	Name of Company	Domiciliary Jurisdiction~~Location~~	Type of Reinsurance Ceded	Amount in Force at End of Year	Current Year	Prior Year	Premiums	Current Year	Prior Year	Modified Coinsurance Reserve	Funds Withheld Under Coinsurance

Detail Eliminated To Conserve Space

SCHEDULE S – PART 3 – SECTION 2

Reinsurance Ceded Accident and Health Insurance Listed by Reinsuring Company as of December 31, Current Year

1	2	3	4	5	6	7	8	9	Outstanding Surplus Relief		12	13
									10	11		
NAIC Company Code	Federal ID Number	Effective Date	Name of Company	Domiciliary Jurisdiction~~Location~~	Type	Premiums	Unearned Premiums (Estimated)	Reserve Credit Taken Other than for Unearned Premiums	Current Year	Prior Year	Modified Coinsurance Reserve	Funds Withheld Under Coinsurance

Detail Eliminated To Conserve Space

QUARTERLY STATEMENT BLANK – LIFE, HEALTH AND FRATERNAL

SCHEDULE S – CEDED REINSURANCE

Showing All New Reinsurance Treaties – Current Year to Date

1	2	3	4	5	6	7
NAIC Company Code	Federal ID Number	Effective Date	Name of Reinsurer	Domiciliary Jurisdiction~~Location~~	Type of Reinsurance Ceded	Is Insurer Authorized? (Yes or No)

QUARTERLY STATEMENT BLANK – PROPERTY AND TITLE

SCHEDULE F – CEDED REINSURANCE

Showing All New Reinsurers—Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Domiciliary Jurisdiction~~Location~~	5 Is Insurer Authorized? (Yes or No)

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 08/21/2009	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2009-37BWG MOD
ON BEHALF OF:	Year 2010
NAME: **Joseph Fritsch**	Changes to Existing Reporting [X]
TITLE: **Chair SAPWG**	New Reporting Requirement [ ]
AFFILIATION: **New York Department of Insurance**	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ADDRESS: **25 Beaver St.**	No Impact [X]
New York, NY 10004-2319	Modifies Required Disclosure [ ]
TELEPHONE:	**DISPOSITION**
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted 12/05/2009
	[ ] Rejected
	[ ] Deferred
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[ ] **QUARTERLY STATEMENT**	[X] **INSTRUCTIONS**
[X] Life and Accident & Health	[ ] Property/Casualty	[ ] Health
[ ] Separate Accounts	[X] Fraternal	[ ] Title
[ ] Other Specify		

Anticipated Effective Date: Annual 2010 ~~reporting and guidance for Annual 2009~~

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify instruction for IMR (Interest Maintenance Reserve) Line 2 and AVR (Asset Valuation Reserve) Line 2 with language for other than temporary impairments.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal modifies the instructions for IMR and AVR related to the adoption of SSAP No. 43 *Revised—Loan-backed and Structured Securities* which superseded the recently adopted SSAP No. 98—*Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-backed and Structured Securities*. This proposal amends guidance recently adopted by proposal 2009-14 BWG.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2010 ~~and guidance for annual 2009~~ should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 01/18/05**

ANNUAL STATEMENT INTRUCTIONS – LIFE & FRATERNAL

INTEREST MAINTENANCE RESERVE

Detail Eliminated To Conserve Space

Line 2 – Current Year's Realized Pre-tax Capital Gains/(Losses) of $______ Transferred into the Reserve Net of Taxes of $______

Include interest-rate related realized capital gains/(losses), net of capital gains tax thereon. All realized capital gains/(losses) transferred to the IMR are net of capital gains taxes thereon. Exclude credit related (default) realized capital gains and losses, realized capital gains/(losses) on equity investments, and unrealized capital gains/(losses).

All realized capital gains/(losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains/(losses) must be classified as either interest (IMR) or credit (AVR) related, not a combination except as specified in SSAP No. 43R, paragraph 35. Purchase lots with the same CUSIP are treated as individual assets for IMR and AVR purposes.

Detail Eliminated To Conserve Space

Other than temporary impairments taken on "interest related" declines in value which are only required to be impaired in accordance with *INT 06-07: Definition of Phrase "Other Than Temporary"* because management no longer has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for recovery in value. Credit related other-than –temporary impairment losses shall be recorded through the Asset Valuation Reserve. ~~in accordance with *SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*.~~

In accordance with SSAP No. 43R, for loan- backed and structured securities only, if the reporting entity wrote the loan backed or structured security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains/(losses) on portfolio or general hedging instruments should be included with the hedged asset. Gains/(losses) on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

Detail Eliminated To Conserve Space

ASSET VALUATION RESERVE

Detail Eliminated To Conserve Space

Line 2 – Realized Capital Gains/(Losses) Net of Taxes – General Account

Report all realized credit-related (default) and equity capital gains/(losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains/(losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains/(losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains/(losses), net of capital gains tax, on each debt security and mortgage-backed security whose NAIC/SVO rating classification at the end of the holding period is different from its NAIC/SVO rating classification at the beginning of the holding period by more than one NAIC/SVO rating classification. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available rating should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990.

Determination of AVR gain/(loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain/(loss). Thus, the rating classifications, on a purchase lot basis, should be compared to the rating classification at the end of the holding period to determine IMR or AVR gain or loss. ~~Permanent~~ Other than temporary impairment write-downs are treated as credit-related (losses) and recorded through the AVR, except for other than temporary impairments taken on interest related declines in value, as described in *INT 06-07: Definition of Phrase "Other Than Temporary."* Interest related other than temporary impairments are treated as interest related losses and recorded through the IMR. ~~in accordance with *SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*~~

In accordance with SSAP No. 43R, for loan-backed and structured securities only, if the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

In addition, all gains/(losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as credit-related gains/(losses).

The gain/(loss), net of capital gains tax, on any debt security or mortgage-backed security that has had an NAIC/SVO rating classification of “6” at any time during the holding period should be reported as a credit related gain/(loss).

All capital gains/(losses), net of capital gains tax, from preferred stock that had an NAIC/SVO rating classification of “RP4,” “RP5” or “RP6” or “P4,” “P5,” or “P6” at any time during the holding period should be reported as credit related gains/(losses) in the AVR.

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Blanks Working Group
Editorial Revisions to be presented at December 2009 meeting
Additional Blanks and Instructions Changes
Insurance Types: L = Life; P = Property/Casualty; F = Fraternal; H = Health; T = Title; SA = Separate Accounts; PC = Protected Cell Accounts

TABLE NAME	EFFECTIVE	CHANGE TO BLANKS OR INSTRUCTIONS	DESCRIPTION	QT	ANN	INS. TYPE
General Interrogatories – Part 1	2010	Blank	For clarity and to match Instructions, change 22.5 to “If answer to 22.4 is yes, report amount of collateral for conforming programs.” Change 22.6 to “If answer to 22.4 is no, report amount of collateral for other programs.”		X	P, L, H, F, T
Liabilities, Surplus and Other Funds	2010	Instructions	Make the following modification to this instruction for Details of Write-ins Aggregated at Line 22 for Liabilities. This reference was missed when Derivatives Line added to liability page. Interest paid in advance on mortgage loans, rents paid in advance~~,~~ and retroactive reinsurance~~ and derivative instruments liability amounts~~, if any.	X	X	F
Liabilities, Capital and Other Funds	2010	Instructions	Make the following modification to this instruction for Details of Write-ins Aggregated at Line 22 for Liabilities. This reference was missed when Derivatives Line added to liability page. Interest paid in advance on mortgage loans, rents paid in advance~~,~~ and retroactive reinsurance~~ and derivative instruments liability amounts~~, if any.	X	X	H
Liabilities, Surplus and Other Funds	2010	Instructions	Make the following modification to this instruction for Details of Write-ins Aggregated at Line 25 for Liabilities. This reference was missed when Derivatives Line added to liability page. Interest paid in advance on mortgage loans, rents paid in advance~~,~~ and retroactive reinsurance~~ and derivative instruments liability amounts~~, if any.	X	X	L
Liabilities, Surplus and Other Funds	2010	Instructions	Make the following modification to this instruction for Details of Write-ins Aggregated at Line 24 for Liabilities. This reference was missed when Derivatives Line added to liability page. Interest paid in advance on mortgage loans, rents paid in advance~~,~~ and retroactive reinsurance~~ and derivative instruments liability amounts~~, if any.	X	X	P

TABLE NAME	EFFECTIVE	CHANGE TO BLANKS OR INSTRUCTIONS	DESCRIPTION	QT	ANN	INS. TYPE
Schedule D, Part 6, Section 1	2009	Instructions	For Column 5, NAIC Valuation Method, update the codes to reflect location in reformatted SVO Manual as shown below: CODE — Valuation Method ~~3i~~4ciA1 — Market Value ~~3ii A~~4ciB1 — Investment in US Insurance Company SCAs ~~3ii B~~4ciB2 — Investments in non-insurance SCA Entities Statutory Basis ~~3ii C~~4ciB3 — Investments in non-insurance SCA Entities GAAP Basis ~~3ii D~~4ciB4 — Investments in Foreign Insurance Company SCA Entities ~~3ii E~~4ciB5 — Investments in Foreign non-insurance SCA Entities ~~3ii F~~4ciB6 — Investments in Preferred Stock of an SCA		X	P, L, H, F, T

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Draft: 10/09/09

Blanks (E) Working Group
Conference Call
October 9, 2009

The Blanks Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call on Oct. 9, 2009. A quorum was present. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Maxine Froemling representing Gloria Glover (AK); Janice Gordon representing Kevin Brown (DC); Paul Johns representing Al Willis (FL); Josh Allotey representing Jim Hanson (IL); Dan Schaefer (MI); Jim Nixon and Bruce Bornman (NE); Pat Gosselin and representing Tom Burke (NH); John McCarter (OK); Russell Latham (OR); Larry Knight (TN); and Ken McGuckin (VT).

1. <u>Discussed the Exposed Guidance for Blanks Proposal 2009-37BWG</u>

Mr. Garn stated that this guidance modifies the instructions for line two of the interest maintenance reserve (IMR) and line two of the asset valuation reserves (AVR) for other than temporary impairments. This modifies a previous proposal number 2009-14BWG. The blanks proposal was exposed during the Fall National Meeting with an effective date of annual 2010. The guidance is intended to assist with the annual 2009 reporting. Mr. Garn stated that there were no opposing interested party comments.

Upon a motion by Mr. Hudson, seconded by Mr. Knight, the Working Group voted unanimously to adopt the guidance as indicated in proposal 2009-37BWG and have the guidance posted to the NAIC Web site.

2. <u>Discussed the Exposed Notes to Financial Statement – Note 5(D)4 & 5(D)5 Guidance</u>

Mr. Garn stated that the guidance is intended to assist companies in the completion of Note 5 for Loan-Backed Securities in the Notes to Financial Statements for the 2009 third quarter filings, the 2009 annual filings and the 2010 quarterly filings. A blanks proposal should be forthcoming to the Working Group requesting that this guidance be included in the 2010 annual statement instructions. Mr. Garn stated that a change was made to the guidance based on interested party comments. The change was to Note 5 D(4), which included separating the "Other-Than-Temporary Impairment Recognized in Loss" column into two separate columns to assist those companies that report an asset valuation reserve (AVR) or an IMR. One column would be for the reporting of the interest portion, with the other column being for the non-interest portion.

A motion was made by Mr. Hudson to adopt the guidance. Mr. McGuckin seconded the motion. Milum Livesay (Genworth) stated that the column should also indicate that the breakout into the two separate columns should only be for those companies that are required to complete an AVR or IMR. Mr. Hudson stated that the wording should indicate that the separation is not "mandated" for those companies that do not complete the AVR or IMR. The Working Group members agreed.

Mr. Livesay stated that for Note 5 (D)5, the "Projected Cash Flows" column should be removed and replaced with a column on the end of the illustration for the interest-related component. This would be for reporting the difference between fair value and the new amortized cost after the other-than-temporary impairment. He stated that generally the "projected cash flows" amount and the "amortized cost after the other-than-temporary impairment" amount would be the same. He stated that the "amortized cost after other-than-temporary impairment" minus the "fair value" would result in the interest-related component, which would be more beneficial information. Mr. Livesay stated that once the company records the temporary impairment as indicated in *SSAP 43R – Loaned Backed Securities*, the result is the new amortized cost basis, which is the projected cash flows. Robin Marcotte (NAIC) stated that if the projected cash flows changed in the future, the two numbers might not be the same because it would not remain the cost basis. Ms. Marcotte stated that the disclosure is intended to be those that are currently held and not just those impaired during the quarter.

Ms. Marcotte said David Smith (VA) indicated that this disclosure is intended to be cumulative and not for only those impaired during the quarter. Mr. Livesay stated that this could be a considerably large listing. Ms. Marcotte stated that the intent was to identify the "outliers" on a CUSIP-by-CUSIP basis. She stated that the focus was on identifying the securities where one company may record projected cash flows significantly differently than another company for any specific CUSIP.

Mr. Garn asked for a motion to remove the "projected cash flows" column from the exposed guidance. No motion was received. Mr. Garn stated that comments can be considered in greater detail once an actual blanks proposal is presented and exposed. Ms. Marcotte stated that if there are inconsistencies between the disclosure included in the guidance and SSAP 43R, she will bring that to the attention of the Statutory Accounting Principles Working Group.

Upon a motion by Mr. McGuckin, seconded by Ms. Gordon, the Working Group vote unanimously to adopt the amended guidance for Note 5(D)4 and for Note 5(D)5 as originally drafted and post to the NAIC Web site for the third quarter 2009 reporting, the annual 2009 reporting and the 2010 quarterly reporting.

Ms. Marcotte stated that there may be a slight inconsistencies between the guidance indicating "current period" and the SSAP indicated currently held. She stated that this can be corrected during the proposal period or with the Statutory Accounting Principles Working Group. David Smith (VA) reiterated that the intent is to have companies record the securities currently held where they have taken impairment. He stated that any change to the investment on a CUSIP basis that impacts the amortized cost basis should be disclosed. The intent is to have every security reported to where the present value of cash flows is less than the amortized costs basis.

Mr. Smith stated that the expected cash flows of a security could change on a quarterly basis. He stated that he does not see a conflict with SSAP 43R. He stated that regulators are looking at the difference between the carrying value and the fair value on a quarterly basis. If the expected cash flows do not change but the fair value changes, the regulators want to see that disclosed. Mr. Livesay stated that this disclosure requirement is creating an inventory listing of all securities that have been impaired imbedded in a footnote. Ms. Marcotte stated that this was discussed in the Statutory Accounting Principles Working Group and that a footnote disclosure may not be the long-term solution. Mr. Smith stated that the SSAP does indicate that it is the securities that are currently held that should be disclosed, not just those impaired in the quarter. He stated that this would not include every security with an other than temporary impairment. It would only include those where the present value of cash flows expected to be collected is less than the amortized cost.

3. Discussed the Investment Category Breakout Guidance

Mr. Garn stated that the investment category spreadsheet is intended as guidance to assist companies in the completion of the investment schedules in appropriately categorizing the securities. The listing is intended to be posted to the NAIC Web site. Connie Woodroof (Stone River) stated that many of the same investments within the listing are currently listed in the annual statement instructions. She indicated that there are some inconsistencies between the listing and the current instructions. She stated that there may be some confusion as it relates to the Government National Mortgage Association (GNMA) securities, otherwise known as "Ginnie Maes." Mary Caswell (NAIC) stated that a minor clarification indicating that for the "Public Utilities" section, it will be indicated that the security should be "moved to the appropriate category" rather than indicate that they all should be recorded in the industrial and miscellaneous category. Becky Fuller (NAIC) stated that there was no change in the instructions for the GNMA pools that should be included in with the U.S. Governments category where the GNMA Collateralized Mortgage Obligations would be included in the U.S. Special Revenue category. This listing is just a greater breakout than what is currently within the instructions. Once a proposal is received, the guidance will be combined with what is currently in the instructions to avoid any duplication. Upon a motion by Mr. Hudson, seconded by Mr. Nixon, the Working Group voted unanimously to adopt the guidance and have it posted to the NAIC Web site.

Having no further business, the Blanks Working Group of the Accounting Practices and Procedures (E) Task Force adjourned.

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Guidance for the 3rd Quarter 2009 Statement filing, 2009 Annual Statement Filing and 2010 Quarterly Statement Filings

5. Investments

Instruction:

D. Loan-Backed Securities

For loan-backed securities, disclose the following:

(4) All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment:

a. intent to sell,

b. inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or

c. present value of cash flows expected to be collected is less than the amortized cost basis of the security.

Illustration:

For Life and Fraternal companies:

	1 Amortized Cost Basis Before Other-than-Temporary Impairment	2 Other-than-Temporary Impairment Recognized in Loss		3 Fair Value C1 – (C2a + C2b)
		2a Interest	2b Non-interest	
Aggregate Intent to Sell				
Aggregate Intent & Ability				

For all other companies:

	1 Amortized Cost Basis Before Other-than-Temporary Impairment	2 Other-than-Temporary Impairment Recognized in Loss	3 Fair Value C1 – C2
Aggregate Intent to Sell			
Aggregate Intent & Ability			

(5) For each security with a recognized other-than-temporary impairment, currently held by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

a. The amortized cost basis, prior to any current-period other-than-temporary impairment.

b. The other-than-temporary impairment recognized in earnings as a realized loss.

c. The fair value of the security.

d. The amortized cost basis after the current-period other-than-temporary impairment.

Illustration:

1 CUSIP	2 Book/Adj Carrying Value Amortized cost before current period OTTI	3 Projected Cash flows	4 Recognized other-than-temporary impairment	5 Amortized cost after other-than-temporary impairment	6 Fair Value

Aggregate totals of column 2, 3, 4, 5 and 6

Column 2 minus Column 3 should equal Column 4

Column 2 minus Column 4 should equal Column 5

Investment Category Guidance for 2009 Annual and 2010 Quarterly Reporting

D1

U.S. Government		
Issuer Obligations	U.S. Government (direct and guaranteed), exempt by SVO P&P Manual Appendix 14	0199999
Single Class Mortgage-Backed/Asset-Backed Securities	Examples: GNMA and SBA Pools	0299999
Subtotal		0399999

All Other Governments	Foreign governments, subdivisions, municipalities, special revenue, public (gov. owned) utilities, supranationals	
Issuer Obligations	Examples: Province of Nova Scotia, Hydro Quebec, City of Buenos Aires, Electricite de France, EBRD, Corporacion Andina de Fomento	0499999
Single Class Mortgage-Backed/Asset-Backed Securities		0599999
Defined Multi-Class Residential Mortgage-Backed Securities		0699999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities		0799999
Defined Multi-Class Commercial Mortgage-Backed Securities		0899999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		0999999
Subtotal		1099999

U.S. States, Territories and Possessions (Direct and Guaranteed)	General obligations, including those issued by utilities owned by these entities, and District of Columbia Examples: State of California. Puerto Rico, Guam.	
Issuer Obligations		1199999
Single Class Mortgage-Backed/Asset-Backed Securities		1299999
Defined Multi-Class Residential Mortgage-Backed Securities		1399999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities		1499999
Defined Multi-Class Commercial Mortgage-Backed Securities		1599999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		1699999
Subtotal		1799999

U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	U.S. Municipal bonds (cities, counties, etc), including utilities owned by these entities	
Issuer Obligations		1899999
Single Class Mortgage-Backed/Asset-Backed Securities		1999999
Defined Multi-Class Residential Mortgage-Backed Securities		2099999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities		2199999
Defined Multi-Class Commercial Mortgage-Backed Securities		2299999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		2399999
Subtotal		2499999

U.S. Special Revenue and Special Assessments Obligations and all Non Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions		
Issuer Obligations	Municipal special revenue bonds. Examples: Property tax revenue bonds, tobacco settlement bonds, community development bonds.	2599999
Single Class Mortgage-Backed/Asset-Backed Securities	FNMA and FHLMC pools	2699999
Defined Multi-Class Residential Mortgage-Backed Securities	Agency (FNMA, FHLMC & GNMA) CMOs, including non-rated CMOs if guaranteed b the agency Include private label RMBS if collateral is agency guaranteed.	2799999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities	Agency RMBS rated below AA/AAA (e.g. agency label but not guaranteed)	2899999
Defined Multi-Class Commercial Mortgage-Backed Securities	Agency CMBS	2999999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities	Agency other ABS (not RMBS or CMBS: e.g. project loans)	3099999
Subtotal		3199999

Public Utilities (Unaffiliated)	Deleted starting in 2009 > move to appropriate category	
Issuer Obligations		3299999
Single Class Mortgage-Backed/Asset-Backed Securities		3399999
Defined Multi-Class Residential Mortgage-Backed Securities		3499999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities		3599999
Defined Multi-Class Commercial Mortgage-Backed Securities		3699999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		3799999
Subtotal		3899999

Industrial and Miscellaneous (Unaffiliated)	Non-governmental bonds which do not qualify in any of the above categories	
Issuer Obligations	Corporate and other bonds issued by non-public entities	3299999
Single Class Mortgage-Backed/Asset-Backed Securities	ABS (including RMBS and CMBS) asset pool not divided into tranches Examples: (asset pool only has 1 tranche): CDOs, aircraft leases, private label mortgage pool	3399999
Defined Multi-Class Residential Mortgage-Backed Securities	Private label RMBS, (2 or more tranches issued from asset pool), rated AAA/AA, or if unrated, NAIC1 (if downgraded below AA, move to 4299999), first lien (typically not home equity)	3499999
Other Multi-Class Residential Mortgage-Backed Securities	Private label RMBS, (2 or more tranches issued from asset pool), rated A or below	3599999
Defined Multi-Class Commercial Mortgage-Backed Securities	CMBS (2 or more tranches issued from asset pool), rated AAA/AA (if downgraded below AA, move to 4499999)	3699999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities	CMBS, rated A or below, and other ABS which do not fit in any other category, regardless of rating Examples: (when more than 1 tranche is issued from the pool of assets): CDOs, Credit Card ABS, Auto ABS, Medical Receivable ABS, Principal Protected Notes, SPVs	3799999
Subtotal		3899999

Credit Tenant Loans		
Issuer Obligations	First liens on real property, rents assigned to lender (tenant's credit backs the loan)	3999999
Single Class Mortgage-Backed/Asset-Backed Securities		4099999
Subtotal		4199999

Hybrid Securities		
Issuer Obligations	Hybrid securities products are sometimes referred to as capital securities. Examples of hybrid securities include Trust Preferreds, Yankee Tier 1s (with and without coupon step–ups) and debt-equity hybrids (with and without mandatory triggers).	4299999
Single Class Mortgage-Backed/Asset-Backed Securities		4399999
Defined Multi-Class Residential Mortgage-Backed Securities		4499999
Other Multi-Class Residential Mortgage-Backed Securities		4599999
Defined Multi-Class Commercial Mortgage-Backed Securities		4699999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		4799999
Subtotal		4899999

Parent, Subsidiaries and Affiliates	Defined by SSAP 97	
Issuer Obligations		4999999
Single Class Mortgage-Backed/Asset-Backed Securities		5099999
Defined Multi-Class Residential Mortgage-Backed Securities		5199999
Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities		5299999
Defined Multi-Class Commercial Mortgage-Backed Securities		5399999
Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities		5499999
Subtotal		5599999

Total Bonds	
Subtotals - Issuer Obligations	7799999
Subtotals - Single Class Mortgage-Backed/Asset-Backed Securities	7899999
Subtotals - Defined Multi-Class Residential Mortgage-Backed Securities	7999999
Subtotals - Other Multi-Class Residential Mortgage-Backed/Asset-Backed Securities	8099999
Subtotals - Defined Multi-Class Commercial Mortgage-Backed Securities	8199999
Subtotals - Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities	8299999
Subtotals - Total Bonds	8399999

Notes / clarifications:

Defined RMBS/CMBS: rating requirement is at least AA-/AA3 rating from one of the rating agencies, (2nd lowest rating rule applicable to NAIC designations does not apply)

ABS where loans are against a home (except for such residential collateral which is defined as CMBS), including home equity, HELOC, manufactured housing, mobile home collateral ABS should be filed as RMBS

In case of mixed collateral, if at least 90% is of one type, it should be filed according to that collateral type. For example, if a RMBS is 95% first lien and 5% second lien, it should be filed as a first lien deal.

<u>Issuer obligations</u>
Based on the credit of an issuer or other agreement supporting the obligation.

<u>Single Class Mortgage-Backed/Asset-Backed Securities</u>
Pass-through certificates and other "securitized" loans issued using only one class where the payment of interest and /or principal of the security is directly proportional to interest and/or principal received by the business entity from the loans supporting the security.

<u>Multi-Class Residential Mortgage-Backed Securities</u>
Mortgage-backed securities divided into two or more classes, which do not receive proportionate payments of principal and interest, each of which represents an ownership interest in instruments which are directly or indirectly secured by liens on one to four family residential properties.

(i) Defined Multi-class Residential Mortgage-Backed Securities
First liens, rated in one of the two highest categories (AAA/AA) by a NRSRO (also ARO)

(ii) Other Multi-Class Residential Mortgage-Backed Securities
Not first liens or, if secured by first liens, are rated below the two highest categories (AA/AAA) by NRSRO (ARO)

<u>Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities</u>
Securities divided into two or more classes, that do not receive proportionate payments of principal and interest, each of which represent an ownership interest in instruments or cashflows, but not those secured by liens on one to four family residential properties.

(i) Defined Multi-Class Commercial Mortgage-Backed Securities
Divided into two or more classes, that do not receive proportionate payments of principal and interest, each of which represents an ownership interest in instruments directly or indirectly secured by a first lien on one or more parcels of real estate upon which is located one or more commercial structures, and rated AA/AAA by NRSRO (ARO)

(ii) Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities
Divided into two or more classes, which do not receive proportionate payments of principal and interest, each of which represents an ownership in instruments or cash flows. This includes instruments secured by liens on one or more parcels of real estate upon which is located one or more commercial structures that are not first liens or, if secured by first liens, the securities are rated below the two highest categories (AAA/AA) by a NRSRO (ARO)

Issuer obligations
Single Class Mortgage-Backed/Asset-Backed Securities
Multi-Class Residential Mortgage-Backed Securities
(i) Defined Multi-class Residential Mortgage-Backed Securities
(ii) Other Multi-Class Residential Mortgage-Backed Securities
Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities
(i) Defined Multi-Class Commercial Mortgage-Backed Securities
(ii) Other Multi-Class Commercial Mortgage-Backed/Asset-Backed Securities

Guidance for Interest Maintenance Reserve and Asset Valuation Reserve for 2009 annual reporting reflecting changes as a result of adoption of SSAP No. 43R

INTEREST MAINTENANCE RESERVE

Line 2 – Current Year's Realized Pre-tax Capital Gains/(Losses) of $______ Transferred into the Reserve Net of Taxes of $______

Include interest-rate related realized capital gains/(losses), net of capital gains tax thereon. All realized capital gains/(losses) transferred to the IMR are net of capital gains taxes thereon. Exclude credit related (default) realized capital gains and losses, realized capital gains/(losses) on equity investments, and unrealized capital gains/(losses).

All realized capital gains/(losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains/(losses) must be classified as either interest (IMR) or credit (AVR) related, not a combination except as specified in SSAP No. 43R, paragraph 35. Purchase lots with the same CUSIP are treated as individual assets for IMR and AVR purposes.

Exclude those capital gains and losses that, in accordance with contract terms have been used to directly increase or decrease contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and losses.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains/(losses) net of tax, the capital gains tax associated with those capital gains/(losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains/(losses) on:

Debt securities, mortgage-backed securities and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) rating classification at the holding period is **NOT** different from its NAIC rating classification at the beginning of the holding period by more than one NAIC rating classification. Exclude any such gains/(losses) exempt from the IMR.

Class One Bond Mutual Funds. Include any capital gains/(losses) realized by the Company, whether from sale of the Fund or capital gains distributions by the Fund. If, during the course of the year, the SVO removes the classification of "class one" from a Class One Bond Mutual Fund, the company shall not report capital gains/(losses) in this schedule. Any such removal of the "class one" classification will cause the Fund to be reported as common stock on the applicable schedules.

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains/(losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and losses on fixed income assets held on Schedule D. A capital gain/(loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain/(loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain/(loss). Thus, the rating classifications, on a purchase lot basis, should be compared to the rating classification at the end of the holding period to determine IMR or AVR gain or loss.

Realized capital gains/(losses) on any debt security or mortgage-backed security that has had an NAIC/SVO rating classification of 6 at any time during the holding period should be excluded from the IMR and included as a credit related gain/(loss) in the Asset Valuation Reserve (AVR).

Realized capital gains/(losses) on any preferred stock that had an NAIC/SVO rating classification of RP4, RP5 or RP6 or P4, P5, or P6 at any time during the holding period should be reported as credit related gains/(losses) in the AVR.

The holding period for debt securities, mortgage-backed securities and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available rating should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990. For preferred stocks acquired before January 1, 1993, the holding period is presumed to have begun on December 31, 1992. For Class One Bond Mutual Funds, the holding period is defined as one calendar year to expected maturity.

Where the gain on a convertible bond or preferred stock sold while "in the money" is included in the IMR; the expected maturity date is defined as the next conversion date. "In the money" is defined to mean that the number of shares available currently or at next conversion date, multiplied by their current market price, is greater than the book/adjusted carrying value of the convertible asset. However, for a convertible bond or convertible preferred stock purchased while its conversion value exceeds its par value, any gain or loss realized from its sale before conversion must be excluded from the IMR and included in the AVR. Conversion value is defined to mean the number of shares available currently or at next conversion date, multiplied by the stock's current market price.

Other-than-temporary impairments taken on "interest-related" declines in value that are only required to be impaired in accordance with *INT 06-07: Definition of Phrase "Other Than Temporary"* because management no longer has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for recovery in value. Credit-related other-than-temporary impairment losses shall be recorded through the Asset Valuation Reserve in accordance~~ with~~ ~~*SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*~~.

<u>In accordance with SSAP No. 43R, for loan- backed and structured securities only, if the reporting entity wrote the loan backed or structured security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.</u>

For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains/(losses) on portfolio or general hedging instruments should be included with the hedged asset. Gains/(losses) on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

For income generation derivative transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains/(losses) should be included in the same sub-component where the realized gains/(losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. For a more complete and detailed explanation, refer to SSAP No. 86, Derivative Instruments, for accounting guidance.

Realized gains/(losses), on derivative transactions entered into solely for the purpose of altering the interest rate characteristics of the company's assets and/or liabilities (hedging transactions) should be allocated to the IMR and amortized over the life of the hedged assets. Realized gains/(losses), on income generation derivative transactions where the underlying interest (put) or covering asset (call, cap or floor) is subject to IMR, should be allocated to the IMR and amortized over the remaining life of the:

a. underlying interest for a put

b. covering asset for a call, or

c. derivative contract for a cap or floor

Capital gains/(losses) associated with the cash components of a replication (synthetic asset) transaction should be categorized as interest-rate related or credit related and as to sub-component within the Asset Valuation Reserve as they would be in the absence of the replication (synthetic asset) transaction.

Capital gains/(losses), other than those arising at the time of counterparty default, on the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively-determined interest rates should be categorized as interest-rate related or credit related and as to sub-component within the Asset Valuation Reserve as if they were gains and losses on the replicated (synthetic) asset(s).

Capital gains/(losses) arising from counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the Asset Valuation Reserve.

Interest-rate related gains/(losses) associated with the cash component of a replication (synthetic asset) transaction should be amortized in the same manner as they would be in the absence of the replication (synthetic asset) transaction.

Interest-rate related gains/(losses) associated with the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively determined interest rates should be amortized as if they arose from the replicated asset.

Realized capital gains/(losses) arising from a swap of prospectively-determined interest rates constituting a component of a replication (synthetic asset) transaction should be credited or charged to the Interest Maintenance Reserve using the maturity bucket corresponding to the side of the transaction with the longest interest rate guarantee period.

Gains/(losses) on dollar repurchase agreements that are traded for the fee have no IMR (or AVR) impact because they are treated as financing.

The total dollar value of these IMR realized capital gains and (losses), net of capital gains tax will be excluded from the realized gains/(losses) reported on Page 4, Line 34 in the general account.

In the Separate Accounts Statement, the total dollar value of these IMR realized capital gains/(losses), net of capital gains tax will be excluded from the realized gains/(losses) reported on Page 4, Line 3.

By capturing the realized capital gains/(losses), net of tax, the capital gains tax associated with those capital gains/(losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

ASSET VALUATION RESERVE

Line 2 – Realized Capital Gains/(Losses) Net of Taxes – General Account

Report all realized credit-related (default) and equity capital gains/(losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains/(losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains/(losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains/(losses), net of capital gains tax, on each debt security and mortgage-backed security whose NAIC/SVO rating classification at the end of the holding period is different from its NAIC/SVO rating classification at the beginning of the holding period by more than one NAIC/SVO rating classification. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available rating should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990.

Determination of AVR gain/(loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain/(loss). Thus, the rating classifications, on a purchase lot basis, should be compared to the rating classification at the end of the holding period to determine IMR or AVR gain or loss. ~~Permanent~~ Other than temporary impairment write-downs are treated as credit-related (losses) and recorded through the AVR, except for other-than-temporary impairments taken on interest-related declines in value, as described in *INT 06-07: Definition of Phrase "Other Than Temporary."* Interest-related other-than-temporary impairments are treated as interest-related losses and recorded through the IMR ~~in accordance with *SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*~~.

In accordance with SSAP No. 43R, for loan-backed and structured securities only, if the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

In addition, all gains/(losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as credit-related gains/(losses).

The gain/(loss), net of capital gains tax, on any debt security or mortgage-backed security that has had an NAIC/SVO rating classification of "6" at any time during the holding period should be reported as a credit related gain/(loss).

All capital gains/(losses), net of capital gains tax, from preferred stock that had an NAIC/SVO rating classification of "RP4," "RP5" or "RP6" or "P4," "P5," or "P6" at any time during the holding period should be reported as credit related gains/(losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain/(loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains/(losses), net of capital gains tax, in the appropriate sub-components.

For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains/(losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains/(losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

For income generation derivative transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains/(losses), net of capital gains tax should be included in the same sub-component where the realized gains/(losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to SSAP No. 86, Derivative Instruments, for accounting guidance.

Realized gains/(losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

TO: Jacob Garn, Chair Blanks (E) Working Group

FROM: Larry Bruning (KS), Chair, Life and Health Actuarial Task Force

DATE: December 4, 2009

RE: Actuarial Guideline XLIII

In discussing some of the issues with the implementation of Actuarial Guideline XLIII, on variable annuities, the Life and Health Actuarial Task Force noted that this actuarial guideline which is effective as of December 31, 2009, may cause some questions regarding how to complete general interrogatory 9.2 for life entities. The Task Force recommends that the Blanks Working Group post the following as non-binding guidance for entities which file on the life blank for year-end 2009 reporting.

Interrogatory 9.2

Interrogatory 9.2 of the annual statement was intended to identify the types of guarantees a company is making, the waiting period of each guarantee, the account values and the reserves. Actuarial Guidelines XXXIV and XXXIX had explicit reserves attributable to particular benefits. Under Actuarial Guideline XLIII there is only an aggregate reserve and there is no specific reserve for each guarantee. For reserves calculated according to Actuarial Guideline XLIII column 6 (gross reserve) of each row of tables in the interrogatory should be calculated using the reserve allocated to each contract by calculating the difference between the total reserve and the basic adjusted reserve, which would include any excess stochastic reserve.

Extra Reserve under Actuarial Guideline XLIII

The portion of the reserve calculated according to Actuarial Guideline XLIII held in the general account may be split between a reserve supporting the fixed account portion of the variable annuity and the reserve supporting the guaranteed benefits. The reserve supporting the guaranteed benefits may be reported in either the Annuities section or the Miscellaneous Reserves section of Section 5. However, that reserve should be identified separately.

The Task Force also notes that this interrogatory may need some adjustments for future periods and may make additional recommendations at a later date.

cc: Engelhardt; Marcotte; Caswell
LHATF to Blanks interrog

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www.naic.org

National Association of Insurance Commissioners

To: Blanks Working Group
From: Statutory Accounting Principles Working Group
Date: December 5, 2009
Re: New Disclosures on Subsequent Events

In December 2009, the Statutory Accounting Principles Working Group (SAPWG) adopted additional disclosures in *SSAP No. 9—Subsequent Events.* The disclosure requirements as adopted by the SAPWG in agenda item 2009-12 have been adopted as a nonsubstantive change and are effective for year-end 2009. Consistent with similar disclosure requirements in the past, this item coming from the SAPWG, should be incorporated into the annual statement Notes to Financial Statements number 21 – Subsequent Events. Updated annual statement instructions for companies to use for 2009 are shown on the attached.

As this item has already been adopted within the SSAP, which represents a higher level of authoritative guidance as promulgated by the Preamble, this addition to Note 21 does not require approval from the Blanks Working Group but is listed as a separate item on the agenda to make it clear it is becoming part of the current annual statement instructions. This will be posted to the NAIC website with any additional instructions revisions. Blanks proposal (2009-44 BWG) is also being submitted with an effective date of annual 2010 for the electronic data capture elements within the illustrations and to formalize the instructions.

cc: Mary Caswell; Robin Marcotte; John Tittle

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CENTRAL OFFICE	2301 McGee Street, Suite 800	Kansas City, MO 64108-2662	p | 816 842 3600	f | 816 783 8175
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ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

NOTES TO FINANCIAL STATEMENTS

Detail Eliminated To Conserve Space

21. Events Subsequent

Refer to SSAP No. 9, Subsequent Events, for accounting guidance.

Instruction:

Subsequent events shall be considered either:

Type I~~.~~ – Recognized Subsequent Events:

Events or transactions that provide additional evidence with respect to conditions that existed at the date of the balance sheet ~~and affect~~, including the estimates inherent in the process of preparing financial statements;

Type II~~.~~ – Nonrecognized Subsequent Events:

Events or transactions that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose ~~subsequent to~~after that date.

For material Type I subsequent events, the nature and the amount of the adjustment shall be disclosed ~~only~~ if necessary to keep the financial statements from being misleading. ~~All information that becomes available prior to the issuance of the financial statements relating to a material Type I subsequent event shall be used by management to determine a related accounting estimate.~~

Material Type II subsequent events shall not be recorded in the financial statements, but shall be disclosed in the notes to the financial statements. For such events, an entity shall disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

An entity also shall consider supplementing the historical financial statements with pro forma financial data. Occasionally, a nonrecognized subsequent event may be so significant that disclosure can best be made by means of pro forma financial data. Such data shall give effect to the event as if it had occurred on the balance sheet date. In some situations, an entity also shall consider presenting pro forma statements. ~~Describe any events relating to Type II subsequent events that may have a material effect on the financial condition of the Company. In addition, if~~ If the Type II subsequent event is of such a nature that pro forma disclosures are necessary to keep the financial statements from being misleading, disclose supplemental pro forma financial data including the impact on net income, surplus, total assets, and total liabilities giving effect to the event as if it occurred on the date of the balance sheet.

Reporting entities shall disclose the dates through which subsequent events have been evaluated along with the dates the statutory reporting statements were issued, or available to be issued.

Illustration:

Type I~~.~~ – Recognized Subsequent Events:

Subsequent events have been considered through __/__/__ for the statutory statement issued on __/__/__.

On February 1, 20___, a settlement was reached in a major lawsuit against the Company. In conjunction with the lawsuit, the Company estimated and recorded a liability of $_______ on Line ___ of the Liabilities, Surplus and Other Funds page. The actual settlement amount of $_______ was paid to the plaintiff on February 10. The change will be recorded in the First Quarter Statement on Line ___ of the Statement of Income.

Type II~~.~~ – Nonrecognized Subsequent Events:

Subsequent events have been considered through __/__/__ for the statutory statement issued on __/__/__.

The Company faces loss exposure from the January 15, 20___ earthquake in the State of __________. This exposure is primarily in the Company's property and casualty subsidiaries, but also includes potential losses on its real estate and mortgage loan portfolios. Based on a review of the range of expected loss, the Company does not believe this event will have a material impact on its financial condition.

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National Association of Insurance Commissioners

To: Blanks Working Group
From: Statutory Accounting Principles Working Group
Date: December 5, 2009
Re: New Disclosures on Financial Guaranty Insurance

In December 2009, the Statutory Accounting Principles Working Group (SAPWG) adopted additional disclosures in *SSAP No. 60—Financial Guaranty Insurance.* The disclosure requirements as adopted by the SAPWG in agenda item 2009-09 have been adopted as a nonsubstantive change and are effective for year-end 2009. Consistent with similar disclosure requirements in the past, and the Blanks Working Group procedures, this item coming from the SAPWG, should be incorporated into the Property and Casualty Annual Statement Notes to Financial Statements as the last note, number 35. Updated annual statement instructions for companies to use for 2009 are shown on the attached.

As this item has already been adopted within the SSAP, which represents a higher level of authoritative guidance as promulgated by the Preamble, this additional Note 35 does not require approval from the Blanks Working Group but is listed as a separate item on the agenda to make it clear that it is becoming part of the current annual statement instructions. This will be posted to the NAIC website with any additional instructions revisions. Blanks proposal 2009-46 BWG is being submitted, with an effective date of annual 2010, for the electronic data capture elements within the illustrations and to formalize the instructions.

cc: Mary Caswell; Robin Marcotte; John Tittle

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ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

NOTES TO FINANCIAL STATEMENTS

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35. Financial Guaranty Insurance

Instruction:

A. Disclose the following information for each annual reporting statement and in any interim period if a significant change has occurred in that interim period:

(1) For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

a. Disclose the unearned premium revenue (undiscounted) as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

b. Provide a schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

1. The four quarters of the subsequent annual period and each of the next four annual periods

2. The remaining periods aggregated in five-year increments

c. A roll forward of the expected future premiums (undiscounted), including:

1. Expected future premiums – Beginning of Year

2. Less – Premium payments received for existing installment contracts

3. Add – Expected premium payments for new installment contracts

4. Adjustments to the expected future premium payments

5. Expected future premiums – End of Year

(2) For non-installment contracts for which premium revenue recognition has been accelerated:

a. Disclose the amount and reasons for acceleration.

b. Provide a schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

1. The four quarters of the subsequent annual period and each of the next four annual periods

2. The remaining periods aggregated in five year increments

(3) For the claim liability:

a. The rate used to discount the claim liability. This rate shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

NOTE: The annual discount rate should be calculated pursuant to SSAP No. 60, Financial Guaranty Insurance, and shall be utilized for the subsequent year's quarterly financial statements. The discount rate shall be adjusted at the end of each year per SSAP No. 60.

b. The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

(4) A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

a. A description of each grouping or category used to track and monitor deteriorating insured financial obligations

b. The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category

c. The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

B. An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations:

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average contract period (Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts.)

(3) Insured contractual payments outstanding, segregating principal and interest (Contractual payments outstanding shall be based on management's estimates of receivables.)

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability (This amount may not reconcile to the financial statements.)

(8) Reinsurance recoverables (This amount may not reconcile to the financial statements.)

(9) Unearned premium revenue.

Illustration:

A.

(1) Financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

a.

b. Schedule of premiums (undiscounted) expected to be collected under all installment contracts:

1.

1st Quarter 2011	$
2nd Quarter 2011	
3rd Quarter 2011	
4th Quarter 2011	
Year 2012	
Year 2013	
Year 2014	
Year 2015	$

2.

2016 through 2020	$
2021 through 2025	
2026 through 2030	
Etc.	$

(NOTE: Use as many five year increments as needed)

c. Roll forward of the expected future premiums (undiscounted), including:

1.	Expected future premiums – Beginning of Year	$
2.	Less – Premium payments received for existing installment contracts	
3.	Add – Expected premium payments for new installment contracts	
4.	Adjustments to the expected future premium payments	
5.	Expected future premiums – End of Year	$

(2) Non-installment contracts for which premium revenue recognition has been accelerated:

a.

b. Schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position:

1.

1st Quarter 2011	$
2nd Quarter 2011	
3rd Quarter 2011	
4th Quarter 2011	
Year 2012	
Year 2013	
Year 2014	
Year 2015	$

2.

2016 through 2020	$ ________
2021 through 2025	________
2026 through 2030	________
Etc.	$ ________

(NOTE: Use as many five year increments as needed)

(3) Claim liability:

a. The company used a rate of ____ to discount the claim liability. This rate is equal to the average rate of return on the admitted assets of the company as of the December 31, 20XX.

b. Significant components of the change in the claim liability for the period

Components	**Amount**
Accretion of the discount	$ ________
Changes in timing	________
New reserves for defaults of insured contracts	________
Change in deficiency reserves	________
Change in incurred but not reported claims	________
Total	$ ________

(4) Description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations:

a. Description of each grouping or category used to track and monitor deteriorating insured financial obligations

Category A: Includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

Category B: Includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

Category C: Includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

Category D: Includes insured financial obligations where an event of default has occurred.

b.

c.

B. Schedule of insured financial obligations at the end of the period

	Surveillance Categories				
	A	B	C	D	Total
Number of policies					
Remaining weighted-average contract period (in years)					XXX
Insured contractual payments outstanding:					
Principal	$	$	$	$	$
Interest					
Total	$	$	$	$	$
	$	$	$	$	$
Less:					
Gross potential recoveries					
Discount, net					
Net claim liability	$	$	$	$	$
Unearned premium revenue	$	$	$	$	$
Claim liability reporte in the balance sheet (a)	$	$	$	$	$
Reinsurance recoverables	$	$	$	$	$

QUARTERLY STATEMENT INSTRUCTIONS – PROPERTY

NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as "no change" should be included. However, provide disclosure for annual Note 1A, 5D, 17C, 24 and ~~24~~35B in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

1. Summary of Significant Accounting Policies

Detail Eliminated To Conserve Space

35. Financial Guaranty Insurance

Instruction:

B. An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations:

(1) Number of issued and outstanding financial guarantee insurance contracts

(2) Remaining weighted-average contract period (Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts.)

(3) Insured contractual payments outstanding, segregating principal and interest (Contractual payments outstanding shall be based on management's estimates of receivables.)

(4) Gross claim liability

(5) Gross potential recoveries

(6) Discount, net (both claim liability and potential recoveries)

(7) Net claim liability (This amount may not reconcile to the financial statements.)

(8) Reinsurance recoverables (This amount may not reconcile to the financial statements.)

(9) Unearned premium revenue.

Illustration:

B. Schedule of insured financial obligations at the end of the period

	Surveillance Categories				
	A	**B**	**C**	**D**	**Total**
Number of policies					
Remaining weighted-average contract period (in years)					XXX
Insured contractual payments outstanding:					
Principal	$	$	$	$	$
Interest					
Total	$	$	$	$	$
	$	$	$	$	$
Less:					
Gross potential recoveries					
Discount, net					
Net claim liability	$	$	$	$	$
Unearned premium revenue	$	$	$	$	$
Claim liability reporte in the balance sheet (a)	$	$	$	$	$
Reinsurance recoverables	$	$	$	$	$

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National Association *of* Insurance Commissioners

To: Blanks Working Group
From: Statutory Accounting Principles Working Group
Date: December 5, 2009
Re: Revised Disclosures on Deferred Tax Assets

In December 2009, the Statutory Accounting Principles Working Group (SAPWG) adopted additional disclosures in *SSAP No. 10—Income Taxes – Revised, A Temporary Replacement of SSAP No. 10.* The disclosure requirements as adopted by the SAPWG in agenda item 2009-06 and are effective for year-end 2009. Consistent with similar disclosure requirements in the past, this item coming from the SAPWG, should be incorporated into the annual statement Notes to Financial Statements Number 9 – Income Taxes. Updated annual statement instructions for companies to use for 2009 are shown on the attached.

As this item has already been adopted within the SSAP, which represents a higher level of authoritative guidance as promulgated by the Preamble, this addition to Note 9 does not require approval from the Blanks Working Group but is listed as a separate item on the agenda to make it clear it is becoming part of the current annual statement instructions. This will be posted to the NAIC website with any additional instructions revisions. A specific proposal will be submitted with an effective date of annual 2010 for the electronic data capture elements within the illustrations and to formalize the instructions.

cc: Mary Caswell; Robin Marcotte; John Tittle

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ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

NOTES TO FINANCIAL STATEMENTS

Detail Eliminated To Conserve Space

9. Income Taxes

Instruction:

A. Disclose the components of the net deferred income tax asset (DTA) or deferred tax liability (DTL) recognized in the Company's ~~Assets, Liabilities, Surplus and Other Funds~~financial statements as follows:

(1) The total of all DTAs (gross, adjusted gross, admitted and nonadmitted) by tax character;

(2) The total of all DTLs by tax character;

(3) Net deferred tax asset (liability) [(1) – (2)]

Should agree with (Asset Page, Line 16.2, Column 1) – (Liability Page, Line 15.2, Column 1);

(4) The total DTAs nonadmitted as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10;

(5) The Total of all DTAs admitted [(3) – (4)], not less than zero

Should agree with Asset Page, Line 16.2, Column 3; and

(6) The net change during the year in the total DTAs nonadmitted.

(7) Whether the reporting entity has elected to admit DTAs pursuant to SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10~~.~~; and whether the current-period election differs from the prior reporting period;

(8) The increased amount by tax character, and the change in such, of admitted adjusted gross DTAs as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10, if applicable;

(9) The amount of each result or component of the calculation, by tax character and the risk-based capital level (total adjusted capital and authorized control level) as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10.; and

(10) The amount of admitted DTAs, admitted assets, statutory surplus and total adjusted capital in the risk-based capital calculation and the increased amount of DTAs, admitted assets and surplus as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10, if applicable.

B. To the extent that DTLs are not recognized ~~for amounts described in SSAP No. 10, Income Taxes, paragraph 6d, or a DTL is not recognized~~ for amounts described in paragraph 31 of FAS 109, disclose the following:

(1) A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

(2) The cumulative amount of each type of temporary difference;

(3) The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration, if determination of that liability is practicable, or a statement that determination is not practicable; and

(4) The amount of the DTL for temporary differences other than those in item (3) above that is not recognized.

C. Disclose the significant components of income taxes incurred (i.e., current income tax expenses) and the changes in DTAs and DTLs. These components would include, for example:

(1) Current tax expense or benefit;

(2) The change in DTAs and DTLs (exclusive of the effects of other components listed below);

(3) Investment tax credits;

(4) The benefits of operating loss carry forwards; ~~and~~

(5) Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity~~.~~; and

(6) Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.

D. To the extent that the sum of a reporting entity's income tax incurred and the change in its DTAs and DTLs is different from the result obtained by applying the federal statutory rate to its pretax net income, a reporting entity should disclose the nature of the significant reconciling items.

E. A reporting entity should also disclose the following:

(1) The amounts, origination dates and expiration dates of operating loss and tax credit carry forwards available for tax purposes; ~~and~~

(2) The amount of federal income taxes incurred in the current year and each preceding year that are available for recoupment in the event of future net losses~~.~~; and

(3) The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.

F. If the ~~company's~~ reporting entity's federal income tax return is consolidated with those of any other entity or entities, provide the following:

(1) A list of names of the entities with which the company's federal income tax return is consolidated for the current year, and

(2) The substance of the written agreement approved by the company's Board of Directors that sets forth the manner in which the total consolidated federal income tax for all entities is allocated to each entity that is a party to the consolidation. (If no written agreement has been executed, explain why such an agreement has not been executed.) Describe the method of allocation, setting forth the manner in which the company has an enforceable right to recoup federal income taxes in the event of future net losses that it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Refer to SSAP No. 10, Income Taxes, for accounting guidance on disclosure requirements, and INT 06-12 for more detail on protective tax deposits.

Illustration:

NOTE: Illustrations below do not reflect changes adopted by SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

See illustration in paragraph 12.26 of the SSAP No. 10, Income Taxes Q&A.

B. Regarding deferred tax liabilities that are not recognized:

See example in paragraph 12.27 of the SSAP No. 10, Income Taxes Q&A.

C. Current income taxes incurred consist of the following major components:

See illustration in paragraph 12.28 of the SSAP No. 10, Income Taxes Q&A.

The main components of the 20__ deferred tax amounts are as follows:

See illustration in paragraph 12.29 of the SSAP No. 10, Income Taxes Q&A.

The changes in main components of DTAs and DTLs are as follows:

See illustration in paragraph 12.30 of the SSAP No. 10, Income Taxes Q&A.

D. Among the more significant book to tax adjustments were the following:

See illustration in paragraph 12.31 of the SSAP No. 10, Income Taxes Q&A.

E. See example in paragraph 12.32 of the SSAP No. 10, Income Taxes Q&A.

(3) The aggregate amount of deposits reported as admitted assets under Section 6603 of the Internal Revenue Service (IRS) Code was $XX million as of December 31, 20XX.

F. See example in paragraph 12.33 of the SSAP No. 10, Income Taxes Q&A.

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