ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Draft: 10/27/10

Accounting Practices and Procedures (E) Task Force
Orlando, FL
October 19, 2010

The Accounting Practices and Procedures (E) Task Force met in Orlando, FL, Oct. 19, 2010. The following Task Force members participated: Steve Poizner, Chair, represented by Kim Hudson (CA); Susan E. Voss, Vice Chair, represented by 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 Al Franz (DE); Kevin M. McCarty represented by Al Willis (FL); Michael T. McRaith represented by Kevin Fry (IL); Stephen W. Robertson represented by Cindy Donovan (IN); Sharon P. Clark represented by David Hurt (KY); Joseph G. Murphy represented by Joe Turchi (MA); Elizabeth Sammis represented by Neil Miller (MD); Ken Ross represented by Judith Weaver and Steve Mayhew (MI); John M. Huff represented by Fred Heese (MO); Ann M. Frohman represented by Jim Nixon (NE); Roger A. Sevigny represented by Thomas Burke (NH); Thomas B. Considine represented by Robert Kasinow (NJ); Brett J. Barratt represented by Bill McCune (NV); James J. Wrynn represented by Joseph Fritsch and Matti Peltonen (NY); Mary Jo Hudson represented by Dale Bruggeman (OH); Kim Holland represented by Mathangi Shankar (OK); Teresa D. Miller represented by Russell Latham (OR); Robert L. Pratter represented by Steve Johnson (PA); Joseph Torti, III, represented by Jack Broccoli (RI); Leslie A. Newman represented by Mark Jaquish (TN); Neil T. Gooch represented by Jake Garn (UT); Alfred W. Gross represented by Doug Stolte (VA); Mike Bertrand represented by Ken McGuckin (VT); Mike Kreidler represented by Patrick McNaughton (WA); Sean Dilweg represented by Peter Medley and Roger Peterson (WI); and Jane L. Cline represented by Leah Cooper (WV).

1. Adopted 2011 Proposed Charges of the Task Force and its Working Groups

Mr. Hudson noted the 2011 Proposed Charges have only minor changes from the current year and the changes are shown as tracked. Mr. Hudson further noted that the chairs of the working groups approved these changes and the charges were previously distributed. The commissioners of the states of Iowa, New York and Utah have agreed to support the charges. Upon a motion by Mr. Johnson, seconded by Mr. Ford, the Task Force unanimously adopted the 2011 charges of the Task Force and its Working Groups (Attachment Three).

2. Discussed Significant Items from Working Group Meetings and Adopted Working Group Reports

A. Emerging Accounting Issues (E) Working Group

Mr. Armstrong provided the report of the Emerging Accounting Issues (E) Working Group, noting the rejection of *EITF 06-10: Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10) within *INT 99-00: Compilation of Rejected EITFs*, and it was adopted as final. The Working Group also moved the tentative interpretation addressing this issue to the other listing without finalization. While the Working Group believes the liability requirements for EITF 06-10 are addressed within *SSAP No. 14—Postretirement Benefits Other Than Pensions*, the Working Group referred Issue 1 related to the substantive agreement with the employee for postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement to the Statutory Accounting Principles (E) Working Group, recommending explicit guidance be incorporated within the current revised draft for accounting for pensions. The deadline for submission of new items is Feb. 5, 2011. Upon a motion made by Mr. Armstrong, seconded by Mr. Bruggeman, the Task Force unanimously adopted the report of the Emerging Accounting Issues (E) Working Group.

B. Statutory Accounting Principles (E) Working Group

The Working Group adopted substantive revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets – Revised* and related changes *to SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*. This guidance adopts, with modification, *FIN 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and interpretation of FASB Statement No. 5, 57 and 107 and rescission of FASB Interpretation No. 34*. The substantive revisions require reporting entities to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. Revisions to SSAP No. 25 are nonsubstantive and update the disclosure requirements to complement the revisions made to SSAP No. 5R.

The Working Group adopted *Issue Paper No. 143—Prospective-Based Guaranty Fund Assessments* and *SSAP No. 35R—Guaranty Fund and Other Assessments – Revised* to reflect proposed substantive revisions to statutory accounting guidance. The revised SSAP modifies the conditions required before recognizing liabilities for insurance-related assessments. Under the new guidance, the liability is not recognized until the event obligating an entity to pay an imposed or probable assessment has occurred. This impacts prospective premium-based guaranty-fund assessments, as the event that obligates the entity for the assessment liability is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessment is to be based.

The Working Group adopted revisions to incorporate all guidance regarding "software" included within other Statements of Statutory Accounting Policy (SSAPs) into *SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software*. This is considered a substantive change as SSAPs are proposed to be superseded; however, the changes are placement revisions and not the adoption of new concepts. In accordance with these revisions, guidance from *ASU 2010-14, Certain Revenue Arrangements That Include Software Elements* was adopted as a nonsubstantive change.

The following nonsubstantive revisions to statutory accounting guidance were adopted: 1) Clarifying the definition of loan-backed and structured securities modified with an effective date of Jan. 1, 2011; 2) Expanding fund demand withdrawal disclosures; 3) rejecting *ASU 2010-16, Accruals for Casino Jackpot Liabilities*; 4) Revisions to *SSAP No. 86—Accounting for Derivative Instruments and Hedging Activities*, paragraph 21(e) to change "hedged items" to reflect "related financial assets or liabilities," as well as to incorporate guidance in paragraph 55 on what guidance has been adopted from *ASU 2010-08, Technical Corrections to Various Topics*; and 5) Revisions to incorporate a process to remove 100% superseded SSAPs and interpretations from Volume I of the *Accounting Practices and Procedures Manual* and include these items within a new Appendix H in Volume III of the Manual.

Mr. Fritsch noted that the change in *SSAP No. 43R—Loan-Backed and Structured Securities* (SSAP No. 43R) on clarifying the definition of loan-backed and structured securities modified to include an effective date of Jan. 1, 2011, received significant discussion. Mr. Peltonen noted that it was never the intent that some structured securities would not be accounted for under SSAP No. 43R. He noted that direct issuer corporate obligations were in the bond category under *SSAP No. 26—Bonds, excluding Loan-Backed and Structured Securities* and structured securities were under SSAP No. 43R. Ed Stephenson (Barnert and Associates) representing the Group of North American Insurance Enterprises asked if the Task Force or its working groups would be willing to meet to discuss implementation issues related to the annual statement instructions and blanks reporting issues related to the changes in SSAP No. 43R. Mr. Peltonen noted that he was open to having a meeting to discuss implementation issues and he thought as the change was not required until Jan. 1, 2011, that there was enough time to address these issues. Mr. Stolte noted he was not opposed to the clarifications that were adopted, but he was opposed to the delayed effective date, as this was a clarification and these were not new security types. As there was significant discussion on this item, Mr. Fritsch motioned to adopt the agenda item #2010-12 on clarifying the definition of loan-backed and structured securities as adopted by the Working Group. Ms. Belfi seconded the motion, which was adopted with Virginia opposed to the delayed effective date.

The Working Group exposed the following revisions to statutory accounting guidance: 1) Supersede *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment* and incorporate the guidance from SSAP No. 99 into the related underlying SSAPs; 2) Revisions to various SSAPs to incorporate accounting guidance on the allocation of realized capital gains and losses to asset valuation reserve (AVR) and interest maintenance reserve (IMR); 3) Revisions to *SSAP No. 22—Leases* to incorporate guidance regarding lease modifications and the early termination of lease agreements; 4) Revisions to *SSAP No. 65—Property and Casualty Contracts* to allow a single collateral deposit to satisfy collateral requirements for multiple high-deductible policies, subject to an allocation agreement; 5) Revisions to clarify the fair value disclosures within *SSAP No. 100—Fair Value Measurements;* and 6) *Issue Paper No. 144—Substantive Revisions to SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – Revised.*

The Working Group directed NAIC staff to work with interested parties regarding concerns on reporting the pension and other postretirement benefit liabilities within the statutory financial statements.

The FAS 166/167 Subgroup has an exposure of *Issue Paper No. 141—Accounting for Transfers of Servicing of Financial Assets and Extinguishments of Liabilities*.

The Working Group agreed to defer the Policy Statement on Coordination with Valuation Manual until the Life and Health Actuarial Task Force is able to respond to the referral requesting that they update their policy statement on this issue.

A verbal update on the Deferred Income Tax Data Call was provided. In addition, it was noted that the American Academy of Actuaries had completed their report for the Capital Adequacy (E) Task Force, which exposed the report until Nov. 8.

Information was received regarding the Financial Condition (E) Committee exposure and discussion of retained asset disclosures, which are being developed for 2010.

Information was received on the International Accounting Standards Board (IASB) exposure draft for the accounting of insurance contracts. The exposure draft proposes a single International Financial Reporting Standard (IFRS) that all insurers, in all jurisdictions, could apply to all contract types on a consistent basis. The exposure draft is open for comment until Nov. 30. Working Group members were reminded to attend the joint meeting of the International Accounting Standards (EX) Working Group and the Statutory Accounting Principles (E) Working Group on Oct. 21. The Working Group also received information on the Financial Accounting Standards Board (FASB) discussion draft on insurance contracts.

The Working Group adopted interim minutes from the Sept. 24 conference call and the Sept. 27 business conducted via e-mail.

The deadline for submission of comments on new or re-exposed items is as follows: 1) Fair value disclosures, SSAP No. 99 and Issue Paper No. 144 – Nov. 18, 2010; FAS 166/167 Subgroup exposure of Issue Paper No. 141 – Dec. 10, 2010; Other new or re-exposed items – Feb. 5, 2011.

Upon a motion by Mr. Fritsch, seconded by Mr. Johnson, the Task Force unanimously adopted the report of the Statutory Accounting Principles (E) Working Group (Attachment One).

C. Blanks (E) Working Group

Mr. Garn provided the report of the Blanks (E) Working Group, which adopted four blanks proposals with 2011 effective dates, exposed two blanks proposals for public comment and adopted a listing of editorial changes. The adopted proposals are as follows: 1) Add a new question to the General Interrogatories, Part 1, regarding letters of credit unrelated to reinsurance, capturing the American Bankers Association (ABA) routing number, issuing or confirming the banks' names and the circumstances where the letter of credit might be triggered; 2) Modify the definition of "All Other Governments" in the Investment General Instructions to include bonds issued by corporate entities that are fully guaranteed by non-U.S. governments; 3) Add instructions from the property Schedule P, Parts 2, 3 and 4 instructions for "Prior" line to the Schedule P, Parts 2, 3 and 4 instructions of the Workers' Compensation Carve-Out Supplement; and 4) Add new code "B" to the foreign code matrix in the Investment General Instructions. The Working Group deferred 2010-16BWG on modified durations using five different interest rate scenarios for further discussion.

The Working Group received two memoranda from the Statutory Accounting Principles (E) Working Group addressing changes to *Note 20 – Other Items*, due to adopted changes to *SSAP 100—Fair Value Measurement*, and *Note 9 – Income Tax* changes due to *SSAP No. 10R—Income Taxes—A Temporary Replacement of SSAP No. 10* revisions for income taxes, specifically deferred taxes.

In addition, the Working Group received a memorandum from the Financial Condition (E) Committee referencing a possible addition to *Note 20 – Other Items*, for the reporting of retained assets for 2010 reporting, which will be discussed at the Financial Condition (E) Committee meeting.

The comment deadline on exposed items and all new proposals is Feb. 24, 2011. Upon a motion made by Mr. Garn, seconded by Mr. Johnson, 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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Statutory Accounting Principles (E) Working Group
Orlando, FL
October 18, 2010

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Orlando, FL, Oct. 18, 2010. The following Working Group members participated: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Kim Hudson (CA); Linda Sizemore (DE); Eric Moser (IL); Caroline Brock and Stewart Guerin (LA); Judith Weaver (MI); Tom Burke (NH); Michael Moriarty and Matti Peltonen (NY); Dale Bruggeman and Bill Harrington (OH); Steve Johnson (PA); Doug Stolte and David Smith (VA); and Peter Medley (WI).

1. <u>Public Hearing – Review and Adoption of Non-Contested Positions</u>

Mr. Fritsch stated that five items exposed during the Summer National Meeting did not receive comments during the exposure period and, if no additional discussion was necessary, these five items would be adopted in a single motion. On a motion from Mr. Hudson, seconded by Ms. Weaver, the Working Group unanimously adopted the non-contested items as exposed and included on the agenda as follows:

- Ref # 2010-03 – *ASU 2010-04: Certain Revenue Arrangements That Include Software Elements* – Adopted revised *SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software* to incorporate all guidance regarding "software" currently included within other SSAPs. The Working Group noted that this would be considered a substantive change, as three SSAPs are proposed to be superseded; however, as these changes would be a placement revision, and not the adoption of new concepts, an issue paper would not be necessary. In accordance with this exposure, the following SSAPs were proposed to be superseded:
  - *SSAP No. 79—Depreciation of Nonoperating System Software–An Amendment to SSAP No. 16*
  - *SSAP No. 81—Software Revenue Recognition*
  - *SSAP No. 82—Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs*

  This exposure also proposed nonsubstantive revisions to *SSAP No. 17—Preoperating and Research and Development Costs* and *SSAP No. 87—Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82* and would also result with all references to SSAP No. 79, SSAP No. 81 and SSAP No. 82 being revised to reflect SSAP No. 16R (Attachment One-B).

- Ref # 2010-11 – Superseded Items Within the NAIC *Accounting Practices and Procedures Manual* – Adopted the exposed revisions to the NAIC AP&P Manual to remove 100% superseded SSAPs and INTs from Volume I and include these items within a new Appendix H (Volume III). (Attachment One-C)

- Ref # 2010-13 – *ASU 2010-08, Technical Corrections to Various Topics* – Adopted the exposed nonsubstantive revisions to *SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*. These revisions modify the existing SAP guidance to mirror the current generally accepted accounting principles (GAAP) guidance previously adopted for statutory accounting (Attachment One-D).

- Ref # 2010-14 – *ASU 2010-16, Entertainment – Casino: Accruals for Casino Jackpot Liabilities* – Adopted the exposed proposed nonsubstantive revisions to *Issue Paper No. 99—Nonapplicable GAAP Pronouncements* to reject ASU 2010-16 as not applicable to statutory accounting (Attachment One-E).

- Ref # 2010-15 – Expand Withdrawal Disclosures – Adopted the exposed nonsubstantive changes to expand *SSAP No. 51—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts* and SSAP *No. 61—Life, Deposit-Type and Accident and Health Reinsurance* disclosures to require the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed and the total with an effective date beginning Jan. 1, 2011 (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 2003-12

Mr. Fritsch directed the Working Group to agenda item 2003-12 and summarized the item. Mr. Fritsch noted that the Working Group re-exposed revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets – Revised* (SSAP No. 5R) and did not elect to alter the previously exposed guidance regarding the requirement to recognize a liability at inception for "intercompany guarantees," the offset to the liability recognized at inception or the guidance for recognizing a contingent liability. A revised effective date of Dec. 31, 2011, was included in the exposure. The Working Group also re-exposed *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25) as it corresponds with SSAP No. 5R, but noted that there were no revisions to SSAP No. 25 from the prior exposure. Keith Bell (The Travelers Companies, Inc.), representing interested parties stated that they had submitted comments on the most recently exposed version of SSAP No. 5R and had subsequently worked with NAIC staff related to these comments. Mr. Bell stated that, while interested parties do not agree with the requirements of SSAP No. 5R, their comments related to clarification. As provided in the hearing agenda, Mr. Bell suggested language in paragraph 16.f. and recommended that the new beginning sentence of paragraph 22 be modified and suggested that "assessment" be replaced with the word "measurement," with which the Working Group agreed. After discussion, the second sentence of paragraph 23 was changed to "…, the guarantor shall recognize the remaining noncontingent guarantee …" The Working Group also agreed with the changes provided in the hearing agenda related to paragraph 27.a. After discussion, the Working Group agreed to chang the end of the paragraph 28 to "…if performance under those guarantees had been triggered." The Working Group also agreed with the suggested changes to Appendix A as included in the hearing agenda. On a motion from Mr. Hudson, seconded by Mr. Johnson, the Working Group unanimously adopted SSAP No. 5R as modified during the hearing and SSAP No. 25 as exposed (Attachment One-G and Attachment One-H).

b. Agenda Item 2010-14

Mr. Fritsch directed the Working Group to agenda item 2010-14 and summarized the issue, noting that, at the Summer National Meeting, the Working Group re-exposed *SSAP No. 35R—Guaranty Fund and Other Assets* (SSAP No. 35R) *and Issue Paper No. 143—Prospective-Based Guaranty Fund Assets* (Issue Paper No. 143) with revisions to eliminate the nonadmission criteria for accrued guaranty fund assessments, to incorporate new disclosures for assets and to include transition guidance for assets. Ken Copman (Liberty Mutual Insurance Company), representing interested parties, discussed their comments. Mr. Copman stated that interested parties consider these suggested changes to be friendly amendments for clarification and that no further exposure should be required for this change. Mr. Johnson stated that he has reviewed these suggested modifications to paragraphs 14.c. and new 14.d., and that the revisions incorporate further clarity to the issue. Upon a motion by Mr. Johnson to adopt SSAP No. 35 amended by changes recommended by interested parties with an effective date of Jan. 1, 2011, seconded by Mr. Hudson, the Working Group adopted SSAP No. 35R. Mr. Medley voting against the motion, as the adopted guidance would no longer require reporting entities to accrue guaranty fund assessments for subsequent periods (Attachment One-I and Attachment One-J).

c. Agenda Item 2006-30

Mr. Fritsch directed the Working Group to agenda item 2006-30 and summarized the item, noting that, during the 2009 Spring National Meeting, the Working Group exposed revised a draft SSAP for pensions and *SSAP No. 92—Other Postretirement Benefits Other Than Pensions*. Mr. Fritsch recommended that the Working Group hold a specific conference call to address the technical comments, but invited interested parties to summarize their comments during the hearing. Wally Givler (Northwestern Mutual) and Bill Sergeant (State Farm Insurance Companies) representing interested parties stated that this item is a very specialized area of accounting and their comments are primarily focused on clarification and verification of the Working Group's intent. Mr. Sergeant stated that interested parties noted that the current exposure would result in a cross-check error between the financial statements and the supporting schedules; therefore, they recommended modifying the reporting requirements. John Tittle (NAIC) stated that the Working Group's intent on this issue was to adopt the GAAP guidance with modifications to referencing and transition. The recommendations proposed by interested parties appears to modify the reporting requirements for liability recognition in a way that is inconsistent with the Financial Accounting Standards Board's (FASB) intent to report pension obligations on one line. Mr. Tittle requested that this issue be researched further to evaluate whether modifications to the annual statement blank can be made to address this issue. Mr.

Fritsch stated that the American Academy of Actuaries submitted a comment letter on this issue. Mr. Fritsch also stated that obligations for pension and other postemployment benefits should be reflected in the financial statements, even if the employer has the discretion to unilaterally freeze, reduce or withdraw those benefits. When the employer or reporting entity terminates, freezes or reduces the pension or other postemployment benefit, then it would be appropriate to adjust the obligation accordingly. Mr. Fritsch stated that a conference call to address the comments would be scheduled during the interim period.

d. Agenda Item 2010-08

Mr. Fritsch directed the Working Group to agenda item 2010-08 and summarized the item, noting that, during the Summer National Meeting, the Working Group exposed revisions to the proposed policy statement on coordination with the Valuation Manual planned for inclusion within Appendix F of the *Accounting Practices and Procedures Manual*. The Working Group also sent a referral to the Life and Health Actuarial (A and B) Task Force to incorporate corresponding revisions in the Valuation Manual. Mr. Tittle stated that the Task Force made minor modifications to the language. Mr. Fritsch stated that the Working Group would review the modifications to the exposed language and determine direction at that time.

e. Agenda Item 2010-12

Mr. Fritsch directed the Working Group to agenda item 2010-12 and summarized the item, noting that, during the Summer National Meeting, the Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to *SSAP No. 43R—Loan-Backed and Structured Securities – Revised* (SSAP No. 43R) to clarify the definitions of loan-backed and structured securities. Mr. Peltonen stated that Schedule D is structured to report different types of bonds. As provided in the annual statement instructions subject to *SSAP No. 26—Bonds, excluding Loan-backed and Structured* (SSAP No. 26), there is one category for issuer obligations that are issued by a corporation and anything that is securitized is subject to SSAP No. 43R and is to be reported as single class, multi-class and loan-backed and structured securities. Mr. Peltonen stated that this is a clarification and that, originally, SSAP No. 43R listed several securities as an example and was not intended to be an exhaustive listing. He stated that the Bloomberg investment information lists approximately 350 different types of asset-backed securities. A complete listing of all types of loan-backed and structured securities was not intended to be reflected within SSAP No. 43R, as this would require maintenance for newly developed types over time.

Mr. Givler stated that there is a continuum of security types for fixed-income securities from simple (cash flows obtained from a single source) to complex (cash flows obtained from multiple sources). Valuation is based on the differences between these security types. Mr. Givler stated that interested parties understand the reasons for these changes and they would support regulatory review and analysis, including concentrations of risk. He stated that the industry has consulted with the NAIC and has made their best judgment related to accounting and reporting requirements related to these fixed-income securities. The industry has grouped bonds and bond-like investments that have similar characteristics with bonds to be subject to SSAP No. 26 and related reporting requirement in Schedule D. Mr. Givler stated that requiring fixed-income securities with single source cash flows to be subject to the guidance in SSAP No. 43R would require accounting based on cash flows that is not consistent with these securities. While interested parties question the necessity to reclass this particular group of fixed-income securities from SSAP No. 26 to SSAP No. 43R, they want to note that it will require significant effort to adjust systems and processes in order to comply with this updated guidance. In addition, it is recommended that additional guidance be provided in SSAP No. 43R for this particular class of fixed-income securities.

Mr. Peltonen reiterated that issuer obligations are subject to SSAP No. 26 and all other single or multiple source fixed income securities are subject to SSAP No. 43R. Mr. Peltonen provided multiple and specific examples of fixed-income securities (single-source cash flows) supporting this position. Mr. Peltonen stated that the cash-flow testing and other requirements related to cash flows under SSAP No. 43R are currently applied to loan-backed securities (securitized auto loans and credit cards) where the cash flows are fixed, are currently accounted for and reported under SSAP No. 43R. This is no different than cash flows of equipment trust certificates (ETC) and other single-source fixed income securities that some reporting entities are accounting and reporting under the requirements of SSAP No. 26. Mr. Givler stated that reclassifying a group of securities from one accounting standard to another without modifying the guidance to specifically address the issue would result in confusion, as many insurers were grouping similar securities with similar characteristic together. Changing the definition to affect this change in accounting and reporting would lead to confusion and possibly inconsistent results. Mr. Peltonen provided specific evidence supporting that the reclassification can be accomplished in a relatively short period of time without confusion and that referral to the Valuation of Securities Task Force or other NAIC group is not necessary. Mr. Peltonen stated that these fixed-income securities being discussed do not have recourse to the issuing corporation, as issuer obligations do. Recourse is limited to the assets of the trust that issued the fixed-income security, and as such, is consistent with the requirements of SSAP No. 43R.

Ed Stephenson (Barnert & Associates, representing the Group of North American Insurance Enterprises—GNAIE) provided specific comments and recommended changes to the accounting and reporting guidance that addresses transparency and risk analysis related to these investments as provided in their comment letter. Mr. Stephenson stated that he respectfully disagrees with Mr. Peltonen and that SSAP No. 43R provides guidance for securities with multiple sources of cash inflows, where the default of one of those sources of cash inflows does not result in the default of the entire security. Mr. Stephenson stated that SSAP No. 26 is aligned with a security with a single obligor and the assessment of the cash flows of that security is based on the ability of that single obligor to continue payments. Mr. Stephenson stated that he disagreed with Mr. Peltonen that SSAP No. 26 is to be applied to the simplest form of fixed-income securities and that SSAP No. 43R is applicable to all others. However, Mr. Stephenson stated that he agrees with Mr. Peltonen that clarification is necessary and referred to his comment letter. He stated that there is a difference between direct and indirect obligations, and the modifications suggested in the comment letter address these issues and differences.

Mr. Peltonen stated that he failed to see the difference between the direct and indirect obligations from single or multiple sources of cash flows. In order to analyze risk, collateral and other source of funds must be evaluated. When a trust is involved in issuing a fixed-income security, the credit of the corporation cannot be considered. It is the assets of the trust and other trust cash flows. Upon default, recourse is subject only to the assets of the trust and not the source of cash flows. He also stated that the current annual statement instructions define issuer obligations as bonds that are not backed by other loans or other assets. Mr. Peltonen stated that GNAIE states that ETCs do not fit under the current guidance of SSAP No. 43R. He stated that, based on the annual statement instructions, they do not fit under issue obligations, as they are backed by equipment (aircraft, locomotives). He said he could understand reporting these as Schedule BA assets, but said he believes that ETCs are applicable to the requirements of SSAP No. 43R. Mr. Peltonen stated that the modifications suggested are so extensive, the issue would not be resolved for a significant period of time and reiterated the current annual statement requirements.

Mr. Fritsch stated that he agreed with Mr. Peltonen. This is not a risk-based capital issue, and he said the extensive modifications suggested by GNAIE are not appropriate, given the time frame for exposure and adoption, which, in the long term, will increase confusion of the issue. The clarifications exposed properly addresses this issue. Mr. Fritsch suggested that a Jan. 1, 2011, effective date would allow reporting entities time to implement system and process changes. While Mr. Peltonen hesitated to agree to add an effective date, Mr. Givler stated that significant system and process modification would be necessary for many reporting entities. Mr. Fritsch stated that the questions before the Working Group are as follows: 1) Is the exposed clarification sufficient to address the issue for accounting and reporting of loan-backed and structured securities?; and 2) Has interested parties presented a sufficient case to implement an effective date of Jan. 1, 2011 or should the clarification be effective when adopted? Mr. Armstrong stated that he agreed with Mr. Peltonen but, based on the significant effort to implement the clarification in systems and process, he said he believes that a Jan. 1, 2011, effective date is appropriate. Mr. Johnson agreed with Mr. Peltonen and stated that the exposed changes are appropriate. While numerous reporting entities have made the reclassification related to this clarification already, Mr. Johnson stated that a Jan. 1, 2011, effective date is appropriate. Mr. Hudson agreed with Mr. Armstrong and Mr. Johnson. Upon a motion by Mr. Johnson, seconded by Mr. Hudson, the Working Group adopted the exposed clarification modified to include an effective date of Jan. 1, 2011. Mr. Stolte voted against the motion (Attachment One-K).

3. <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 2010-16</u>

Mr. Fritsch introduced agenda item 2010-16: Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR) Determinations Through NAIC Designations, and summarized the item, noting that this item is in response to an April 2010 referral received from the Rating Agency Working Group and the Financial Condition (E) Committee. Mr. Tittle stated that the referral requests the Working Group to analyze whether it is appropriate to continue using changes in NAIC designations to determine if realized capital gains or losses are to be classified as interest rate gains or losses. This referral requests that the NAIC examine whether the proxy of using NAIC designations has worked well and whether other analytical benchmarks can be identified that have a more natural connection to changes in the general level of interest rates. Mr. Tittle summarized the proposal and stated that this guidance is not applicable to loan-backed and structured securities. Mr. Tittle stated that it would be best to have statutory accounting guidance to be reflected in the NAIC *Accounting Practices and Procedures Manual* rather than the annual statement instructions. The proposal recommends nonsubstantive revisions to SSAP No. 7, as well as several SSAPs to provide appropriate statutory accounting guidance for allocating realized capital gains and losses to AVR and IMR. Also pursuant to this recommendation, it is proposed that the annual statement instructions be revised to refer to the appropriate statutory accounting guidance. Mr. Tittle stated that the proposal recommends that reporting entities generally allocate realized gains and losses between IMR and AVR based on interest and non-interest factors. Once securities have obtained a lower-level NAIC designation or incurred a more-than-one NAIC designation change, as stipulated in the SSAP specific for the respective security, NAIC staff recommends that all realized gains and losses be classified within the AVR. Mr. Fritsch stated that this is a technical area and recommended that a subgroup of this Working Group be formed to address comments and to perform additional review of the guidance.

b. <u>Agenda Item 2010-18</u>

Mr. Fritsch introduced agenda item 2010-18: Incorporate SSAP No. 99 Guidance Into Respective SSAPs, and summarized the item, noting that Working Group issued *SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment* (SSAP No. 99) in 2008 to adopt substantive revisions relating to other-than-temporary impairments. The guidance within SSAP No. 99 directly supersedes specific paragraphs within SSAP No. 26, *SSAP No. 32—Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)* (SSAP No. 32) and *SSAP No. 34—Investment Income Due and Accrued* (SSAP No. 34). Upon a motion by Mr. Hudson, seconded by Mr. Bruggeman, the Working Group unanimously agreed to move this item to the Substantive Active listing and expose revisions to supersede SSAP No. 99 and incorporate revisions to SSAP No. 26, SSAP No. 32 and SSAP No. 34 to reflect the guidance previously included in SSAP No. 99, with a comment period ending Nov. 18.

c. <u>Agenda Item 2010-19</u>

Mr. Fritsch introduced agenda item 2010-19: Collateral Requirements for High-Deductible Policies and summarized the item, noting that issue was submitted by Bernie Ganley (Chartis Re). Mr. Ganley stated that the proposal recommends an amendment to paragraph 37 of *SSAP No. 65—Property and Casualty Contracts* (SSAP No. 65) to allow for collateral provided at the policyholder level when calculating the non-admitted asset for reimbursements under high-deductible policies. Mr. Ganley stated that this paragraph appears to contemplate only those instances where the high-deductible policy is the sole policy issued to the insured. Commercial insurers may issue multiple types of policies to an insured (e.g., guaranteed cost, retrospectively rated and/or high-deductible policies). In order to mitigate exposure to credit risk, insurers will require the insured to provide collateral to cover all obligations owed by the insured under each type of policy. The insured may opt to provide one collateral instrument to satisfy this requirement. This allows the insured a cost effective option to secure all of its policy obligations. To further secure their right to access the collateral to satisfy any obligation owed by the insured, insurers generally require the insured to enter into a contractual agreement that allows them to apply the collateral to any balance owed by the insured, including balances owed under the high-deductible policy. In order to address issues at the group level so the proposal recommends the inclusion of a fair and equitable allocation agreement that will prohibit one entity drawing on collateral allocated to another entity, as well as the double-counting of collateral. Mr. Fritsch asked if multiple entities within the group that issue different high-deductible policies could have the collateral requirements met for all members of the group. Mr. Ganley stated that was the case, and provided an example of one entity within the group issues high-deductible workers' compensation policies and another entity within the group issues multiple peril policies both to the same policyholder. This proposal would allow the collateral requirements to be met at the insured level. This is why the allocation agreement is required to address how the collateral would be allocated among the group entities. Mr. Fritsch stated that the allocation agreement, or some form of contract, should be in place that documents how the collateral is to be allocated among multiple policies specifically addressing each type of related policy, whether workers' compensation, multiple peril or other high-deductible policies. Mr. Fritsch stated that he was not sure how this would be documented within the agreement, but that it is important for examination purposes.

Mr. Medley stated that collateral requirements for a high-deductible workers' compensation policy is actuarially determined based on specific estimates and other workers' compensation products appear to be more judgmentally determined, and asked if this is the case. Mr. Ganley stated that he believes that the other workers' compensation policies are judgmentally determined. Mr. Medley stated that it appears that, under the proposal, the high-deductible workers' compensation policy collateral requirements would always be satisfied and that the other judgmentally determined collateral could be adjusted accordingly. For example, Mr. Fritsch stated that the question is that if you have collateral for three different lines of business and only the workers' compensation policy would result in a nonadmitted penalty, could the reporting entity state that a specific amount be is specific to the workers' compensation policies in order to avoid the nonadmitted penalty, even though that is not the proper allocation, because the other two lines of business do not have the nonadmitted penalty. Mr. Ganley stated that could occur, but what is contemplated is that the collateral could be applied to any amount that the insured owes the reporting entity. Mr. Medley asked if an example of the allocation agreement could be provided to the Working Group for review to understand the effect of the agreement on the group. Mr. Ganley agreed to send an example to NAIC staff to provide to the Working Group.

Mr. Fritsch stated that, because SSAP No. 65 is being considered for modification for this issue, he recommends that the Working Group also consider clarification related to collateral requirements on outstanding items. Current accounting addresses collateral requirements for the paid amounts, but is silent as to the requirements for outstanding reserve credit and this should be addressed. In addition, the guidance should also address nonadmission requirements in excess of the 10% of deductible recoverable in excess of collateral specifically held and identifiable on a per-policy basis that is already nonadmitted. Paragraph 37 requires nonadmission of this excess, but does not provide explicit guidance. Upon a motion by Mr. Hudson, seconded by Mr. Johnson, the Working Group unanimously voted to move this item to the Nonsubstantive Active listing and expose the nonsubstantive changes to paragraph 37, with the last sentence modified as discussed during the meeting.

d. <u>Agenda Item 2010-20</u>

Mr. Fritsch introduced agenda item 2010-20: Clarification of Treatment of the Early Termination of an Unexpired Lease. Mr. Tittle summarized the item, noting that *SSAP No. 22—Leases* (SSAP No. 22) adopted *FASB Emerging Issues Task Force No. 88-10, Costs Associated with Lease Modification or Termination* (EITF 88-10) in its entirety. However, with this adoption, no guidance was directly included in SSAP No. 22 to specifically provide guidance for the modification or early termination of leases. Subsequent to the adoption of SSAP No. 22, *FAS 146, Accounting for Costs Associated with Exit or Disposal Activities* (FAS 146) was issued. FAS 146 nullified EITF 88-10 under GAAP. The Working Group rejected FAS 146 for statutory accounting through *SSAP No. 24—Discontinued Operations and Extraordinary Items* (SSAP No. 24) as FAS 146 also applies to discontinued operations. Mr. Tittle stated that guidance related to EITF 88-10 is no longer available on the FASB website and that questions have been received on whether EITF 88-10 should still be applicable under SSAP No. 22, and, if so, have requested applicable guidance added to SSAP No. 22. In addition, FASB Codification, ASC 420 contains applicable guidance pertaining to lease modifications or early termination. Mr. Tittle stated that this agenda item proposes to include the applicable guidance from EITF 88-10 and ASC 420. Upon a motion by Mr. Hudson, seconded by Ms. Sizemore, the Working Group voted to move this item to the Nonsubstantive Active listing and expose the nonsubstantive revisions to SSAP No. 22 for comment.

e. <u>Agenda Item 2010-21</u>

Mr. Fritsch introduced agenda item 2010-21: Clarification of Fair Value Disclosures. Mr. Tittle summarized the item, noting that several questions were received related to the fair value disclosures within *SSAP No. 100—Fair Value Measurements* (SSAP No. 100) related to the distinction between recurring and nonrecurring disclosures, as well as what is required to be included in the fair value disclosure schedules. In reviewing the questions received, as well as the revisions currently being considered for GAAP, NAIC staff believes it would be appropriate to consider and adopt nonsubstantive revisions to the fair value disclosures before year-end 2010. Mr. Tittle stated that NAIC staff has identified that the FASB is currently considering additional revisions to the fair value guidance reflected in *ASC Topic 820, Fair Value Measurements and Disclosures*. Although this guidance has yet to be adopted for GAAP purposes, NAIC staff has identified that the proposed GAAP revisions revise and further clarify the disclosure requirements. NAIC staff believes the incorporation of a few of these clarification revisions would assist in the application of the SSAP No. 100 guidance for year-end 2010. (NAIC staff notes that the inclusion of clarification comments into SSAP No. 100 would not be considered an adoption of the pending GAAP guidance, and full consideration of the GAAP revisions would occur once the GAAP guidance is adopted.) As illustrated in the agenda submission form, the key revisions proposed would 1) eliminate the nonrecurring schedule; and 2) clarify that the disclosures relate to assets and liabilities measured and reported at fair value in the statement of financial position. Upon a motion by Mr. Hudson, seconded by Mr. Bruggeman, the Working Group unanimously voted to move this item to the Nonsubstantive Active listing and exposed nonsubstantive revision to clarify the fair value disclosures within SSAP No. 100 with a comment period ending Nov. 18. A conference call is planned in early December 2010 for potential adoption.

4. Consideration of Maintenance Agenda—Substantive Listing

Mr. Fritsch referred the Working Group to the Maintenance Agenda Substantive Listing (Page 3 of Attachment One-L).

a. Agenda Item 2008-14

Mr. Fritch referred the Working Group to agenda item 2008-14: Measurement of Sufficient Collateralization for Securties Lending Transactions and summarized the item, noting that revised substantive guidance for security lending transaction was adopted in SSAP No. 91R on May 10. Although the guidance was considered as a direct revision to the SSAP, *Issue Paper No. 144—Substantive Revisions to SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities– Revised* (Issue Paper No. 144) was prepared to provide historical reference of the previous guidance and the adopted substantive revisions. Upon a motion by Mr. Hudson, seconded by Mr. Bruggeman, the Working Group voted expose Issue Paper No. 144 with a comment deadline of Nov. 18. A conference call is planned in early December 2010 for potential adoption.

b. Agenda Item 2010-09

Mr. Fritsch directed the Working Group to agenda item 2010-09: DTA Admission – SSAP No. 10R Analysis. Mr. Tittle provided a verbal update, noting that, on Sept. 24, the Working Group adopted revisions to SSAP No. 10R that extend the effective dates through the interim and annual reporting period of 2011. In addition, the Working Group adopted disclosure requirements related to tax-planning strategies. Information submitted to the NAIC in response to the Deferred Income Tax Data Call is currently being analyzed. Results of the analysis will be provided in the interim period. In addition, NAIC staff is completing the drafting of *SSAP No. 10R—Income Taxes—A Temporary Replacement of SSAP No. 10* to include the GAAP guidance from FIN 48: *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 10* as directed by the Working Group. Mr. Bruggeman stated that the American Academy of Actuaries has issue the final report on deferred tax assets in RBC formulas and summarized key items from the report. Mr. Bruggeman noted that it is currently exposed for comment until Nov. 8 by the Capital Adequacy Task Force. The report provides recommended charges for different levels of RBC without inclusion of deferred tax assets.

c. Agenda Items 2009-14 and 2009-15

Mr. Fritsch directed the Working Group to agenda items 2009-14: *FAS 166, Accounting for Transfers of Financial Assets* and 2009-15: *FAS 167, Amendments to FASB Interpretation No. 46(R)*. Mr. Fritsch stated that The FAS 166/167 Subgroup was formed in December 2009 and is charged with reviewing comments and assessing the impact of adopting *FASB Statement 166, Accounting for Transfers of Financial Assets (FAS 166)* and to consider a proposal for a new SSAP that would require identification, documentation and disclosure of variable interests in variable interest entities. Mr. Fritsch stated that the FAS 166/167 Subgroup conducted an initial conference call Sept. 22. During this call, the Subgroup agreed to split discussion on *Issue Paper No. 141—Accounting for Transfers of and Servicing of Financial Assets and Extinguishments of Liabilities* (Issue Paper No. 141) and *Issue Paper No. 142—Variable Interest Entities* (Issue Paper No. 142), and agreed to focus first on Issue Paper No. 141. During this call, interested parties re-presented their original comments from the Working Group exposure of Issue Paper No. 141. After consideration of these comments, the Subgroup directed NAIC staff to incorporate changes to the Issue Paper as follows: 1) Add background commentary and objective of the guidance; 2) Revise guidance related to AVR and IMR related to the new guidance included within SSAP No. 43R; and 3) Revise the effective date language to incorporate the same general approach included in FAS 166. Due to the technical nature of the material, as well as time constraints during the Working Group's initial exposure, the Subgroup agreed to re-expose Issue Paper No. 141 with a comment period deadline of Dec. 10. The exposure draft includes the revisions incorporated during the call, as well as reflects the revised SSAP No. 91R guidance pertaining to securities lending. This is considered a Subgroup exposure, but comments are welcome from all regulators and interested parties.

5. Consideration of Maintenance Agenda—Nonsubstantive Listing

Mr. Fritsch directed the Working Group to the Maintenance Agenda Nonsubstantive Listing (Page 6 of Attachment One-L).

No items were discussed during this meeting.

6. Consideration of Any Other Matters

a. Rating Agency Working Group / Financial Condition (E) Committee Referral

Mr. Fritsch stated that comments on Agenda Item 2010-17: Retained Asset Disclosure were received by the Financial Condition (E) Committee and that significant modifications have been made to the exposed guidance. As such, Mr. Fritsch noted that further discussion would occur during their session at the national meeting.

b. IASB Insurance Contracts Project

Mr. Fritsch stated that, on July 29, the International Accounting Standards Board (IASB) published for public comment an exposure draft of improvements to the accounting for insurance contracts. The exposure draft proposes a single International Financial Reporting Standard (IFRS) that all insurers, in all jurisdictions, could apply to all contract types on a consistent basis. The exposure draft is open for comment until Nov. 30. Mr. Fritsch stated that a joint meeting of the International Accounting Standards (EX) Working Group and this Working Group on Oct. 21 to discuss comment letters being drafted by both Working Groups.

c. Interim Meeting Minutes

Upon a motion by Mr. Hudson, seconded by Ms. Weaver, the Working Group adopted the minutes of its Sept. 24 conference call (Attachment One-M) and its Sept. 27 e-mail vote (Attachment One-N).

Mr. Fritsch stated that the deadline for submission of comments for fair value disclosures, SSAP No. 99 and Issue Paper No. 144 is Nov. 18. The deadline for comment on the FAS166/167 Subgroup expose of Issue Paper No. 141 is Dec. 10. The deadline for comments on other items is Feb. 5, 2011.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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September 16, 2010

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,

Interested parties appreciate the opportunity to provide comments on the items that were exposed for comment during the NAIC Summer meeting in Seattle, Washington. We offer the following comments:

Ref 2003-12: SSAP No. 5R – *Liabilities, Contingencies and Impairments of Assets – Revised* (SSAP No. 5R)

The Working Group re-exposed revisions to SSAP No. 5R as discussed during the meeting. Staff conducted research and held discussions with interested parties, representatives of the AICPA and Working Group members to further evaluate issues from previous exposures. Although revisions have been included in the re-exposed SSAP No. 5R that were not included in previous exposures, the Working Group did not elect to alter the previously exposed guidance regarding the offset to the liability recognized at inception or the guidance for recognizing a contingent liability. A revised effective date of Dec. 31, 2011 was included in the exposure. The Working Group also re-exposed SSAP No. 25 as it corresponds with SSAP No. 5R, but there have not been any revisions to SSAP No. 25 from the prior exposure.

Interested parties have several comments on the re-exposed draft and have grouped the comments below:

Clarification of Guarantees Related to Wholly-Owned Subsidiaries

Paragraph 16 identifies certain guarantees that are exempt from initial recognition but subject to disclosure requirements. A revision was made to the August Exposure Draft to item (f). The change was to delete "Guarantee provided to wholly-owned subsidiaries" and replace it with "Guarantees… made on behalf of a wholly-owned subsidiary. " What is the context for the intended guarantee? Are guarantees made directly to a wholly-owned subsidiary now out of scope? Guarantees may be made to the subsidiary on behalf of a third party, made to a third party on behalf of a subsidiary or to a subsidiary without third party involvement. Whether the guarantee is provided to the subsidiary directly or to a third party on behalf of the subsidiary, the economic impact of the guarantee has the same effect. Therefore, consider the following clarification to item 16 (f):

- Guarantees made to and/or on behalf of a wholly-owned subsidiary

Measurement of a Guarantee Obligation Subsequent to Initial Recognition

Paragraph 23 provides accounting guidance for measuring a guarantee obligation by the guarantor after the initial recognition. Paragraph 23 states:

- "After recognition and settlement of a contingent guarantee liability in accordance with paragraph 7, a guarantor shall assess whether remaining potential obligations exist under the guarantee agreement. If the guarantor still has potential obligations under the guarantee contract, the guarantor shall recognize a new noncontingent guarantee that represents the current fair value of the potential obligation remaining under the guarantee agreement. This noncontingent guarantee liability shall be released in accordance with paragraph 22."

Paragraph 23 is inconsistent with paragraph 22 and with GAAP guidance ASC 460, Guarantees. Both paragraph 22 and ASC 460 clearly state that subsequent measurement of a guarantee is beyond the scope of the guidance:

- Paragraph 22 states: "This standard does not describe… how a guarantor's liability for its obligation under the guarantee would be measured subsequent to initial recognition."

- ASC 460, Basis of Conclusions Section states: "The Exposure Draft did not provide guidance for the subsequent accounting *(including measurement over the remaining term of the guarantee*) of the guarantor's initial liability because … was beyond the scope of the interpretation."

Because paragraph 23 provides specific accounting guidance for measurement after initial recognition, Interested Parties recommend deleting paragraph 23 from the Exposure Draft.

Disclosure Recommendations for Guarantee Obligations In Appendix A

Paragraph 27a and the example illustration for the paragraph included in the Appendix A uses the phrase "ultimate impact to financial statements if action under the guarantee was required". Because the guarantor may never have to take action under the agreement, replace the word "ultimate" with "potential". Also, please confirm that the intent of that disclosure is to provide the specific financial statement line item that would be impacted if action under the guarantee was required, not a dollar amount.

The example in the Appendix for paragraph 28 provides for additional disclosure requiring an aggregate compilation of guarantee obligations. What is the purpose/intent of the disclosure? Is it to simply add together all of the Company's guarantee obligations being disclosed on an individual basis per paragraph 27a? If so, below are specific questions/comments for consideration:

- For consistency, require disclosure for the individual guarantees in paragraph 27a, the maximum potential amount of future payments or state that there is no maximum in the guarantee. This information is required disclosure in paragraph 27b.
- Use consistent titles in both disclosures
- For the illustration example for paragraph 28:
    - Are the numbers provided in Item 4.a – e intended to equal the sum calculated in Item 3?
    - Are the amounts in Item 4 intended to be discounted or undiscounted?
    - Consider adding in parenthetical: "capital contribution" in line 4c next to "Dividends to Stockholders".
    - For that same example, calculating a combined "Non-Recognized Potential Payments" (1 less 2a and 2b) for all guarantees could be misleading if a Company has guarantees that provides for no limitation to the maximum potential future payments. This calculated net exposure, line 3, would be a false number. Also, if the amount in Item 1 is undiscounted and the amounts in 2a and 2b are discounted, would the result in Item 3 be meaningful? (The consideration received by the guarantor may be the discounted value of the guarantee.)

Please provide an example of both the reporting requirements for paragraph 27 (a) and paragraph 28 for clarity.

Issues Raised in Previous Letters

We strongly recommend to the Working Group to reconsider the following issues raised by the Interested Parties in previous letters. We continue to believe that a liability for an affiliate guarantee should **not** be recorded at the inception of a guarantee. The reasons include:

- *Impact on RBC* - There is a negative "stacking effect" on the risk-based capital (RBC) of a parent insurer that has provided a guarantee on the obligations of a lower level insurance company. (We strongly suggest that a full analysis of the

RBC formula be completed and the issue of the double counting effect on RBC be resolved prior to the adoption of this new guidance.)

- *Inconsistent reporting if subsidiary is not wholly-owned* - There are numerous insurers that have ownership interests of subsidiaries that are shared among "sister companies" or not wholly-owned. Excluding only those that are wholly-owned from initial liability recording create an inconsistency in reporting among insurers.
- *Double recording* - Recording a liability for a non wholly-owned subsidiary would result in a double charge of the same liability and charge to surplus.
- *Difficulty in recording a relevant and reliable fair value for the guarantees* - It would be nearly impossible to value the guarantee of an affiliate to a third party as it would not be an arms length transaction.

Ref 2006-14: Modify SSAP No. 35 for Property and Casualty Assessments; *Issue Paper No. 143, Prospective-Based Guaranty Fund Assessments* and ***SSAP No. 35R, Guaranty Fund and Other Assessments***

The Working Group re-exposed Issue Paper No. 143 and SSAP No. 35R with revisions to eliminate the non-admission criteria for accrued guaranty fund assessments, to incorporate new disclosures for assets and to include transition guidance for assets.

Note: areas shaded in green are the Working Group's revisions since the August meeting.

Interested parties agree with the revisions to the recent draft of SSAP No. 35R, as indicated below. However, as noted below, we offer a friendly amendment to clarify the disclosure requirements in paragraph 14 c. As this is a friendly amendment, we do not believe that SSAP No. 35R requires another exposure period and that the SSAP should be adopted as final at the October meeting of the Working Group with an effective date of January 1, 2011.

Paragraph 10, b

b. Assets recognized from accrued liability assessments shall be determined in accordance with the type of guaranty fund assessment as detailed in the following subparagraphs. Assets recognized from accrued liability assessments meet the definition of an asset under SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement..

Interested parties agree with the revision to paragraph 10, b.

Disclosures

Original Revised Paragraph

14.

c. Disclose assets recognized from paid and accrued assessments, and include a reconciliation from the assets recognized within the previous statutory financial statements. Additionally, disclosures shall be made in accordance with SSAP No.

5 when there is at least a reasonable possibility that the impairment of an asset from premium tax offsets or policy surcharges may have been incurred.

Suggested Wording Changes

14.

c. Disclose assets recognized from paid and accrued premium tax offsets or policy surcharges and include a reconciliation of assets recognized within the previous year's Annual Statement to the assets recognized in the current year's Annual Statement. The reconciliation shall reflect, in aggregate, each component of the increase and decrease in paid and accrued premium tax offsets and policy surcharges, including the amount charged off.

d. Disclosures shall be made in accordance with paragraph 14 of SSAP No. 5 when there is at least a reasonable possibility that the impairment of an asset from premium tax offsets or policy surcharges may have been incurred.

Interested parties suggest that the disclosure in paragraph d. be separate from the proposed disclosure in 14 c as the required information is different from the reconciliation disclosure in 14, c.

Effective Date and Transition

17. 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. Substantive revisions to paragraphs 4, 6, 7, 10, 11 and 13 are initially effective for the reporting period beginning January 1, 2011. The result of applying this revised statement shall be considered a change in accounting principle in accordance with SSAP No. 3. Pursuant to SSAP No. 3, the cumulative effect of changes in accounting principles shall be reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect recognized through surplus from initial application of this statement shall reflect the removal of liabilities established under SSAP No. 35, and the re-establishment of liabilities required under SSAP No. 35R. If there is no change in the liabilities recognized (for example, retrospective-premium based assessments), no cumulative effect adjustment shall occur. With regards to assets, the entity shall complete an assessment of the SSAP No. 35 asset reported as of the transition date. If it is determined that the reported asset exceeds what is allowed under SSAP No. 35R, then the excess asset shall be written-off, through unassigned funds, so the ultimate asset reflected corresponds with what is permitted under SSAP No. 35R. Although it is possible that the excess asset will be reinstated once the liability assessment is recognized (prospective-premium based assessments), it is inappropriate to continue to reflect an asset for assessments that are not reflected within the financial statements.

Interested parties agree with the wording changes, as they are merely a clarification of the previously drafted transition guidance.

Ref 2010-03: SSAP No. 16R, *Electronic Data Processing Equipment and Accounting for Software*

The Working Group exposed a substantively revised SSAP No. 16R to incorporate all statutory accounting guidance related to software within one SSAP. This revision is considered to be a substantive item, as it proposes certain SSAPs to be superseded. It is noted that the changes are replacement items only, as there are no new concepts being adopted.

In accordance with these revisions, guidance from ASU 2010-14, *Certain Revenue Arrangements That Include Software Elements* is proposed as the basis of accounting for the revised SSAP.

Interested parties have no comment on this item.

Ref 2010-08: Policy Statement on coordination with Valuation Manual

The Working Group exposed revisions to the proposed policy statement on coordination with the Valuation Manual planned for inclusion within Appendix F of the *Accounting Practices and Procedures Manual.* A referral was sent to the Life and Health Actuarial Task Force to incorporate corresponding revisions in the Valuation Manual.

Interested parties agree with the proposed revisions and believe the proposed revisions should be incorporated in the Valuation Manual.

Ref 2010-11: Superseded Items with the NAIC Accounting Practices and Procedures Manual

The Working Group moved this item to the nonsubstantive active listing and exposed revisions to incorporate a process to remove 100% ceded SSAPs and interpretations from Volume I of the Manual and include these items within a new Appendix H in Volume III of the Manual.

Interested parties have no comment on this item.

Ref 2010-12: SSAP No. 43R, *Loan Backed and Structured Securities*

The Working Group moved this item to the nonsubstantive active listing and exposed revisions to clarify the definitions of loan-backed and structured securities.

The Working Group moved this item to the nonsubstantive active listing and exposed revisions to clarify the definitions of loan-backed and structured securities.

We are prefacing our comments by saying that SSAP No. 43R has been recently modified in a substantive way and has been the subject of substantial deliberation over the last several years. The interrelated issues of accounting treatments, NAIC designations, financial statement and investment schedule reporting for loan backed and structured securities are numerous and complex. The proposed changes before the Working Group address which securities should be accounted for under the provisions of SSAP No. 43R and which should not. Our comments are primarily directed at that fundamental question.

Other industry members will likely have comments concerning the methods by which NAIC designations are determined and communicated along with their treatment in the annual statement investment schedules. We understand and support the regulators' need for current credit quality designations and transparent descriptions of securities to enable the identification of risk concentrations. The interrelated issues noted above have historically been coordinated so that the statutory accounting rules, the Securities Valuation Office purposes and procedures and the investment schedule reporting has formed an understandable structure with which insurers have been generally able to comply. We encourage the Working Group to make the necessary referrals in order to coordinate their deliberations and decisions with the Valuation of Securities Task Force and the Invested Asset Working Group and to preserve a consistent structure of requirements.

We understand that the intent of the changes reflected in the exposed Form A is to change the accounting for some insurer fixed income assets which had generally been accounted for as bonds under SSAP No. 26, to loan backed and structured securities under SSAP 43R. Two examples of these securities are equipment trust certificates and credit tenant loans. In each case there is generally an entity which passes cash flows from the operation of an underlying asset or lease agreement (controlled by single party) to the insurer in the form of scheduled bond interest and principle payments. However, the makeup of these arrangements vary as to the characteristics of the security held, recourse the insurer might have to make a claim against the underlying assets and the operator or lessee, the type of assets or leases involved and other factors which in some cases make them more bond-like and in other cases more like loan-backed and structured securities.

As we have discussed this issue within industry, insurers indicate that for many years they have considered all of these factors when determining the classification of the security and tried to classify bond-like securities with bonds and loan-backed like securities with loan-backed and structured securities. In fact, SSAP No. 26 includes credit tenant loans as one of its disclosure categories. It is also clear from these discussions that the proposed changes would move a substantial number of securities from the bond accounting rules to the loan-backed and structured security accounting rules.

The accounting and analysis required to apply the provisions of SSAP No. 43R to securities is designed to capture the characteristics and risk posed by a pool of assets where the cash flow derives from more than one source (and frequently where the knowledge of the underlying credit risk and residual assets is limited). Cash flow analysis is required using the available information about the underlying pool which includes historical performance trends.

This type of approach is not suited to analyzing and accounting for a credit tenant loan or equipment trust certificate, where the focus should be on the ability of the single party (i.e. lessee or operator) to continue the payments representing the cash flow. The appropriate analysis is almost identical to that applied to a corporate bond. The difference is in default, where the holder of the security in most cases first looks to the value of the underlying assets, as opposed to the bankruptcy court for satisfaction of the debt. In most cases this makes the default value analysis simpler than that of a corporate bond, and much simpler than that of an RMBS, for instance, where there may be hundreds of properties in various markets and in unknown condition.

We believe that it is unnecessary and unwise to make the proposed change because insurers have already classified these securities with other similar securities and by extension are applying the most appropriate accounting treatment.

Should the Working Group decide to make the proposed change, or one like it, insurers will need time to reclassify the affected securities in their investment accounting systems and implement the required accounting changes. The earliest this could feasibly be implemented would be January 1, 2011.

Ref 2010-13: SSAP No. 86, *Accounting for Derivative Instruments and Hedging Activities*

The Working Group moved this item to the nonsubstantive active listing and exposed revisions to SSAP No. 86, paragraph 21(e) to change "hedged items" to reflect "related financial assets or liabilities" as well as to incorporate guidance in paragraph 55 on the guidance that has been adopted from ASU 2010-08, *Technical Corrections to Various Topics.* With the exception of the revisions made to SSAP No. 86, the Working Group did not make other revisions that were included within ASU 2010-08.

Interested parties have no comment on this item.

Ref 2010-14: Issue Paper No. 99, *Nonapplicable GAAP Pronouncements*

In April 2010, the FASB issued *Accounting Standards Update 2010-16, Casinos (Topic 924): Accruals for Casino Jackpot Liabilities* (ASU 2010-16). This update addresses diversity in practice in accounting for casino base jackpot liabilities.

Previous GAAP guidance related to this issue has previously been considered not applicable for statutory accounting. The Working Group exposed revisions to reference ASU 2010-06 as not applicable to statutory accounting.

Interested parties have no comment on this item.

Ref 2010-15: SSAP No. 51, SSAP No. 52, SSAP No. 61, *Expand Withdrawal Disclosures*

The Working Group exposed revisions to include categories for the general account, separate account, and more descriptive totals.

Interested parties have no comment on this item.

* * * * *

Thank you for considering interested parties' comments. We look forward to working with you, Mr. Armstrong, and the Working Group at the NAIC Fall meeting in Orlando, Florida. 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

September 22, 2010

Mr. Joseph Fritsch
Chairman, Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
25 Beaver Street
New York, NY 10004

RE: Comments on Proposed Changes to SSAP 43R (Ref: 2010-12)

Dear Mr. Fritsch:

GNAIE[1] appreciates the opportunity to comment on the SSAP 43R Form A exposed during the NAIC Summer National Meeting. While we believe a more precise definition of "loan-backed and structured securities" is required and will provide all parties with clarity as to the proper classification of invested assets, we feel the definition offered in the exposure document will not result in the proper accounting for many instruments whose legal structure may be in some ways similar to complex mortgage pools or CDOs, but whose credit characteristics are substantially different and simpler. In addition, the proposed definition will not result in the proper grouping of assets on Schedule D or the transparency needed to further the regulatory process. Moreover, any effort to refine SSAP 43R should carefully consider the impact of the definition on reporting, valuation, and risk-based capital collectively. As such, we offer an alternative for the Working Group's consideration, and strongly suggest the issue be referred to the Invested Assets Working Group of the Valuation of Securities (E) Task Force, so that it may receive comprehensive consideration.

DEFINITION:
When the NAIC originally drafted the definitions for SSAP 26 and SSAP 43R, the capital markets lacked today's sophisticated financial instruments. At that time, almost all securities falling under the guise of loan-backed and structured securities consisted of pools of mortgage assets, tranched or non-tranched, and there was clear delineation between corporate bonds and structured assets. Fast-forward fifteen years, with the explosion of financial engineering on Wall Street, and the capital markets now contain a proliferation of securities backed by various loan and asset types which employ novel features and innovative structures.

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[1] GNAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

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Many of these new securities, with varying structures, characteristics, and features, meet aspects of the definitions contained in both SSAP 26 and SSAP 43R. Today we see a variety of security types within each asset class, so as we seek to clarify the classification of assets, we must now, as always, view them in a holistic manner, and should not define an asset based upon a single characteristic or structural feature. Substance over form should be the guiding principal for statutory accounting and reporting.

As an example, the current guidance contained in SSAP 43R, paragraph 4[2] states that all securities issued by a "special purpose corporation or trust" are considered loan-backed. At the time the definitions for SSAP 26 and SSAP 43R were drafted, trust structures were primarily utilized for mortgage-backed securities; however, in today's market this is no longer the case. Instruments with radically different sources of cash flows and risk characteristics utilize trust structures, and not all should be classified as loan-backed. The fundamentals of a credit tenant loan (CTL) are different than a CMO. A single debtor equipment trust certificate (ETC) is more akin to a corporate bond than an ABS backed by a pool of disparate equipment leases. The mere fact that all may be issued via a trust structure should not imply they are similar instruments, nor should it result in uniform accounting and reporting guidance.

As a result of the aforementioned financial innovations, GNAIE thinks definitions for both SSAP 26 and SSAP 43R require modification. From a credit risk and solvency perspective, it makes sense to focus on the source of cash flows to the insurer rather than a feature such as the legal form of the asset.

The accounting and analysis required for SSAP 43R securities is designed to capture the risk posed by a pool of assets where the cash flows are derived from more than one debtor (and frequently where the knowledge of the credit risk of those debtors and the underlying residual assets is limited). Hence, the guidance in SSAP 43R focuses on cash flow analysis of the underlying pool. This is frequently done using historical performance trends for "like" debtors.

However this would be the incorrect analysis for a CTL or an ETC, where the focus should be on the ability of the single debtor (i.e. lessee) to continue the payments that underlie the cash flows. That analysis, obviously, is almost identical to that of a corporate bond.

Therefore, we believe the primary criteria for bond versus loan-backed and structured security treatment should focus on the debtor. All single debtor securities, as well as those with multi-debtors where a major debtor supports at least 90% of the security's cash flows, should fall under SSAP 26 guidance as their cash flow streams are more like corporate, government, or municipal bonds. All other multi-debtor securities should be reported under SSAP 43R as loan-backed or structured securities.

Revised versions of both SSAPs, focusing on the role of the debtor, are attached in Exhibit A.

REPORTING:
The lack of clarity regarding bond or loan-backed and structured security classification has slowly bled into the reporting of assets on Schedule D over time, resulting in a lack of consistency throughout the industry between securities reported as 'Issuer Obligation' and 'Single Class' or 'Multi Class'.

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[2] As a reminder, the current description of a loan-backed security is based upon a definition present in the statutory accounting guidance prior to codification and brought forward into SSAP 43R unchanged.

Moreover, because of the diversity of structures, characteristics, and features contained within many securities backed by financial assets, it is difficult to discern the substance, ultimate credit exposure, and risk characteristics of many long-term securities because the current groupings on Schedule D often result in the comingling of disparate invested assets.

We recommend several changes to Schedule D-Part 1 to help regulators better identify securities that are substantially similar and to help insurers report their invested assets in a more transparent manner.

1) The categories on Schedule D should be amended to include a grouping of assets, which contains 'Credit Lease Transactions and Indirect Obligations'. This category should include first liens on property, equipment, or other assets where the credit standing of a single lessee backs a majority of the cash flows to repay the loan. It should also include securities where the lender does not have direct recourse to the issuer or guarantor, such as credit-linked notes or bonds reported under SSAP 26 issued through a trust or SPE. In essence this grouping of assets should provide regulators with insight into those bond-like investments where an insurer's recourse in default may not be to the issuer, yet the security is backed by a single debtor.
2) The 'Issuer Obligation' classification tag should be clearly defined to include only bonds backed by a single debtor. All securities backed by multiple debtors should be reported as Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities or Other Loan-Backed and Structured Securities[3]. This definitional change will align SSAP 26 and SSAP 43R with the classification tags contained within each category on Schedule D-Part 1.
3) The 'Industrial and Miscellaneous' category should be limited to bonds reported under SSAP 26 where the lender has direct recourse to the issuer or guarantor, or any security reported under SSAP 43R.
4) Any security identified with a Bond Characteristic #6 (Securities where payments are determined by the performance of a credit other than that of the issuer) should identify the name of the debtor in the Description field on Schedule D-Part 1. By introducing the name of the entity responsible for generating the cash flows, regulators should now be able to ascertain the debtor to which the insurer is exposed. No longer will hundreds of securities issued by "Wilmington Trust" present a mystery as insurers will now be required to identify the debtor as IBM, American Airlines, etc., enabling examiners to perform meaningful portfolio analysis.
5) The 'Collateral Type' reported in Column 26 should be expanded to include all securities reported under the categories of 'Credit Lease Transactions and Indirect Obligations' as well as all non-Issuer Obligation securities reported in the 'Industrial and Miscellaneous' category. The identification of the underlying collateral should also enable regulators to more accurately identify the risks present in each security.

All of the recommendations above, as well as some minor revisions to the Collateral Type codes, are attached in Exhibit B.

[3] Classifications are effective 2011.

VALUATION:
The valuation methods employed for SSAP 43R securities are tailored to their nature – pools of disparate credits, frequently with limited availability of information concerning the nature of the debtors and the residual value of the assets backing the loans. They are also pools of assets were the default of one borrower does not constitute a default of the security as a whole and does not affect the cash flows of the rest of instrument. Such securities require valuation techniques that are based on historical performance models that are, by their nature, sensitive to market trends such as interest rates rather than the probability of default of a single corporate credit.

The differences between the accounting for a bond and that of a loan-backed and structured security are specifically designed to capture the characteristics of disparate, pooled assets:

1) An impairment model that accounts for the variable nature of the cash flows; and
2) The bifurcation of changes in valuation between interest related and non-interest related, recognizing that changes in fair value related to market conditions versus credit will create unrealized gains and losses that should be accounted for differently.

However, for most single debtor asset or lease backed securities (ETCs, CTLs) this would be the improper valuation. Because there is a single entity responsible for the vast majority of the cash flows, day-two valuation should focus on today's assessment of the creditworthiness of that entity. In addition, because the default of a single entity constitutes a default of the security, a separation of the interest related from the non-interest related valuation along the lines of SSAP 43R would be inappropriate.

Also of note, the very nature of how the NAIC defines CTLs negates the role of asset (real estate) risk; the requirements for Schedule D treatment versus Schedule B treatment focus on the real estate risk. For Schedule D CTLs, if the lessee makes the required lease payments under the CTL documents, then full recovery of the investment will be made and performance of the security matches the risk of default from a single debtor bond. The asset only has a bearing on the recovery amount in a default or bankruptcy situation[4], and the analysis of the asset first focuses on the importance of the asset to the lessee, not the absolute value of the asset.

This is not unlike a default for a corporate bond issued by an industrial obligor where the first order of repayment is dependent upon its ability to produce cash flows from its operations and the second order is a liquidation of assets. As such, in most cases the default value analysis for a CTL or ETC continues to focus on the lessee and its ability to service the lease payment, so the valuation analysis is akin to that of a corporate bond, and much simpler than that of an RMBS, for instance, where there may be hundreds or thousands of properties in various markets and in unknown conditions with borrowers whose current financial capabilities may not be known and where the insurer has no recourse to the underlying assets.

RISK-BASED CAPITAL:
As we established above, CTLs and ETCs are similar in many ways to corporate bonds and should follow guidance contained in SSAP 26, so it only makes sense that these securities should use a bond-

[4] In the event of nonpayment, holders of the securities, through the trustee, will have some limited recourse to the debtor under the lease agreement. In many cases, if a bankruptcy results, the court may allow the debtor to abrogate the lease that will leave the insurer with the ability to re-lease the assets. On occasion the holder of the CTL or ETC looks to the value of the underlying assets, as opposed to the bankruptcy court, for satisfaction of the debt.

like methodology when determining the appropriate asset risk (C1-o) charge. As such, all single debtor securities, as well as those with multi-debtors where a major debtor supports at least 90% of the security's cash flows, should continue to utilize ARO ratings or SVO designations. Only those multi-debtor securities subject to SSAP 43R guidance should be subject to the modeling approach adopted by the Valuation of Securities Task Force.

SUMMARY:
In closing, any effort to enhance statutory accounting and reporting should carefully consider the nuances present in today's capital markets and focus on the substance of an invested asset, specifically the source of cash flows. To facilitate the regulatory process, the Working Group should ensure all definitional, reporting, valuation, and risk-based capital guidance converge and should refer this issue to the Invested Assets Working Group of the Valuation of Securities (E) Task Force, so that it may receive comprehensive consideration.

Thank you for considering the GNAIE comments. We look forward to working with you and the Working Group at the upcoming NAIC Fall Meeting.

Sincerely,

Kevin Apataro

Kevin A. Spataro
Chair, GNAIE Accounting Convergence Committee

Encl.

cc: Dan Daveline, NAIC staff
Robin Marcotte, NAIC staff
John Tittle, NAIC staff
Ed Toy, NAIC Staff
Matti Peltonen, NYS Insurance Department

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.* 91 *R-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~~ assets supported by multiple credits ~~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~~ assets.

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~~assets. This includes asset-backed securities, collateralized mortgage obligations, collateralized debt obligations, and collateralized loan obligations.

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.~~ This statement excludes credit lease transactions backed by real property, equipment or other assets where at least 90% of the transaction’s cashflows are backed by a single lessee as well as single credit financial asset pools (notes are typically issued by a trust or SPE and backed by a tangible asset) where greater than 90% of the transaction’s cashflows are supported by a single debtor.

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.

DETAIL ELIMINATED TO CONSERVE SPACE

Bonds, excluding Loan-backed and Structured Securities

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for bonds, excluding loan-backed and structured securities.

SUMMARY CONCLUSION

2. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:

   a. U.S. Treasury securities,

   b. U.S. government agency securities,

   c. Municipal securities,

   d. Corporate bonds,

   e. Bank participations,

   f. Convertible debt,

   g. Credit lease transactions, credit tenant loans, or equipment trust certificates backed by real property, equipment or other assets where a major lessee represents at least 90% of the transaction's cashflows,

   h. Single credit financial asset pools (notes are typically issued by a trust or SPE and backed by a tangible asset) where at least 90% of the transaction's cashflows are supported by one debtor,

   ~~g.~~ i. Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition,

   ~~h.~~ j. Commercial Paper,

   ~~i.~~ k. Exchange Traded Funds, which qualify for bond treatment, as identified in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office,* and

   ~~j.~~ l. Class 1 Bond Mutual Funds, as identified in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office.*

Loan-backed and structured securities meet this definition, but are excluded from the scope of this statement, and are addressed in *SSAP No. 43R-Loan-backed and Structured Securities.* Securities which meet the definition above, but have a maturity date of one year or less from the date of acquisition are addressed in *SSAP No. 2-Cash, Drafts, and Short-term Investments.* Mortgage loans and other real estate lending activities made in the ordinary course of business meet the definition above, but are not addressed in this statement. These types of transactions are addressed in *SSAP No. 37-Mortgage Loans* and *SSAP No. 39-Reverse Mortgages.*

3. Bonds 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.

DETAIL ELIMINATED TO CONSERVE SPACE

Disclosures

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. 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. Industrial & Miscellaneous (Direct and Guaranteed, Unaffiliated);
      vii. Credit ~~Tenant Loans~~ Lease Transactions and Indirect Obligations (Unaffiliated);
      viii. Hybrid Securities;
      ix. Parent, Subsidiaries and Affiliates;

DETAIL ELIMINATED TO CONSERVE SPACE

SCHEDULE D - PART 1
LONG-TERM BONDS OWNED DECEMBER 31 OF CURRENT YEAR

Bonds are to be grouped as listed below and each category arranged alphabetically (securities included in U.S. States, Territories and Possessions; U.S. Political Subdivisions of States. Territories and Possessions; and U.S. Special Revenue and Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions should be listed with a state abbreviation in the column provided for electronic data capture).

Refer to SSAP No. 23, Foreign Currency Transactions and Translations, for accounting guidance related to foreign currency transactions and translations.

If an insurer has any detail lines reported for any of the following required categories or subcategories described in the Investment Schedules General Instructions, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Category	Line Number
Bonds:	
U.S. Governments	
Issuer Obligations	0199999
Residential Mortgage-Backed Securities	0299999
Commercial Mortgage-Backed Securities	0399999
Other Loan-Backed and Structured Securities	0499999
Subtotals - U.S. Governments	0599999
All Other Governments	
Issuer Obligations	0699999
Residential Mortgage-Backed Securities	0799999
Commercial Mortgage-Backed Securities	0899999
Other Loan-Backed and Structured Securities	0999999
Subtotals - All Other Governments	1099999
U.S. States, Territories and Possessions (Direct and Guaranteed)	
Issuer Obligations	1199999
Residential Mortgage-Backed Securities	1299999
Commercial Mortgage-Backed Securities	1399999
Other Loan-Backed and Structured Securities	1499999
Subtotals - U.S. States, Territories and Possessions (Direct and Guaranteed)	1799999
U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	
Issuer Obligations	1899999
Residential Mortgage-Backed Securities	1999999
Commercial Mortgage-Backed Securities	2099999
Other Loan-Backed and Structured Securities	2199999
Subtotals - U.S. Political Subdivisions of States. Territories and Possessions (Direct and Guaranteed)	2499999
U.S. Special Revenue and Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions	
Issuer Obligations	2599999
Residential Mortgage-Backed Securities	2699999
Commercial Mortgage-Backed Securities	2799999
Other Loan-Backed and Structured Securities	2899999
Subtotals - U.S. Special Revenue and Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions	3199999
Industrial and Miscellaneous (Direct and Guaranteed, Unaffiliated)	
Issuer Obligations	3299999

Residential Mortgage-Backed Securities 3399999
Commercial Mortgage-Backed Securities 3499999
Other Loan-Backed and Structured Securities 3599999
Subtotals - Industrial and Miscellaneous (Direct and Guaranteed, Unaffiliated) 3899999

Credit Lease Transactions and Indirect Obligations (Unaffiliated)~~Tenant Loans~~
Issuer Obligations 3999999
Residential Mortgage-Backed Securities 4099999
Commercial Mortgage-Backed Securities .... ~~4099999~~4199999
Other Loan-Backed and Structured Securities 4299999
Subtotals ~~-~~ – Credit Lease Transactions~~Tenant Loans~~ and Indirect Obligations .... ~~4199999~~4399999

Hybrid Securities
Issuer Obligations .... ~~4299999~~4499999
Residential Mortgage-Backed Securities .... ~~4399999~~4599999
Commercial Mortgage-Backed Securities .... ~~4499999~~4699999
Other Loan-Backed and Structured Securities .... ~~4599999~~4799999
Subtotals - Hybrid Securities 4899999

Parent, Subsidiaries and Affiliates
Issuer Obligations 4999999
Residential Mortgage-Backed Securities 5099999
Commercial Mortgage-Backed Securities 5199999
Other Loan-Backed and Structured Securities 5299999
Subtotals - Parent, Subsidiaries and Affiliates 5599999

Total Bonds
Subtotals - Issuer Obligations 7799999
Subtotals - Residential Mortgage-Backed Securities 7899999
Subtotals - Commercial Mortgage-Backed Securities 7999999
Subtotals - Other Loan-Backed and Structured Securities 8099999
Subtotals - Total Bonds 8399999

List all bonds and certificates of deposit owned December 31. of current year. except bonds and certificates of deposit in banks or other similar financial institutions with maturity dates or repurchase dates under repurchase agreements of one year or less from the acquisition date. Exclude cash equivalents as described in SSAP No.2, Cash. Drafts, and Short-term Investments with original maturities of three months or less.

Author's Note:
Please note similar changes to those reflected above would be required for the following Annual Schedules: Schedule D-Part 3, Schedule D-Part 4, Schedule D-Part 5, Schedule DA-Part 1, Schedule E-Part 2, and Schedule D-Part 1A-Section 2. Additionally line description changes are required for Schedule D-Part 1A-Section 1 and Summary by Country.

The following Quarterly Schedules also require changes: Schedule D-Part 3, Schedule D-Part 4, and Schedule E-Part 2.

No changes should be required for the Asset Valuation Reserve or the Interest Maintenance Reserve.

DETAIL ELIMINATED TO CONSERVE SPACE

Column 6 - Bond Characteristics

If bonds have one or more of the following characteristics, then list the appropriate number(s). If none of the characteristics apply, then leave the column blank.

1. Call Option.

2. Securities (exclude items reported in I) where the issuer has the right to vary the timing of principal or coupon payments, for example, such mortgage-backed and sinking fund securities that do not have a fixed payment schedule.

3. Variable coupon securities, where the issuer has the right to vary the amount of periodic payments (include: equity-linked coupons, exclude: floating rate notes with an unleveraged coupon, linked directly to an interest rate index).

4. Terms that may result in principal (or initial investment) not being repaid in full (include: Catastrophe bonds, lOs).

5. Payments linked to foreign exchange rates (exclude: bonds simply denominated in a currency other than US dollars).

6. Securities where payments are determined by the performance of a credit other than that of the issuer (include: credit-linked notes). Indicate in Description column the name of the credit.

7. Other types of options controlled by the issuer (exclude items reported in 1-6).

DETAIL ELIMINATED TO CONSERVE SPACE

Column 26 – Collateral Type

Use only for securities included in the following subtotal lines.

Industrial and Miscellaneous (Direct and Guaranteed, Unaffiliated)

Issuer Obligations.. 3299999
Residential Mortgage-Backed Securities... 3399999
Commercial Mortgage-Backed Securities 3499999
Other Loan-Backed and Structured Securities... 3599999

Credit Lease Transactions and Indirect Obligations (Unaffiliated)

Issuer Obligations…….. 3999999
Residential Mortgage-Backed Securities... 4099999
Commercial Mortgage-Backed Securities 4199999
Other Loan-Backed and Structured Securities... 4299999

Enter one of the following codes to indicate collateral type. Pick exactly one collateral type for each reported security. For securities that fit in more than one type, pick the predominant one. Judgment may need to be used when making selections involving prime, Alt-A, and subprime, as there are no uniform definitions for these collateral types.

1 – RMBS Prime

RMBS (Residential Mortgage-Backed Securities) consisting of first-lien mortgages whose borrower(s) are considered prime. Generally prime borrowers have FICO scores of 660 or above. FICO score is a consumer credit score developed by Fair, Isaac and Co. that is a numerical summary of the relative likelihood that an individual will pay back a loan.

2 – RMBS Non-Prime

RMBS consisting of first-lien mortgages whose borrowers(s) are non-prime. Examples of non-prime include subprime and Alt-A borrowers. Subprime is a first-lien mortgage loan made to a borrower who has a history of delinquency or other credit problems. Alt-A is a first-lien mortgage loan that generally conforms to traditional prime credit guidelines, although the LTV, loan documentation, occupancy status or property type, or other factors may cause the loan not to qualify under standard underwriting programs.

3 – RMBS Home Equity

RMBS secured by home equity loans. Usually a junior-lien mortgage loan that makes available to the borrower a revolving line of credit, allowing for periodic borrowings and subsequent repayments.

4 – RMBS Other
RMBS not included in 1 through 3.

5 – CMBS (Commercial Mortgage-Backed Securities)
A type of mortgage-backed security that is secured by the loan on a commercial property

6 – ~~ABS~~ Other (Asset-backed securities) – Credit Card Receivables
~~ABS collateralized with credit card receivables~~

7 – ~~ABS~~ Other – Auto Loans and Leases
~~ABS collateralized with auto loans and leases.~~

8 – ~~ABS~~ Other – Student Loans

9 – ~~ABS~~ Other – Aircraft Loans and ~~l~~Leases

10 – ~~ABS~~ Other – Equipment Loans and Leases

11 – ~~ABS~~ Other– Trade Receivables

12 – ~~ABS~~ Other– CDO~~/CLO~~
CDOs (Collateralized Debt Obligations)~~ or CLOs (Collateralized Loan Obligations)~~. Indicate in Description column what the CDO~~/CLO~~ collateral is, such as high-yield bonds, ~~corporate loans,~~ etc. If the collateral is of mixed type, indicate by "Mix" in Description field, in addition to the largest type of collateral in the mix. If the collateral is derived synthetically, indicate "synthetic" in the description field.

13 – Other – CLO
CLOs (Collateralized Loan Obligations). Indicate in Description column what the CLO collateral is, such as corporate loans, etc. If the collateral is of mixed type, indicate by "Mix" in Description field, in addition to the largest type of collateral in the mix. If the collateral is derived synthetically, indicate "synthetic" in the description field.

~~13 – ABS – Loan~~
~~ABS secured by loans.~~

14 – ~~ABS~~ Other – Commercial ~~p~~Paper

15 – ~~ABS~~ Other – Manufactured Housing and Mobile Home

16 – ~~ABS~~ Other – Recreational Vehicle Loans and Leases

17 – ~~ABS~~ Other – Small Business Loans

18 – ~~ABS~~ Other – Tax Receivables
~~ABS collateralized with tax receivables~~

19 – ~~ABS~~ Other– Utility Receivables
~~ABS collateralized with receivables from utilities~~

20 – ~~ABS~~ Other ~~–~~Other Loans and Leases
~~ABS~~ Loans and Leases not included in 6 through 19

21 – Other collateral

Collateral not included in 6 through 20

22 – Credit Tenant Loans

ANNUAL & QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

The following is the description of the General and Specific Classifications used for reporting the detail lines for bonds and stocks.

General Classifications Bonds Only:

U.S. Government:

Securities meeting the definition of:

1. Direct obligations of the U.S. government.

2. Securities that are backed by the full faith and credit of the U.S. government.

3. Securities that are highly rated but not full faith and credit obligations.

4. Securities deemed exempt (for AVR and RBC purposes) pursuant to the determination of the Valuation of Securities Task Force. Securities listed in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office,* Part Six, Section 2(e), are the only securities that meet this definition and therefore the only ones reported in this category. Included in Part Six, Section 2(e) are1 through 3 above.

The only mortgage-backed securities considered to be exempt are the passthrough securities fully guaranteed by a federal agency such as Government National Mortgage Association (GNMA) or Veterans Administration (VA).

All Other Governments:

This includes bond investments issued by non-U.S. governments, including bonds of political subdivisions and special revenue. This includes bonds issued by utilities owned by non-U.S. governments.

U.S. States, Territories and Possessions (Direct and Guaranteed):

General obligations of these entities (NAIC members), as well as bonds issued by utility companies owned by these entities. NAIC membership is composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Marianna Islands, Puerto Rico, and the U.S. Virgin Islands.

U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed):

General obligations of cities, counties, townships, etc., as well as bonds issued by utility companies owned by these entities.

U.S. Special Revenue and Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions:

Those U.S. government issues not listed in Appendix 14 of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office,* yet included in Appendices 16 through 19. This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds.

This should not include Industrial development revenue bonds.

Industrial and Miscellaneous (Direct and Guaranteed, Unaffiliated):

~~This category includes a~~All non-governmental issues that do not qualify for some other category in Schedule D, Part 1, including privatized (non-government ownership) utility companies, Class One Bond Mutual Fund as listed in Appendix of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office,* and Exchange Traded Funds listed in Appendix 20 of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office,*. Include Public Utilities.

This category includes bonds reported under SSAP 26 where the lender has direct recourse to the issuer or guarantor, or any security reported under SSAP43R.

This also includes credit lease transactions which are backed by real property, equipment or other assets where the major lessee represents less than 90% of the transaction's cashflows, and single credit financial asset pools where less than 90% of the transaction's cashflow are supported by a single debtor.

Credit ~~Tenant Loans~~Lease Transactions and Indirect Obligations:

~~First~~ This category includes first liens on real property or equipment where rental payments are assigned to the lender (i.e., the credit standing of the major ~~tenant~~ lessee backs the loan). Credit tenant loans and equipment trust certificates or any other credit lease transactions backed by real property or other assets where the major lessee represents at least 90%+ of the transaction's cash flows are included.

This also includes single credit financial asset pools where at least 90% of the transaction's cashflows are supported by a single debtor.

Include any securities reported under SSAP 26 where the lender does not have direct recourse to the issuer or guarantor of the debt, including bonds issued by a trust or SPE, pass-through certificates, industrial development revenue bonds, credit linked notes, etc.

Hybrid Securities:

Securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations and/or which are recognized as regulatory capital by the issuer's primary regulatory authority. Hybrid securities are designed with characteristics of debt and of equity and are intended to provide protection to the issuer's senior note holders. 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).

This specifically excludes surplus notes, which are reported in Schedule BA; subordinated debt issues, which have no coupon deferral features; and "Traditional" preferred stocks, which are reported in Schedule D Part 2 Section I. With respect to preferred stock, traditional preferred stocks include, but are not limited to a) U.S. issuers that do not allow tax deductibility for dividends; and b) those issued as preferred stock of the entity or an operating subsidiary, not through a trust or a special purpose vehicle.

Parent, Subsidiaries and Affiliates:
Defined by SSAP 97

General Classifications Preferred Stock Only:

DETAIL ELIMINATED TO CONSERVE SPACE

General Classifications Common Stock Only:

DETAIL ELIMINATED TO CONSERVE SPACE

Specific Classifications:

Issuer Obligations:

All bonds ~~not backed by other loans and other assets~~backed by a single debtor.

Residential Mortgage-Backed Securities:

Those securities directly or indirectly secured by liens on one- to four-family residential properties and subject to guidance in SSAP No. 43R, Loan-backed and Structured Securities. Includes prime, subprime, Alt-A mortgages as well as home equity loans, home equity lines of credit and loans against manufactured or mobile homes. Excludes assets subject to guidance in SSAP No. 26.

Comment [KM1]: This definition contradicts the collateral codes for Schedule D where Manufactured Housing is not RMBS. Does this definition need to be modified to exclude 'manufactured or mobile homes'?

Commercial Mortgage-Backed Securities:

Those securities directly or indirectly secured by liens on one or more parcels of commercial real estate with one or more structures located on the real estate and subject to guidance in SSAP No. 43R, Loan-backed and Structured Securities. Does not include those securities secured by liens on one- to four-family residential properties. Excludes assets subject to guidance in SSAP No. 26.

Other Loan-Backed and Structured Securities:

Those securities backed by loans and other assets which are subject to guidance in SSAP No. 43R. Includes asset-backed securities, collateralized debt obligations, and collateralized loan obligations. Does not include those securities defined as residential mortgage-backed securities or commercial mortgage-backed securities. Excludes assets subject to guidance in SSAP No. 26.

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October 1, 2010

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 Draft SSAP for Pensions, *Accounting for Pensions* and
SSAP No. 92, *Other Postretirement Benefits Other Than Pensions* (SSAP No. 92)

Dear Mr. Fritsch,

Interested parties appreciate the opportunity to provide comments on the exposed Draft SSAP for Pensions, *Accounting for Pensions* and SSAP No. 92, *Other Postretirement Benefits Other Than Pensions* (SSAP No. 92) during the NAIC Summer meeting in Seattle, Washington with an extended comment date of October 1, 2010. Additionally, interested parties appreciate the efforts of Julie Gann in working on this issue.

We offer the following comments:

Ref 2006-30: Draft SSAP for Pensions and SSAP No. 92, *Other Postretirement Benefits Other Than Pensions*

The Working Group exposed draft SSAPs that propose adoption, with modification, of FAS 158 and other related GAAP guidance.

<u>**Draft SSAP for Pensions**</u>:

Paragraph 84, as exposed, appears to comingle the accounting for prepaid or accrued pension costs with the adjustments to surplus necessary to reflect the funded status of the plan (including vested and non-vested obligations) on the balance sheet date. The former transactions impact the income statement, the latter do not. Comingling these amounts on the face of the annual statement statutory balance sheet will create crosscheck errors with the associated general expense exhibits.

More specifically, for both funded and unfunded plans, accrued pension cost represent expenses which have been recognized through the income statement and are reported in the P&C Statement as unpaid loss adjustment expense (Page 3, Line 3) and other expenses (Page 3, Line 5) and in the Life Statement as general expenses due or accrued (Page 3, Line 12).

We recommend the following changes to paragraph 84 in order to eliminate this potential problem, while preserving the effect on surplus of recording the funded status of the plan (vested and non-vested obligations) on the annual statement statutory balance sheet.

> *Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and remaining transition assets or obligations from prior application of SSAP 89 (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2011 shall be recognized as components of the ~~ending~~ balance of unassigned funds (surplus), net of tax, as of January 1, 2012 (provided that alternative transition is not elected per Paragraph 85.b.). The offset to unassigned funds is reported separately as an 'Aggregate write-in for other than invested assets' or as an 'Aggregate write-in for other liabilities'. After recognition, the total of resulting prepaid (accrued) benefit cost, and 'Aggregate write-in for other than invested assets' or 'Aggregate write-in for other liabilities' shall fully reflect the unfunded/overfunded status of the plan. Any prepaid benefit cost and 'Aggregate write-in for other than invested assets' shall be nonadmitted.*

Paragraph 11 discusses the calculation of the non-vested prior service cost amortization in the net periodic pension cost. From the wording, it could be interpreted that a separate amortization amount shall be calculated for each non-vested employee. In practice, these calculations are typically done on an aggregate basis using average future working lifetimes and other required inputs. For clarity, we propose the following wording for the second sentence of this paragraph:

> *Unrecognized prior service cost for nonvested employees shall be amortized as a component of net periodic pension cost by assigning an equal amount to each expected future period of service for ~~each~~ nonvested employees active at the date of the amendment.*

The accompanying current SSAP draft has been updated to incorporate the suggested changes to Paragraphs 11 and 84 noted above, as well as suggested changes to the implementation examples. While understanding the goal to keep the illustrations simple, we believe including comments or examples to illustrate the impact of subsequent gains and losses on the overall surplus adjustments is helpful. One additional readability suggestion is recommended for Paragraph 8.

SSAP 92:

Paragraph 8 at the end a reference was made to paragraph 48 which we believe should read paragraph 49.

Paragraph 36 includes a reference to vested and non-vested which may be confusing because the service cost for OPEBs always relates to the non-vested population. Prior to SSAP 92, service cost for the non-vested population is recognized in its entirety when full eligibility is met; prior to full eligibility, none is recognized. SSAP 92 provides that service cost is recognized over the years of service until full eligibility. After full eligibility, no more service cost recognized unless there is a plan amendment, which would be considered prior service cost. Therefore, we believe the reference should be removed and suggest the following language:

The service cost component recognized in a period shall be determined as the portion of the expected postretirement benefit obligation attributed to employee service ~~(including vested and nonvested employees)~~ during that period.

Paragraph 102, similar to the Draft SSAP for Pensions (paragraph 84), recognition of the funded status should not be comingled with an adjustment to prepaid (accrued) benefit cost. We propose the following language:

Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 37), and remaining transition assets or obligations from prior application of SSAP 14 (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2011 shall be recognized as components of the ~~ending~~ balance of unassigned funds (surplus), net of tax, as of January 1, 2012 (provided that alternative transition is not elected per Paragraph 103.a.). The offset to unassigned funds is reported separately as an 'Aggregate write-in for other than invested assets' or as an 'Aggregate write-in for other liabilities'. After recognition, the total of prepaid (accrued) benefit costs, and 'Aggregate write-in for other than invested assets' or 'Aggregate write-in for other liabilities' shall fully reflect the overfunded/underfunded status of the plan. Any prepaid benefit costs and Aggregate write-in for other than invested assets shall be non-admitted.

* * * * *

Thank you for considering interested parties' comments. We look forward to working with you, Mr. Armstrong, and the Working Group at the NAIC Fall meeting in Orlando, Florida. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,
D. Keith Bell

Sincerely,
Rose Albrizio

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

Exposure Draft

XXX—Accounting for Pensions

Hearing Date: NAIC 2010 Fall National Meeting

Location: Orlando, FL

Deadline for Written Notice of Intent to speak: October 1, 2010

Deadline for Receipt of Written Comments: October 1, 2010

Notice of Public Hearin g and Request for Written Comments

Basis for hearings. The Statutory Accounting Principles Working Group (SAPWG) will hold a public hearing to obtain information from and views of interested individuals and organizations about the standards proposed in this Exposure Draft. The SAPWG will conduct the hearing in accordance with the National Association of Insurance Commissioners (NAIC) policy statement on open meetings. An individual or organization desiring to speak must notify the NAIC in writing by **Oct. 1, 2010.** Speakers will be notified as to the date, location, and other details of the hearings.

Oral presentation requirements. The intended speaker must submit a position paper, a detailed outline of a proposed presentation or comment letter addressing the standards proposed in the Exposure Draft by **Oct. 1, 2010**. Individuals or organizations whose submission is not received by that date will only be granted permission to present at the discretion of the SAPWG chair. All submissions should be addressed to the NAIC staff at the address listed below.

Format of the hearings. Speakers will be allotted up to 10 minutes for their presentations to be followed by a period for answering questions from the SAPWG. Speakers should use their allotted time to provide information in addition to their already submitted written comments as those comments will have been read and analyzed by the SAPWG. Those submissions will be included in the public record and will be available at the hearings for inspection.

Copies. Exposure Drafts can be obtained on the Internet at the NAIC Home Page (http://www.naic.org). The documents can be downloaded using Microsoft Word.

Written comments. Participation at a public hearing is not a prerequisite to submitting written comments on this Exposure Draft. Written comments are given the same consideration as public hearing testimony.

The Statutory Accounting Principles Statement of Concepts was adopted by the Accounting Practices & Procedures (EX4) Task Force on September 20, 1994, in order to provide a foundation for the evaluation of alternative accounting treatments. All issues considered by the SAPWG will be evaluated in conjunction with the objectives of statutory reporting and the concepts set forth in the Statutory Accounting Principles Statement of Concepts. Whenever possible, establish a relationship between your comments and the principles defining statutory accounting.

The exposure period is not meant to measure support for, or opposition to, a particular accounting treatment but rather to accumulate an analysis of the issues from other perspectives and persuasive comments supporting them. Therefore, form letters and objections without valid support for their conclusions are not helpful in the deliberations of the working group. Comments should not simply register your agreement or disagreement without a detailed explanation, a description of the impact of the proposed guidelines, or possible alternative recommendations for accomplishing the regulatory objective.

Any individual or organization may send written comments addressed to the Working Group to the attention of John Tittle, at **Jtittle@naic.org** and Robin Marcotte, at **rmarcott@naic.org** no later than **Oct. 1, 2010**. Electronic submission is preferred. Julie Gann, jgann@naic.org is the NAIC Staff that is the project lead for this topic.

National Association of Insurance Commissioners
2301 McGee Street, Suite 800 Kansas City, MO 64108-2604 - (816) 842-3600

Statement of Statutory Accounting Principles No. ______

Accounting for Pensions, A Replacement of SSAP No. 89

STATUS:

Type of Issue:	Common Area
Issued:	TBD
Effective Date:	January 1, 2012
Affects:	Supersedes SSAP No. 89 Nullifies INT 99-26 Nullifies INT 01-16 Nullifies INT 04-03 Nullifies INT 04-12
Affected by:	No other pronouncements
Interpreted by:	No other pronouncements

SSAP No. ___ **Statement of Statutory Accounting Principles**

Accounting for Pensions, A Replacement of SSAP No. 89

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles and related reporting for employers' pension obligations.

2. This statement establishes financial accounting and reporting standards for an insurer that offers pension benefits to its employees. Ordinarily, such benefits are periodic pension payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and other types of benefits, such as death benefits provided through a pension plan. (This statement does not apply to life insurance benefits provided outside a pension plan or postretirement health and welfare benefits.) Arrangements to provide pension benefits may take a variety of forms and may be financed in different ways. This statement applies to any arrangement that is similar in substance to a pension plan regardless of form or financing. This statement applies to a written plan and to a plan whose existence may be implied from a well-defined, although perhaps unwritten, practice of paying postretirement benefits. This statement supersedes the guidance in *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8* (SSAP No. 89) and incorporates the guidance in *Interpretation 99-26: Offsetting Pension Assets and Liabilities* (INT 99-26)*, INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations* (INT 01-16)*, INT 04-03: Clarification for Calculating the Additional Minimum Pension Liability under SSAP No. 89* (INT 04-03) *and INT 04-12: Determining the Classification and Benefit Attribution Method for a Cash Balance Pension Plan* (INT 04-12). This SSAP also modifies *INT 04-17: Impact of Medicare Modernization on Postretirement Benefits* (INT 04-17) to remove reference to pensions as this interpretation only addresses postretirement benefits other than pensions.

SUMMARY CONCLUSION

Defined Benefit Plans

Single-Employer Defined Benefit Pension Plans

3. A defined benefit pension plan is one that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. (Hybrid pension plans that refer to an account balance, rather than a monthly annuity at retirement (also known as cash balance plans) are considered defined benefit plans for purposes of applying this Statement.) For defined benefit plans, reporting entities shall adopt *FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158) and *FASB Staff Position FAS 136(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 136(R)-1) with modifications as discussed within paragraph 81.

4. A pension benefit is part of the compensation paid to an employee for services. In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the plan's benefit formula, often including how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation in the years immediately before retirement or termination. In most cases, services are rendered over a number of years before an employee retires and begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the benefit formula and estimates of the relevant future events, many of which the employer cannot control.

Elements of Pension Accounting

5. Net periodic pension cost is made up of several components that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The service cost component of net periodic pension cost is the actuarial present value of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are interest cost (interest on the projected benefit obligation, which is a discounted amount), actual[1] return on plan assets, amortization of any prior service cost or credit included in unassigned funds (surplus), and gain or loss, which includes, to the extent recognized, amortization of the net gain or loss included in unassigned funds (surplus) (refer to paragraph 24).

6. The projected benefit obligation is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using an assumption as to future compensation levels if the pension benefit formula is based on those future compensation levels. The projected benefit obligation is a measure of benefits attributed to service to date assuming that the plan continues in effect and that estimated future events (including compensation increases, turnover, and mortality) occur.

7. The accumulated benefit obligation is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same.

8. Plan assets are assets that have been segregated and restricted to provide for pension benefits. The amount of plan assets includes amounts contributed by the employer and amounts earned from investing the contributions, less benefits paid. Assets not segregated in a trust or otherwise effectively restricted so that they cannot be used by the employer for other purposes are not considered plan assets even though it may be intended that such assets be used to provide for pension~~s~~ benefits. Amounts accrued by the employer but not yet paid to the plan are also not considered plan assets. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

Recognition of Net Periodic Pension Cost

9. The following components shall be included in the net pension cost for a period by an employer sponsoring a defined benefit pension plan: a) Service cost; b) Interest cost; c) Actual return on plan assets; d) Amortization of any prior service cost or credit included in unassigned funds (surplus); e) Gain or loss (including the effects of changes in assumptions) to the extent recognized; and f) Amortization of any net

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[1] To address a question on how the expected return on plan assets affects the determination of net periodic pension cost if the actual return on plan assets for a period is a component of net periodic pension cost, it is noted that the expected return on plan assets generally will be different from the actual return on plan assets for the year. This statement provides for recognition of that difference (a net gain or loss) in unassigned funds in the period it arises. The amount recognized in unassigned funds is also a component of net periodic pension cost for the current period. Thus, the amount recognized in unassigned funds and the actual return on plan assets, when aggregated, equal the expected return on plan assets. The amount recognized in unassigned funds affects future net periodic pension cost through subsequent amortization, if any, of the net gain or loss. (This footnote reflects guidance included in E12 of FSP FAS 158-1.)

transition asset or obligation existing at the date of initial application of this Statement and remaining in unassigned funds (surplus).

Service Cost

10. The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service (including both vested and nonvested employees) during that period.

11. The prior service cost for nonvested employees not previously recognized[2] is not required to be included in net periodic pension cost entirely in the year this standard is adopted. Unrecognized prior service cost for nonvested employees shall be amortized as a component of net periodic pension cost by assigning an equal amount to each expected future period of service for ~~each~~ nonvested employees active at the date of the amendment. Unassigned funds (surplus) is adjusted each period as prior service cost is amortized (refer to paragraphs 83 through 85 for transition guidance related to the recognition of the prior service cost for nonvested employees though unassigned surplus).

Interest Cost

12. The interest cost component recognized in a period shall be determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates.

Actual Return on Plan Assets

13. For a funded plan, the actual return on plan assets shall be determined based on the fair value of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

Prior Service Cost

14. Plan amendments (including initiation of a plan) often include provisions that grant increased benefits based on services rendered in prior periods. Because plan amendments are granted with the expectation that the employer will realize economic benefits in future periods, the cost of providing such retroactive benefits (prior service cost) is not required to be included in net periodic pension cost entirely in the year of the amendment but provides for recognition during the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

15. A plan amendment that retroactively increases benefits (including benefits that are granted to retirees) increases the projected benefit obligation. The cost of the benefit improvement shall be recognized as a charge to unassigned funds (surplus) at the date of the amendment. Except as specified in paragraphs 16-17, that prior service cost shall be amortized as a component of net periodic pension cost by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period. Unassigned funds (surplus) is adjusted each period as prior service cost is amortized.

[2] The previous statutory accounting guidance in *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8* excluded nonvested employees from the service cost calculation. This exclusion has been eliminated with the issuance of this SSAP.

16. Consistent use of an alternative approach that more rapidly amortizes the cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

17. In some situations a history of regular plan amendments and other evidence may indicate that the period during which the employer expects to realize economic benefits from an amendment granting retroactive benefits is shorter than the entire remaining service period of the active employees. Identification of such situations requires an assessment of the individual circumstances and the substance of the particular plan situation. In those circumstances, the amortization of prior service cost shall be accelerated to reflect the more rapid expiration of the employer's economic benefits and to recognize the cost in the periods benefited.

18. A plan amendment that retroactively reduces, rather than increases, benefits decreases the projected benefit obligation. The reduction in benefits shall be recognized as a credit (prior service credit) to unassigned funds (surplus) that shall be used first to reduce any remaining prior service cost included in unassigned funds surplus. Any remaining prior service credit shall be amortized as a component of net periodic pension cost on the same basis as the cost of a benefit increase.

Gains and Losses

19. Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, recognition of gains and losses as components of net pension cost of the period in which they arise is not required. Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in unassigned funds surplus as they arise.

20. The expected return on plan assets shall be determined based on the expected long-term rate of return on plan assets and the fair value of plan assets.

21. Asset gains and losses are differences between the actual return on assets during a period and the expected return on assets for that period. Asset gains and losses include changes reflected in the fair value of assets.

22. As a minimum, amortization of a net gain or loss included in unassigned funds (surplus) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of plan assets. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

23. Any systematic method of amortizing gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in unassigned funds (surplus) by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

24. The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the net gain or loss included in unassigned funds (surplus).

Recognition of Liabilities and Assets

25. If the projected benefit obligation (considering both vested and nonvested participants) exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the unfunded projected benefit obligation. If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation. This prepaid asset resulting from the excess of the fair value of plan assets over the projected benefit obligation shall be nonadmitted.

26. If multiple single-employer plans exist, the employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. It is not acceptable statutory accounting practice to offset pension or postretirement benefits other than pensions liability generated by one plan against the prepaid assets of another plan.

27. The asset or liability that is recognized pursuant to paragraph 25 may result in a temporary difference, as defined in *SSAP No. 10R—Income Taxes* (SSAP No. 10R). The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year and shall be allocated pursuant to SSAP No. 10R.

28. If a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position is made, or when net gains or losses, prior service costs or credits, or the net transition asset or obligation existing at the date of initial application of this Statement are amortized as components of net periodic pension cost, the related balances for those net gains or losses, prior service costs or credits, and transition asset or obligation in unassigned funds (surplus) shall be adjusted as necessary and reported in unassigned funds (surplus).

Measurement of Cost and Obligations

29. The service component of net periodic pension cost, the projected benefit obligation, and the accumulated benefit obligation are based on an attribution of pension benefits to periods of employee service and on the use of actuarial assumptions to calculate the actuarial present value of those benefits. Actuarial assumptions reflect the time value of money (discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Attribution

30. Pension benefits ordinarily shall be attributed to periods of employee service based on the plan's benefit formula to the extent that the formula states or implies an attribution. In some situations a history of regular increases and other evidence may indicate that an employer has a present commitment to make future amendments and that the substance of the plan is to provide benefits attributable to prior service that are greater than the benefits defined by the written terms of the plan. In those situations, the substantive commitment shall be the basis for the accounting, and the existence and nature of the commitment to make future amendments shall be disclosed.

31. In some situations a history of regular increases in non-pay-related benefits or benefits under a career-average-pay plan and other evidence may indicate that an employer has a present commitment to make future amendments and that the substance of the plan is to provide benefits attributable to prior

service that are greater than the benefits defined by the written terms of the plan. In those situations, the substantive commitment shall be the basis for the accounting, and the existence and nature of the commitment to make future amendments shall be disclosed.

32. Some plans may have benefit formulas that attribute all or a disproportionate share of the total benefits provided to later years of service, thereby achieving in substance a delayed vesting of benefits. For such plans the total projected benefit shall be considered to accumulate in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested. If a plan's benefit formula does not specify how a particular benefit relates to services rendered, the benefit shall be considered to accumulate as follows:

a. For benefits of a type includable in vested benefits, in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested.

b. For benefits of a type not includable in vested benefits, in proportion to the ratio of completed years of service to total projected years of service.

Assumptions

33. Each significant actuarial assumption used shall reflect the best estimate solely with respect to that individual assumption. All assumptions shall presume that the plan will continue in effect in the absence of evidence that it will not continue.

34. Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation. In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

35. The objective of selecting assumed discount rates using the method noted in paragraph 34 is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. Notionally, that single amount, the projected benefit obligation, would equal the fair value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

36. The expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected

benefit obligation. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment. The expected long-term rate of return on plan assets is used to compute the expected return on assets.

37. The service cost component of net periodic pension cost and the projected benefit obligation shall reflect future compensation levels to the extent that the pension benefit formula defines pension benefits wholly or partially as a function of future compensation levels. Future increases for which a present commitment exists shall be similarly considered. Assumed compensation levels shall reflect an estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price levels, productivity, seniority, promotion, and other factors. All assumptions shall be consistent to the extent that each reflects expectations of the same future economic conditions, such as future rates of inflation. Measuring service cost and the projected benefit obligation based on estimated future compensation levels entails considering indirect effects, such as changes under existing law in social security benefits or benefit limitations that would affect benefits provided by the plan.

38. The accumulated benefit obligation shall be measured based on employees' history of service and compensation without an estimate of future compensation levels. Excluding estimated future compensation levels also means excluding indirect effects of future changes such as increases in the social security wage base. In measuring the accumulated benefit obligation, projected years of service shall be a factor only in determining employees' expected eligibility for particular benefits, such as:

a. Increased benefits that are granted provided a specified number of years of service are rendered

b. Early retirement benefits

c. Death benefits

d. Disability benefits

39. Automatic benefit increases specified by the plan (for example, automatic cost-of-living increases) that are expected to occur shall be included in measurements of the projected, accumulated, and vested benefit obligations, and the service cost component. Also, retroactive plan amendments shall be included in the computation of the projected and accumulated benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods.

Measurement of Plan Assets

40. Plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date. The fair value of an investment shall be reduced by brokerage commissions and other costs normally incurred in a sale, if those costs are significant (similar to fair value less costs to sell).

41. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) shall be measured at cost less accumulated depreciation or amortization for all purposes.

42. The measurements of plan assets and benefit obligations shall be as of the date of the employer’s fiscal year-end statement of financial position. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded

status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other unassigned funds (surplus) (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date

43. Measurements of net periodic pension cost for both interim and annual financial statements shall be based on the assumptions used for the previous year-end measurements unless more recent measurements of both plan assets and obligations are available or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

Employers with Two or More Plans

44. An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized for one plan shall not be reduced or eliminated because the employer has recognized an asset for another plan that has assets in excess of its projected benefit obligation. (As noted within paragraph 26, overfunded plans shall be aggregated for asset reporting (nonadmitted) and underfunded plans shall be aggregated for liability reporting.)

Annuity Contracts

45. An annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts (participating annuity contracts) provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this Statement.

46. To the extent that benefits currently earned are covered by annuity contracts, the cost of those benefits shall be the cost of purchasing the contracts, except as provided in paragraph 49. That is, if all the benefits attributed by the plan's benefit formula to service in the current period are covered by nonparticipating annuity contracts, the cost of the contracts determines the service cost component of net pension cost for that period.

47. Benefits provided by the pension benefit formula beyond benefits provided by annuity contracts (for example, benefits related to future compensation levels) shall be accounted for according to the provisions of this Statement applicable to plans not involving insurance contracts

48. Benefits covered by annuity contracts shall be excluded from the projected benefit obligation and the accumulated benefit obligation. Except as provided in paragraph 49, annuity contracts shall be excluded from plan assets.

49. Some annuity contracts provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. The purchase price of a participating annuity contract ordinarily is higher than the price of an equivalent contract without participation rights. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as a nonadmitted asset. In subsequent periods, the participation right shall be nonadmitted and measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise, the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

Other Contracts with Insurance Companies

50. Insurance contracts that are in substance equivalent to the purchase of annuities shall be accounted for as such. Other contracts with insurance companies shall be accounted for as investments and measured at fair value. For some contracts, the best available evidence of fair value may be contract value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value.

Defined Benefit Plans – Settlements and Curtailments

51. A settlement is defined as a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a pension benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include (a) making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits and (b) purchasing nonparticipating annuity contracts to cover vested benefits.

52. A transaction that does not meet all of the above three criteria does not constitute a settlement for purposes of this Statement. For example, investing in a portfolio of high-quality fixed-income securities with principal and interest payment dates similar to the estimated payment dates of benefits may avoid or minimize certain risks. However, that does not constitute a settlement because the investment decision can be reversed and such a strategy does not relieve the employer (or the plan) of primary responsibility for a pension obligation nor does it eliminate significant risks related to the obligation.

Annuity Contracts

53. The definition of an annuity contract is included in paragraph 45. If the substance of a participating annuity contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, the purchase of the contract does not constitute a settlement.

Curtailment

54. A curtailment is an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services. Curtailments include:

a. Termination of employees' services earlier than expected, which may or may not involve closing a facility or discontinuing a component of an entity.

b. Termination or suspension of a plan so that employees do not earn additional defined benefits for future services. In the latter situation, future service may be counted toward vesting of benefits accumulated based on past service.

Relationship of Settlements and Curtailments to Other Events

55. A settlement and a curtailment may occur separately or together. If benefits to be accumulated in future periods are reduced but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases nonparticipating annuity contracts for vested benefits and continues to provide defined benefits for future service, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan is terminated (that is, the obligation is settled and the plan ceases to exist) and not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the employees continue to work for the employer).

Accounting for Settlement of the Pension Obligation

56. The maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the net gain or loss remaining in unassigned funds (surplus) plus any transition asset remaining in unassigned funds (surplus) from initial application of SSAP No. 89. That maximum amount includes any gain or loss first measured at the time of settlement. The maximum amount shall be recognized in earnings if the entire projected benefit obligation is settled. If only part of the projected benefit obligation is settled, the employer shall recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation.

57. If the purchase of a participating annuity contract constitutes a settlement, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in earnings.

58. If the cost of all settlements in a year is less than or equal to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year, gain or loss recognition is permitted but not required for those settlements. However, the accounting policy adopted shall be applied consistently from year to year.

Accounting for a Plan Curtailment

59. The prior service cost included in unassigned funds (surplus) associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. For example, if a curtailment eliminates half of the estimated remaining future years of service of those who were employed at the date of a prior plan amendment and were expected to receive benefits under the plan, then the loss associated with the curtailment is half of the prior service cost included in unassigned funds (surplus) related to that amendment that has not been amortized as a component of net periodic pension cost. For purposes of applying the provisions of this paragraph, prior service cost includes the cost of retroactive plan amendments and any transition obligation remaining in unassigned funds (surplus) from initial application of SSAP No. 89.

60. The projected benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.

a. To the extent that such a gain exceeds any net loss included in unassigned funds (surplus) (or the entire gain, if a net gain exists), it is a curtailment gain.

b. To the extent that such a loss exceeds any net gain included in unassigned funds (surplus) (or the entire loss, if a net loss exists), it is a curtailment loss.

For purposes of applying the provisions of this paragraph, any transition asset remaining in unassigned funds (surplus) from initial application of SSAP No. 89 shall be treated as a net gain and shall be combined with the net gain or loss arising subsequent to transition to SSAP No. 89.

61. If the sum of the effects identified in paragraphs 59 and 60 is a net loss, it shall be recognized in earnings when it is probable that a curtailment will occur and the effects described are reasonably estimable. If the sum of those effects is a net gain, it shall be recognized in earnings when the related employees terminate or the plan suspension or amendment is adopted.

Termination Benefits

62. An employer may provide benefits to employees in connection with their termination of employment. They may be either special termination benefits offered only for a short period of time or contractual termination benefits required by the terms of a plan only if a specified event, such as a plant closing, occurs. An employer that offers special termination benefits to employees shall recognize a liability and a loss when the employees accept the offer and the amount can be reasonably estimated. An employer that provides contractual termination benefits shall recognize a liability and a loss when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. Termination benefits may take various forms including lump-sum payments, periodic future payments, or both. They may be paid directly from an employer's assets, an existing pension plan, a new employee benefit plan, or a combination of those means. The cost of termination benefits recognized as a liability and a loss shall include the amount of any lump-sum payments and the present value of any expected future payments. A situation involving termination benefits may also involve a curtailment to be accounted for under paragraphs 59-61.

Disclosures – Single Employer Defined Benefit Plans

63. An employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented.

a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.

c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets and liabilities recognized.

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

(1) How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies

(2) The classes of plan assets

(3) The inputs and valuation techniques used to measure the fair value of plan assets

(4) The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period

(5) Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.

ii. The fair value of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 63d in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in (ii) above, as appropriate.

iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (ii) above for each annual period:

(a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[3] 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)

(b) For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

(i) Actual return on plan assets, separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period

(ii) Purchases, sales, and settlements, net

(iii) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

(c) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

e. For defined benefit pension plans, the accumulated benefit obligation.

f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.

g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions

[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.

may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.

h. The amount of net benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to settlements or curtailments.

i. Separately the net gain or loss and net prior service cost or credit recognized in unassigned funds (surplus) for the period pursuant to paragraphs 15 and 19 and reclassification adjustments of unassigned funds (surplus) for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

j. The amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

k. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.

l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.

m. If applicable, any alternative method used to amortize prior service amounts or net gains and losses pursuant to paragraphs 16 and 23.

n. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

o. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.

p. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.

q. The amounts in unassigned funds (surplus) expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

r. The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Disclosures – Employers with Two or More Defined Benefit Plans

64. The disclosures required by this Statement shall be aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by this paragraph and paragraph 65. Disclosures shall be as of the date of each statement of financial position presented. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. If aggregate disclosures are presented, an employer shall disclose:

a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented.

b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

65. A U.S. reporting entity may combine disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions.

Interim Financial Disclosures –Defined Benefit Plans

66. The following shall be disclosed within interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the amount prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment.

b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 63g. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions

Defined Contribution Plans

67. A defined contribution pension plan is a plan that provides pension benefits in return for services rendered, provides an individual account for each participant, and has terms that specify how contributions to the individual's account are to be determined rather than the amount of pension benefits the individual is to receive. Under a defined contribution plan, the pension benefits a participant will receive depend only on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

68. To the extent that a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, the net pension cost for a period shall be the

contribution called for in that period. If a plan calls for contributions for periods after an individual retires or terminates, the estimated cost shall be accrued during the employee's service period.

69. A pension plan having characteristics of both a defined benefit plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit, as may be the case with some "target benefit" plans, the accounting requirements shall be determined in accordance with the provisions applicable to a defined benefit plan and the disclosure requirements within paragraph 63 shall be followed.

Disclosures - Defined Contribution Plans

70. An employer shall disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

71. A multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

72. A reporting entity participating in a multiemployer plan shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contributions due and unpaid.

73. In some situations, withdrawal from a multiemployer plan may result in a reporting entity having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of *SSAP No. 5—Liabilities, Contingencies and Impairment of* Assets (SSAP No. 5) shall apply.

Disclosures - Multiemployers Plans

74. A reporting entity shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. A reporting entity may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

75. In some situations, withdrawal from a multiemployer plan may result in a reporting entity having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of SSAP No. 5 shall apply. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of SSAP No. 5.

Multiple Employer Plans

76. Some pension plans to which two or more unrelated employers contribute are not multiemployer plans. Rather, they are in substance aggregations of single-employer plans combined to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration. Those plans ordinarily do not involve collective-bargaining agreements. They may also have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer. Such plans shall be considered single-employer plans rather than multiemployer plans, and each reporting entity's accounting shall be based on its respective interest in the plan.

Non-U.S. Pension Plans

77. Except for its effective date, this Statement includes no special provisions applicable to pension arrangements outside the United States. To the extent that those arrangements are in substance similar to pension plans in the United States, they are subject to the provisions of this Statement. The substance of an arrangement is determined by the nature of the obligation and by the terms or conditions that define the amount of benefits to be paid, not by whether (or how) a plan is funded, whether benefits are payable at intervals or as a single amount, or whether the benefits are required by law or custom or are provided under a plan the employer has elected to sponsor.

78. It is customary or required in some countries to provide benefits in the event of a voluntary or involuntary severance of employment (also called termination indemnities). If such an arrangement is in substance a pension plan (for example, if the benefits are paid for virtually all terminations), it is subject to the provisions of this Statement.

Business Combinations

79. When an employer is acquired in a business combination and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing net gain or loss, prior service cost or credit, or transition asset or obligation recognized in unassigned funds (surplus). If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

Consolidated/Holding Company Plans

80. The employees of many reporting entities are members of a plan sponsored by a parent company or holding company. A reporting entity who participates in these plans and is not directly liable for obligations under the plan shall recognize pension expense equal to its allocation from the holding company or parent company of the required contribution to the plan for the period. A liability shall be established for any such contributions due and unpaid. Furthermore, the reporting entity shall disclose in the notes to the financial statements that its employees participate in a plan sponsored by the holding company for which the reporting entity has no legal obligation. The amount of expense incurred and the allocation methodology utilized by the provider of such benefits shall also be disclosed. If the reporting entity is directly liable for obligations under the plan, then the requirements outlined above in paragraphs 1 to 79 and 82 to 89 of this statement shall be applied.

Relevant Literature

81. This Statement adopts with modification paragraphs 1-7 and 16-17 as well as Appendix C – Amendments to Statements 87 and 88 and Appendix E – Amendments to Statement 132(R) of *FASB*

Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158). Paragraphs 8-10 providing specific guidance for not-for-profit organizations is rejected. Paragraphs 11-15 regarding the effective dates for FAS 158 is rejected and paragraph 19 providing an alternative method for remeasuring plan assets and benefits obligations as of the fiscal year the measurement date provisions are applied is also rejected. Appendix D – Amendments to Statement 106 has not been incorporated within this statutory statement as it will be considered in accordance with revisions to *SSAP No. 14—Postretirement Benefits Other Than Pensions* (SSAP No. 14). Disclosures included within FAS 132(R), as amended by FAS 158, pertaining to health care (paragraphs 5.l and 5.m) have been rejected for inclusion within this standard, but will also be considered in accordance with revisions to SSAP No. 14. This Statement adopts the revisions to paragraph 5d of FAS 132(R) as amended by *FASB Staff Position FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1) and *ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). Other revisions to disclosures requirements as amended by FSP FAS 132(R)-1 relate to nonpublic entities and are rejected. This Statement adopts by reference *FSP FASB 158-1, Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides* (FSP FAS 158-1) to the extent that the examples and related implementation guides comply with the adopted GAAP guidance previously identified within this statement, as modified for statutory accounting. The following modifications from the adopted paragraphs of FAS 158 have been incorporated within this standard:

a. All references to 'other comprehensive income' or 'accumulated other comprehensive income' within FAS 158 have been revised to reflect unassigned funds (surplus).

b. Any prepaid asset resulting from the excess of the fair value of plan assets over the projected benefit obligation shall be nonadmitted. Furthermore, any asset recognized from the cost of a 'participation right' of an annuity contract per paragraph 49 shall also be nonadmitted.

c. Provisions within paragraph 30 of FAS 87, as amended by FAS 158, permitting a market-related value of plan assets have been eliminated with only the fair value measurement method for plan assets being retained.

d. The reduced disclosure requirements for nonpublic entities described in paragraph 8 of FAS 132(R), as amended by FAS 158, are rejected. All reporting entities shall follow the disclosure requirements included in paragraph 5 of FAS 132(R) as amended by FAS 158.

e. Clarification has been included within this standard to ensure both vested and nonvested employees are included within the recognition of net periodic pension cost and in the pension benefit obligation. Although this is consistent with GAAP, this is a change from previous statutory accounting. As nonvested employees were excluded from statutory accounting under SSAP No. 89, guidance has been included to indicate that the unrecognized prior service cost attributed to nonvested individuals is not required to be included in net periodic pension cost entirely in the year this standard is adopted. The unrecognized prior service cost for nonvested employees shall be amortized as a component of net periodic pension cost by assigning an equal amount to each expected future period of service for each nonvested employee active at the date of the amendment. Unassigned funds (surplus) is then adjusted each period as prior service cost is amortized. (Guidance is included within the transition related to the recognition of the prior service cost for nonvested employees through unassigned surplus.)

f. Conclusion of *Interpretation 04-12: EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan* (INT 04-12) indicating that 'cash balance' plans are considered defined benefit plans has been incorporated within paragraph 3 of this Statement.

g. Conclusion of *Interpretation 99-26: Offsetting Pension Assets and Liabilities* (INT 99-26) prohibiting the offset of defined benefit liabilities of one plan with prepaid assets of another plan has been incorporated within paragraph 26 of this Statement.

h. Provisions within paragraph 36 of FAS 87, as amended by FAS 158, regarding the classification of underfunded liabilities as current or noncurrent liabilities and the classification of assets from overfunded plans as noncurrent assets has been rejected as inconsistent with statutory accounting.

i. Provisions within paragraph 49 of FAS 87, as amended by FAS 158, defining the fair value of investments have been rejected. Fair value definitions and measurement for investments shall be determined in accordance with statutory accounting guidance.

j. Provisions within paragraph 52 of FAS 87, as amended by FAS 158, regarding the plan assets measurement date for consolidating subsidiaries or entities utilizing the equity method under APB Opinion No. 18 has been rejected. For statutory accounting, all entities shall follow the measurement date guidance within paragraph 42 of this statement.

~~h.~~k. Transition under FAS 158 is different from this Statement. FAS 158 requires entities with publicly traded equity securities to initially apply the requirement to recognize the funded status of a benefit plan; the gains/losses, prior service costs/credits and transition obligations/assets that have not yet been included in net periodic benefit cost; and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. Transition guidelines for statutory accounting are defined in paragraphs 82 to 90.

~~i.~~l. FAS 158 provided two approaches for an employer to transition to a fiscal year-end measurement date. For purposes of statutory accounting, the second approach permitting reporting entities to use earlier measurements determined for year-end reporting as of the fiscal year immediately preceding the year that the measurement date provisions is rejected. For consistency purposes, all reporting entities shall follow the first approach and remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied.

Effective Date and Transition

82. Reporting entities are required to disclose the projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for defined benefit pension plans in the first reporting period after the effective date of this standard and in each subsequent reporting period. This disclosure shall specifically note the funded/underfunded status of the pension plan based on the projected benefit obligation. Reporting entities shall also specifically note the surplus impact necessary, at each reporting date, to reflect the full projected benefit obligation within the financial statements.

83. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2012 (transition date) with early adoption permitted. Any unfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, is a liability under SSAP No. 5 and shall be reported in the first quarter statutory financial statements after the

transition date with a corresponding entry to unassigned funds (surplus). If the fair value of plan assets exceeds the projected benefit obligation, the asset shall be considered a nonadmitted asset. Net periodic pension cost shall include a component for unrecognized prior service cost for nonvested employees beginning in 2012.

84. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and remaining transition assets or obligations from prior application of SSAP 89 (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2011 shall be recognized as components of the balance of unassigned funds (surplus), net of tax, as of January 1, 2012 (~~assuming surplus deferral~~provided that alternative transition was not elected per Paragraph 85.b.). The offset to unassigned funds is reported separately as an 'Aggregate write-in for other than invested assets' or as an 'Aggregate write-in for other liabilities'. After recognition, the total of resulting prepaid (accrued) benefit cost, and 'Aggregate write-in for other than invested assets' or 'Aggregate write-in for other liabilities' shall fully reflect the unfunded/overfunded status of the plan. Any prepaid benefit cost and 'Aggregate write-in for other than invested assets' shall be nonadmitted.~~Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and transition assets or obligations (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2011 shall be recognized as components of the ending balance of unassigned funds (surplus), net of tax, as of January 1, 2012. After recognition, the resulting prepaid (accrued) benefit cost shall reflect the unfunded/overfunded status of the plan. Any prepaid benefit cost shall be nonadmitted.~~

85. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 84, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:

a. Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 84, on an individual plan basis, as of January 1, 2012.

b. Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 84, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2012 under this transition option, and subsequently over the transition period, shall be the greater of:

i. 10% of the calculated surplus impact as of the transition date;

ii. Amortization[4] of the "unrecognized items" (defined in paragraph 84) into net periodic pension cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date;

iii. Amount necessary to establish a total liability that is equal to any unfunded accumulated benefit obligation (the accumulated benefit obligation less the fair value of plan assets).

[4] Unless otherwise impacted from the provisions within this Statement or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date.

If the surplus deferral is elected at the transition date, subsequently, starting with the 2013 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the "transition liability"[5]) on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 85b. Additionally, reporting entities must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) Furthermore, if circumstances result with a subsequent gain attributed to the plan that will be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain. Reporting entities are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date. This transition guidance is specific to the transition surplus impact from initially applying this statement on Jan. 1, 2012. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation, or the impact of subsequent plan amendments.

86. Reporting entities electing to apply the transition guidance in paragraph 85b must disclose the full transition surplus impact calculated from applying paragraph 84 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under paragraph 84, the annual amortization amount of the "unrecognized items" into net periodic pension cost, the amount of the unfunded accumulated benefit obligation, and the remaining unrecognized transition impact. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.

~~86.~~87. The requirement to measure plan assets and benefit obligations as of the date of the reporting entity's financial statement year-end is effective for financial statement years beginning January 1, 2012.

~~87.~~88. In order to transition to a fiscal year-end measurement date, the reporting entity shall remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. The reporting entity shall use those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied.

~~88.~~89. The reporting entity shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. This would result with the following:

a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance unassigned funds (surplus). That is, the pretax amount recognized as an adjustment to unassigned funds (surplus) is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.

[5] If the surplus deferral from paragraph 85b is elected, the deferred liability, although comprised of the previous "unrecognized items" shall be collectively referred to as the "transition liability". Although reporting entities will need to continue to track the unrecognized items for amortization into net periodic cost (offset through unassigned funds), reporting entities shall not allocate the recognized surplus impact from transition to these categories. As noted in paragraph 85bii, the minimum amount of liability recognized under the deferral option must cover the annual amortization of the "unrecognized items" into net periodic pension cost to prevent a surplus benefit.

b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to unassigned funds (surplus). This provision prohibits a reporting entity from early application of the measurement date provisions when the reporting entity has issued financial statements for the prior year without recognition of such a settlement or curtailment.

c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus) for the fiscal year that the measurement date provisions are applied.

~~89.~~90. Earlier application of the recognition or measurement date provisions is encouraged, however, early applications must be for all of the reporting entity's benefit plans. If early application is elected, the transition date shall reflect the January 1st of the year in which this standard is initially applied. Retrospective application is not permitted.

AUTHORITATIVE LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8*

Generally Accepted Accounting Principles

- *FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*
- *FASB Statement No. 87, Employers' Accounting for Pensions*
- *FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
- *FASB Statement No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits*
- *FASB Staff Position FAS 158-1, Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*
- *FASB Staff Position FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets*
- *FASB Emerging Issues Task Force No. 88-1, Determination of Vested Benefits Obligation for a Defined Benefit Pension Plan*

- *FASB Emerging Issues Task Force No. 90-3, Accounting for Employers' Obligations for Future Contributions to a Mutliemployer Pension Plan*

- *FASB Emerging Issues Task Force No. 91-7, Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits*

- *FASB Emerging Issues Task Force No. 96-5, Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination*

RELEVANT STATEMENTS

- *Statement No. 132—Accounting for Pensions, A Replacement of SSAP No. 89*

- *Statement No. 123—Accounting for Pensions, A Replacement of SSAP No. 8*

- *Statement No. 8—Accounting for Pensions*

EXHIBIT A - IMPLEMENTATION GUIDE

A. Transition Implementation

1. Overfunded Plan with Prepaid Benefit Cost – This illustration highlights the entries at the transition date, as well as the recognition of the net periodic pension cost. Consideration of contributions or tax effects are not reflected in the example.

Example 1	**Dec. 31, 2011**	**Jan. 1, 2012**
Accumulated Benefit Obligation	$(6,340)	$(6,340)
Projected Benefit Obligation	$(6,437)	$(6,437)
Plus: Non-Vested liability	(100)	(100)
Total PBO as of Dec. 31, 2011	(6,537)	(6,537)
Plan Assets at Fair Value	9,268	9,268
Funded Status	$2,731	$2,731
Transition Obligation / (Asset)	$36	
Prior Service Cost	214	
Prior Service Cost (Non-Vested)	100	
Unrecognized Losses / (Gains)	2,465	
Total Unrecognized Items	$2,815	-
Prepaid (Accrued) Benefit Cost	5,546	~~2,731~~ 5,546

1a. Jan 1, 2012 – Transition Date - Recognize "Unrecognized Items"

1. Unassigned Funds – Transition Obligation	36	
Unassigned Funds – Prior Service Cost	214	
Unassigned Funds – Prior Service Cost (Nonvested)	100	
Unassigned Funds – Unrecognized Losses	2,465	
~~Prepaid Benefit Cost / Accrued Benefit Cost~~Other assets		2,815

For this plan, the prepaid benefit cost is greater than the funded status.~~which is overfunded by more than the unrecognized liabilities,~~ ~~T~~The ~~liability~~ entry at transition, ~~will decrease the existing prepaid benefit cost.~~ together with the prepaid benefit cost, will be reported on the same line of the annual statement; the net result is equal to the overfunded status of the plan. ~~At transition, the prepaid benefit cost will reflect the overfunded plan assets. The prepaid benefit cost is nonadmitted within the financial statements.~~Reductions in the total pension asset will impact unassigned funds as shown in the entry below.

Comment: Even thought the adjustments result in a credit balance (which is viewed as a liability), the balance has to be reported on the same line as the Prepaid Benefit Costs due to the non-admissibility of pension assets. If the credit balance is reported as Other Liabilities on Page 3 of the Annual Statement, it would result in a double surplus hit.

2. Change in Nonadmitted - ~~Prepaid Benefit Cost~~Other Assets	2,815	
Unassigned Funds		2,815

This entry illustrates the impact to the "change in nonadmitted" as a result of the decline in the pension assets~~prepaid benefit cost~~. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition due to reversal of non-admitted assets.

NOTE: Changes in the overfunded status after transition date would also be recorded in Other assets.

Summary:

Prepaid Benefit Cost		$5,546
Other assets	(2,815)	
Net pension asset		$2,731

(Although not reflected in the examples, there would be recognition of net periodic pension cost as of Dec. 31, 2012, but the recognition of the transition liability after initial transition is not required until Dec. 31, 2013.)

1b. Dec 31, 2013 – Recognition of Net Periodic Pension Cost

After transition, recognition of net periodic pension cost includes 1) service cost, 2) interest cost, 3) expected[6] return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses and f) amortization of any transition asset or obligation remaining in unassigned funds.

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	550
Interest Cost	150
Expected Return on Plan Assets	(250)
Total	*450*
Amortization of:	
o Transition Obligation	7.2
o Prior Service Cost	42.8
o Prior Service Cost (nonvested)	20
o Unrecognized Losses	493
Total	*563*
Total Net Periodic Pension Cost	**1,013**

1. Net Periodic Pension Cost	~~563~~1,013	
Prepaid Benefit Cost		1,013

Entry to recognize the net periodic pension cost and to reduce prepaid benefit cost.

[6] Refer to footnote 1 for information regarding how the expected return on plan assets effects the determination of net periodic pension cost if the actual return on plan assets is a component of net periodic pension cost.

2. Other assets	563	
Unassigned Funds – Transition Obligation		7.2
Unassigned Funds – Prior Service Cost		42.8
Unassigned Funds – Prior Service Cost (Nonvested)		20
Unassigned Funds – Unrecognized Losses		493

This entry occurs to ~~amortize the transition items through net periodic pension cost~~recognize items amortized through the NPBC and to adjust unassigned funds and Other Assets. The offset to unassigned funds is necessary as these items were already reflected ~~as a liability for pension benefits through a reduction to the prepaid benefit cost~~in unassigned funds at transition.

3. Change in non-admitted assets– Prepaid benefit cost	1,013	
Unassigned funds		1,013
Unassigned funds	563	
Change in non-admitted – Other assets		563

This entry is to recognize the impact on unassigned funds due to changes in non-admitted assets.

~~2. Net Periodic Pension Cost~~	~~450~~	
~~Accrued Benefit Cost~~		~~450~~

~~This entry recognizes a pension liability and net periodic pension cost for the service cost, interest cost and expected return on plan assets.~~

Summary:

Prepaid benefit cost before recognition of NPBC	$5,546
Less: NPBC recorded in 2013	(1,013)
Net prepaid benefit cost	$4,533
Other assets before amortization of 'transition liability'	(2,815)
Less: Amount amortized into NPBC	563
Other assets after amortization	(2,252)
Total pension asset	2,281

Note: At transition, the total impact to unassigned funds is considered the "transition liability or asset". Separate presentation of the unrecognized components to unassigned funds is included for clarification purposes. Uniform periods for amortization of the "unrecognized items" into net periodic pension cost is included for simplistic purposes. In actuality, the amortization of these items will vary. Disclosure within the notes shall continue to separately present these items.

Comment: The term 'transitional liability or asset' used throughout the examples to refer to the remaining unrecognized amounts may cause confusion because at transition to the new SSAP, some companies may still have a transition asset or transition obligation from the initial adoption of SSAP 89. These "original" transition amounts would still be amortized into the NPBC after transition to the new SSAP.

2. Underfunded Plan with Accrued Benefit Cost – This illustration highlights the entries at the transition date, as well as the recognition of the net periodic pension cost. Consideration of contributions or tax effects are not reflected in the example.

Example 2	**Dec. 31, 2011**	**Jan. 1, 2012**
Accumulated Benefit Obligation	$(2,075)	$(2,075)
Projected Benefit Obligation	$(2,268)	$(2,268)
Plus: Non-Vested liability	(60)	(60)
Total PBO as of January 1, 2012	(2,328)	(2,328)
Plan Assets at Fair Value	1,992	1,992
Funded Status	$(336)	$(336)
Transition Obligation / (Asset)	(544)	
Prior Service Cost (credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	$(52)	-
Prepaid (Accrued) Benefit Cost	(388)	~~(336)~~ (388)

2a. Jan 1, 2012 – Transition Date - Recognize "Unrecognized Items"

1. ~~Accrued Benefit Cost~~Other liabilities	52	
Unassigned Funds – Prior Service Cost (Nonvested)	60	
Unassigned Funds – Unrecognized Losses	926	
Unassigned Funds – Transition Obligation		544
Unassigned Funds – Prior Service Cost		494

~~*For this plan, which is underfunded but has a net unrecognized asset, at transition the entity will improve their surplus presentation by $52, and report an accrued benefit cost that reflects the unfunded amount.*~~

For this plan, the Accrued Benefit Costs were greater than the funded status. The Accrued Benefit Costs, together with the adjustments, are equal to the funded status. However, due to statutory accounting expense classification requirements, the transition adjustments cannot be netted against the Accrued Benefit Costs. Accrued Benefit Costs represent outstanding expenses that are reported as outstanding Loss Adjustment Expenses (Page 3, Line 3) and outstanding Other Expenses (Page 3, Line 5); whereas the adjustments to record the funded status are not outstanding expenses and therefore cannot be grouped with the Accrued Benefit Costs. The adjustments will be reported as Other Liabilities (Page 3, Line 24), even though the balance is a debit. If this amount were to be recorded as an asset, it would result in a surplus reduction because the amount would be non-admitted.

Note: Gains and losses and prior service costs arising after the transition date must also be recognized in Other Liabilities.

2b. Dec. 31, 2013 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	*300*

Amortization of:	
o Transition Obligation	(272)
o Prior Service Cost	(247)
o Prior Service Cost (nonvested)	30
o Unrecognized Losses	463
Total	*(26)*
Total Net Periodic Pension Cost	**274**

		Debit	Credit
1.	Unassigned Funds – Transition Obligation	272	
	Unassigned Funds – Prior Service Cost	247	
	Unassigned Funds – Prior Service Cost (Nonvested)		30
	Unassigned Funds – Unrecognized Losses		463
	~~Net Periodic Pension Cost~~Other liabilities		26

This entry occurs to ~~amortize the transition items through net periodic pension cost~~recognize the items amortized through the NPBC and to adjust unassigned funds and other liabilities. The offset to unassigned funds is necessary as these items were already reflected as a reduction ~~to the accrued benefit cost~~in unassigned funds.

		Debit	Credit
2.	Net Periodic Pension Cost	~~300~~274	
	Accrued Benefit Cost		~~300~~274

This entry recognizes a pension liability and the net periodic pension cost ~~for the service cost, interest cost and expected return on plan assets~~.

Note: This example is using a 2-year amortization period of the "unrecognized items" into net periodic pension cost for illustration purposes. In actuality, the amortization periods of each item will vary. Disclosure within the notes shall continue to separately present these items.

3. Underfunded Plan with Accrued Benefit Cost with Surplus Deferral Elected – This illustration highlights the entries at the transition date, as well as the recognition of the net periodic pension cost. Consideration of contributions or tax effects are not reflected in the example.

Example 3	**Dec. 31, 2011**	**Jan. 1, 2012**
Accumulated Benefit Obligation	$(1,922)	$(1,922)
Projected Benefit Obligation	$(2,099)	$(2,099)
Plus: Non-Vested liability	(103)	(103)
Total PBO as of January 1, 2012	$(2,202)	$(2,202)
Plan Assets at Fair Value	0	0
Funded Status	($2,202)	($2,202)
Transition Obligation / (Asset)	0	
Prior Service Cost	0	
Prior Service Cost (Non-Vested)	103	
Unrecognized Losses / (Gains)	440	
Total Unrecognized Items	543	-

Prepaid (Accrued) Benefit Cost	(1,659)	~~(1,922)~~ (1,659)

~~*As illustrated above, the accrued benefit cost as of Jan. 1, 2012 does not equal the unfunded plan status as the entity elected the transition deferral. Rather, the accrued benefit cost equals, at a minimum, the accumulated benefit obligation (ABO) less the plan asset at fair value. (Minimum transition liability that equals the ABO is required in accordance with paragraph 85.) After the transition period, the accrued benefit cost should equal the funded status of the plan.*~~

3a. Jan 1, 2012 – Transition Date - Recognize "Unrecognized Items" – Must recognize the greater of the following:

	Minimum Transition Liability	
85b.i	10% of Calculated Surplus Impact	54.3
85b.ii	Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
85b.iii	Difference Between ABO and Accrued Benefit Cost/Other Liabilities	263
	Transition Liability	**263**

1. Unassigned Funds – Transition Liability 263
   ~~Accrued Benefit Cost~~Other liabilities 263

This entry represents the minimum transition liability required to be recognized at the transition date. As noted within the transition guidance, an entity may elect to transition the surplus impact over a period not to exceed 10 years. Paragraph 85 provides the specifications on the minimum liability recognized at transition. Recognition of the transitional amounts must be recorded separately from Accrued Benefit Costs due to the expense classification requirements.
Note: In subsequent years, the portion of the remaining 'transitional liabilities' to be recognized in surplus must be determined in accordance with the above calculation.

3b. Dec 31, 2013 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	*300*
Amortization of:	
o Prior Service Cost (nonvested)	20.6
o Unrecognized Losses	88
Total	*108.6*
Total Net Periodic Pension Cost	**408.6**

1. ~~Net Periodic Pension Cost~~Other liabilities 108.6
   Unassigned Funds – Prior Service Cost (Nonvested) 20.6
   Unassigned Funds – Unrecognized Losses 88

This entry occurs to ~~amortize~~ recognize the transition items amortized through net periodic pension cost and to adjust unassigned funds and other liabilities. The offset to unassigned funds is necessary as these items were already reflected in unassigned funds ~~within the accrued benefit cost~~.

2. Net Periodic Pension Cost ~~300~~ 408.60
   Accrued Benefit Cost ~~300~~ 408.60

This entry recognizes a pension liability and net periodic pension cost ~~for the service cost, interest cost and expected return on plan assets~~.

Note: Although the entity elected the transition option for surplus deferral, and the guidance allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 85.b. This requires the entity to recognize an amount that is ~~not less than~~at least equal to the amortization of the unrecognized items in effect at transition. ~~Thus, i~~In this example, it is assumed the amounts amortized into expense are greater than the amount required to recognize the ABO; this, the entity will only receive a 3 year deferral:

Surplus Impact at Transition		**Prior Service Cost**	**Unrealized Losses**	**Remaining Transition Liability**
Transition Liability:	543	103	440	
Amount Recognized Jan. 1, 2012	(263)			
Remaining Transition Liability	**280**			
Minimum Transition Liability:		Amortization:		
2013	**108.6**	20.6	88	171.4
2014	**108.6**	20.6	88	62.8
2015	**62.8**	12	50.8	-

3c. Dec. 31, 2013 – Recognition of Transition Liability:

1. Unassigned Funds – Transition Liability 108.6
   ~~Accrued Benefit Cost~~Other liabilities 108.6

~~3d. Dec. 31, 2013 – Recognition of Net Periodic Benefit Cost~~

~~*(For illustration purposes, this entry assumes a net periodic benefit cost that that is the same as the prior year, however, in actuality the net periodic benefit cost will change to reflect changes in the plan, employees, etc)*~~

~~1. Net Periodic Pension Cost 108.6~~
   ~~Unassigned Funds – Prior Service Cost (Nonvested) 20.6~~
   ~~Unassigned Funds – Unrecognized Losses 88~~

~~2. Net Periodic Pension Cost 300~~
   ~~Accrued Benefit Cost 300~~

~~This entry illustrates the December 2013 entries, and thus highlights the needs to require minimum transition liability each year at an amount that equals the amortization of the "unrecognized items" through net periodic pension cost.~~

Note: This is a duplicate entry. It is already illustrated in 3.b.

3e. Dec. 31, 2014 – Activity within the pension plan has resulted with a curtailment gain of $50.

As noted within paragraph 85, the transition guidance is specific to the transition surplus impact from initially applying this statement on Jan. 1, 2012 and does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation, or losses from subsequent plan amendments. However, if circumstances result with a subsequent gain that will be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain. Thus, the amount of transition liability recognized at December 31, 2014 is the sum of the transition liability from initial recognition ($108.6) and the curtailment gain ($50) for a total of 158.6. This would reduce the remaining transition liability to be recognized Dec. 31, 2015:

Transition Liability 2014:

Total Transition Liability – Jan 1, 2012:	543
Amount Recognized – Jan. 1, 2012	(263)
Amount Recognized – Dec. 31, 2013	(108.6)
Remaining Transition Liability	171.4
Minimum Transition Liability – Dec. 31, 2014:	108.6
Recognized Curtailment Gain – Dec. 31, 2014	50
Transition Liability Recognized – Dec. 31, 2014	**158.6**
Schedule of Transition Liability Recognition:	
2012 – Initial Recognition	263
2013	108.6
2014	158.6
2015	12.8
Total Transition Liability	**543**

(This scenario only reflects the impact to the transition liability. Paragraph 60 provides guidance for the recognition of curtailment losses and curtailment gains. If there had been a probable curtailment loss of $50, the entity would not have had an impact to the transition liability recognized, but the curtailment loss would have been recognized as required under paragraph 60.)

3f. Dec. 31, 2014 – Activity within the pension plan has resulted with an overfunded plan.

As required under paragraph 85, if instead of a curtailment gain at Dec. 31, 2014, the fair value of plan assets had changed so that the plan was in an overfunded status, the transition liability would also be impacted with accelerated recognition to the extent the plan is in an overfunded status:

	Dec. 31, 2013	**Dec. 31, 2014**
Accumulated Benefit Obligation	$(2,422)	$(2,522)
Projected Benefit Obligation	$(2,699)	$(2,999)

Plan Assets at Fair Value	0	3,300
Funded Status	($2,699)	$301
Prepaid (Accrued) Benefit Cost/Other liabilities	(2,527.60)	$301

Comment: The amount shown on the last line above would include BOTH Accrued Benefit Cost and Other liabilities amounts.

As of Dec. 31, 2013, the entity had $171.40 remaining in unrecognized transition liability, with recognition expected in 2014 and 2015. If the plan was only overfunded by $150, the recognition of the transition liability in 2014 would have been limited to $150, with the remainder recognized in 2015. However in this example, since the plan is overfunded by more than the remaining transition liability, the entire remaining amount is recognized.)

Recognition of Remaining Transition Liability and Net Periodic Pension Cost:

1. Unassigned Funds – Transition Liability 171.40
   ~~Accrued Benefit Cost~~Other liabilities 171.40

This entry illustrates the immediate recognition of the remaining transition liability

2. ~~Net Periodic Pension Cost~~Other liabilities 108.6
   Unassigned Funds – Prior Service Cost (Nonvested) 20.6
   Unassigned Funds – Unrecognized Losses 88

   This entry ~~reflects the amortization into net periodic pension cost of the "unrecognized items" within unassigned funds. Amortization has not changed with the recognition of the remaining transition liability~~occurs to recognize the items amortized through the NPBC and to adjust unassigned funds and other liabilities.

3. Net Periodic Pension Cost ~~300~~ 408.60
   Accrued Benefit Cost ~~300~~ 408.60

This entry recognizes a pension liability and net periodic pension cost ~~for the service cost, interest cost and expected return on plan assets~~.

4. Accrued Pension Cost (see comment below) ~~2,999~~
   Prepaid Benefit Cost (see comment below) ~~301~~
   Cash - Contribution 3,300

This entry recognizes the cash contribution, the elimination of the accrued benefit cost, and the establishment of the prepaid benefit cost from the overfunded status.

5. Prepaid ~~Benefit Cost~~Pension asset (Nonadmitted) – see comment ~~301~~
   Unassigned Funds (Change in Nonadmitted) ~~301~~

This entry recognizes that the prepaid benefit cost is nonadmitted and the underlying impact on unassigned funds.

Comment: The contribution can only reduce the accrued benefit cost balance but cannot reduce the other liabilities balance. Amount of contribution in excess of the accrued benefit cost would be recorded as a prepaid benefit cost. Entry 4 and 5 should be changed to reflect the correct dollar amounts, as the accrued benefit cost is not equal to $2,999; this amount is the funded status before the contribution, therefore part of the funded status is recorded in Other Liabilities. For statement presentation purpose, the Other Liabilities amount will be reclassified to Other Assets and reported in the same line as the prepaid benefit cost; together, the net effect is equal to $301.

B. Changes in the Measurement Date and Plan Settlement

The reporting entity adopted this SSAP as of the transition date (January 1, 2012.) In accordance with this SSAP, Company B is changing the measurement date for its defined benefit pension plan from September 30 to December 31 for its December 31, 2013 financial statements. In accordance with this SSAP, statutory accounting principles requires that change to be implemented by remeasuring plan assets and obligations as of December 31, 2012. Company B has a plan settlement on November 30, 2012 and remeasures its plan assets and benefit obligations as of November 30, 2012, resulting in a settlement loss before taxes of $60,000[6], which is a portion of the net loss in unassigned funds (surplus). However, the effects of remeasuring plan assets and obligations as of November 30, 2012, on the funded status reported in Company B's statement of financial position are not recognized until the following fiscal year because the change in measurement date has not been adopted at November 30, 2012. In recognizing the effects of the plan settlement and change in measurement date:

a. Recognize the settlement loss in net income in the fourth quarter of 2012 and a corresponding decrease in the cumulative net loss in unassigned funds (surplus).

b. Recognize the net periodic pension cost incurred from October 1, 2012 to December 31 2012, net of tax, as an adjustment to beginning unassigned funds (surplus) for 2013.

c. Recognize any gains or losses arising during the period from October 1, 2012 to December 31, 2012 net of tax, as an adjustment to unassigned funds (surplus) for 2013.

d. Recognize corresponding changes in pension liability and deferred tax amounts for the above items.

The funded status of Company B's Plan assets as of September 30, 2012, November 30, 2012, December 31, 2012 and December 31, 2013, and amounts included in unassigned funds (surplus) to be recognized as a component of net periodic pension cost are shown below. Company B has no remaining transition asset or obligation. Company B is not required to amortize the cumulative net loss because it is less than 10% of the greater of the fair value of plan assets or the projected benefit obligation for all years presented. The applicable tax rate for 2012 and 2013 is 40%.

	9/30/12	**11/30/12**	**12/31/12**	**12/31/13**
Projected Benefit Obligation	(3,660)	(3,200)	(3,210)	(3,700)
Plan Asset – Fair Value	2,600	2,200	2,225	2,200
Funded Status	**(1,060)**	**(1,000)**	**(985)**	**(1,500)**
Items not yet recognized as a component of net periodic cost:	380	360	350	230
Prior Service Cost	265[5]	220	315[4]	365
Net Loss	**645**	**580**	**665**	**595**

Based on actuarial valuations performed as of September 30, 2012, and November 30, 2012, the reporting entity determines its net periodic pension cost for the two-month period from October 1, 2012 to November 30, 2012, and for the one-month period from December 1, 2012 to December 31, 2012 as follows:

Net Periodic Pension Cost	2 Months	1 Month	Total
Service Cost	25	15	40
Interest Cost	30	15	45

Expected Return on Plan Assets	(30)	(15)	(45)
Total Service cost, interest cost, and expected return on plan assets	**25**	**15**	**40**[2]
Amortization of prior service cost	20	10	30[3]
Amortization of net loss	0	0	0
Total Amortization	20	10	30
Net Periodic Benefit Cost	**45**	**25**	**70**[1]

a. In the fourth quarter of 2012, the reporting entity makes the following journal entry to recognize the $60,000[6] settlement loss: (40% tax rate - $24,000)

Net Periodic Pension Cost (settlement loss)	60	
Deferred Tax Asset	24	
Unassigned Funds (Surplus)		84

b. In 2013, the reporting entity makes the following net journal entry to apply the measurement date provisions and adjust the beginning balances of unassigned funds (surplus), pension liability and deferred tax accounts for the amortization of prior service cost and the service cost, interest cost, and expected return on plan assets.

Unassigned Funds (Surplus)	24	
Deferred Tax Asset	16	
Accrued Benefit Cost		40

This journal entry reflects the following considerations:

- Debit to unassigned funds (surplus) for the $70[1] net periodic benefit cost
- Debit to deferred tax asset for $16 calculated as 40% of the $40[2] total service cost, interest cost, and expected return on plan assets
- Debit to unassigned funds (surplus) for $12 for the tax impact calculated as 40% of the $30[3] amortization of the prior service cost
- Credit to Unassigned funds (surplus) for $28 for the tax impact calculated as 40% of the $70[1] net periodic benefit cost
- Credit to Unassigned funds (surplus) for $30[3] for the amortization of the prior service cost.
- Credit to liability for pension benefits for the $40[2] total service cost, interest cost, and expected return on plan assets

c. The following entry adjusts the beginning balances of unassigned funds (surplus), pension liability and deferred tax accounts for the net loss arising during the period. (Net loss is calculated as follows: Net loss at December 31, 2012 of $315[4], less net loss at November 30, 2012 of $265[5], plus settlement loss of $60[6] to equal $110.)

Unassigned Funds (Surplus)	66	
Deferred Tax Asset	44	
Accrued Benefit Cost		110

AMERICAN ACADEMY *of* ACTUARIES

October 4, 2010

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Exposure Draft of SSAP 92—Other Postretirement Benefits other than Pensions and Proposed Revisions to SSAP 89—Pensions

To Whom It May Concern:

On behalf of the American Academy of Actuaries'[1] Joint Committee on Retiree Health and Pension Accounting Committee, we appreciate the opportunity to provide comments to the National Association of Insurance Commissioners (NAIC) on the exposure draft of Statement of Statutory Accounting Principles (SSAP) No. 92 and the proposed revisions to SSAP 89, which are intended to replace existing standards governing accounting for pension benefits and postretirement benefits other than pensions (OPEBs).

Although the issues are similar for both pension benefits and OPEBs, they stand in sharper contrast in the OPEB context. Our comments, therefore, will focus primarily on OPEB accounting, with the understanding that the same principles can be applied to the parallel provisions of pension accounting.

The NAIC exposure drafts closely follow Accounting Standard Codification Topic 715, which, with respect to OPEBs, codified the legacy standard Statement of Financial Accounting Standards (FAS) 106, as amended by FAS 132R and FAS 158.We understand the NAIC generally is amending SSAPs to align more closely with principles in financial reporting for the private sector, codified by the Financial Accounting Standards Board (FASB).

We note, however, that SSAPs have a different purpose than the statements issued by the Financial Accounting Standards Board (FASB), since they relate to the solvency of insurance companies instead of the operations of a going-concern enterprise. Our comments, therefore, concentrate on the potential need for SSAP accounting treatment to distinguish between long-term benefits that are binding and those that are not. Long-term benefits that are not binding may be discontinued by a company when insolvency is imminent and, therefore, arguably may not be a solvency obligation.

[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The nature of OPEB promises

In our experience, private-sector retiree health plans have frequently reduced valuable benefit provisions in significant ways over the years that a plan has been subject to FAS 106 reporting. On occasion, retiree and employee groups have responded with legal action against these reductions, but courts have found that OPEBs are not binding promises if the employer reserves the right to amend or terminate those benefits. As a result, most observers believe that when sponsors face financial stress, major changes—reducing or even terminating benefits—are very likely to occur. Given little resistance by participants to significant benefit reductions, participants may be aware of limitations on the employer's commitment (even if those limits are not explicitly stated by employers) or may discount the future value of any currently provided retiree health benefits.

The current concept of "substantive plan," embedded in the FAS 106/ASC 715 accumulated postretirement benefit obligation (APBO) measurement, does not account for these limits. The substantive plan concept permits companies to recognize regular, minor changes in cost-sharing provisions (such as premiums, deductibles, or copayments), but it does not incorporate the employer's ability to make major reductions, including termination, in an OPEB program—even if those rights are reserved and communicated as part of the substantive plan. Under the substantive plan concept, the actuarial projection of future OPEBs may assume future plan changes—but only if specifically patterned and communicated to participants. Liabilities are calculated as if the current substantive plan will last for participants' entire period of eligibility, which often means a half century or more. Although FASB has decided that liabilities including such projections are appropriate for going-concern financial reporting, it is at least questionable if such liabilities are suitable as a factor in determining current insurer solvency.

As actuaries, we believe that there is useful and relevant information in distinguishing between long-term benefits that will be paid and those that may or may not be paid, particularly for assessing solvency.

In 2006, when the Financial Accounting Standards Board (FASB) undertook a project to review retirement benefit accounting guidance, they elected to focus on placing the existing measurement on the balance sheet, deferring a discussion or review-of-measurement aspects (which the Academy urged to take precedence). FASB thus far has not provided a public debate or evaluation of the effectiveness of the measurement principles mandated in 1991 or whether a better method of measurement would be of use by the investing community. Such an evaluation could have provided valuable information about the appropriateness of using a measurement designed for general purpose financial reporting (the FAS 106 substantive plan approach) in determining the financial health and solvency of insurers.

The current NAIC approach

When FASB adopted FAS 106, the NAIC chose a method that followed FASB but disregarded the actuarial value of benefits for employees who may become eligible but are not yet vested. And although OPEBs don't traditionally vest, participants currently eligible to receive the benefits were treated by SSAP 14 as if they were vested. If one assumes that an insurer facing the threat of insolvency or other financial stress would pare benefits back to the vested amount (or less), currently vested benefit liabilities under SSAP 14 may be closer than the ASC 715 liabilities to what an insurer would actually owe to employees.

In judging the solvency of an insurer, we believe that both "retirement eligible" (values closer to SSAP 14) and "going concern" (proposed SSAP 92 and pension accounting) values provide useful and relevant information. The potential liability associated with the difference can be large in magnitude and may be important to recognize in NAIC regulation.

Conclusion

We agree that, for a plan sponsor that has indicated an intention to keep that plan for the duration of participants' promised eligibility, the substantive plan is an appropriate basis for actuarial valuation and accounting liability. Most plan sponsors in the private sector, however, explicitly reserve the right to deviate from the substantive plan. For example, in 1988, 66 percent of major employers sponsored these plans, while in 2010 the number had fallen to 28 percent.[2] In a similar way, an increasing number of employers are freezing pension benefits or closing their plans to new employees.

The difference in future liabilities between a plan sponsor that reserves the right to change the substantive plan provisions and a plan sponsor that does not potentially are significant—and yet current FASB accounting does not allow any distinction. While such distinction may not be immediately evident, when present it makes a quantitative difference of considerable magnitude. If ignored, this could create concerns, otherwise unwarranted, about insurer solvency and adequacy of risk-based capital. Measuring that difference can take various forms, depending on the plan provisions.

The Academy would like to work with the NAIC to identify examples of different measurement approaches that could allow the NAIC to understand the relative merits of each approach for statutory accounting objectives and purposes, with particular emphasis on appropriately reflecting the obligations of plan sponsors that have reserved the unilateral right to change the benefit.

We would appreciate your consideration of our comments, and we request the opportunity to discuss this with you further. If you have any questions, please contact Heather Jerbi, the Academy's senior health policy analyst, at 202.785.7869 or jerbi@actuary.org

Sincerely,

Stephen A. Alpert, MAAA, FSA, EA, MSPA, FCA
Chairperson, Pension Accounting Committee
American Academy of Actuaries

Dale H. Yamamoto, MAAA, FSA, EA, FCA
Chairperson, Joint Committee on Retiree Health
American Academy of Actuaries

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[2] Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2010 Annual Survey*. (Exhibit 11.1) http://ehbs.kff.org/pdf/2010/8085.pdf

Ref #2010-03

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2009-14, Certain Revenue Arrangements That Include Software Elements

Check (applicable entity):

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

Description of Issue:

SSAP No. 81—Software Revenue Recognition (SSAP No. 81), finalized March 26, 2001, adopts with modification *AICPA Statement of Position 97-2, Software Revenue Recognition* (SOP 97-2) paragraphs 6-9 with certain modifications. This SSAP also adopts *AICPA SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions* (SOP 98-9) paragraphs 6-8, and *FASB Emerging Issues Task Force 00-3, Application of AICPA SOP 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware* (EITF 00-3) in its entirety.

Subsequent to the adoption of SSAP No. 81, the Emerging Accounting Issues Task Force adopted *INT 04-13: EITF 03-5: Applicability of AICPA SOP 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software (INT 04-13)*. This interpretation provides an Emerging Accounting Issues Working Group consensus to adopt EITF 03-05 as an interpretation as of SSAP No. 81.

Effective September 15, 2009, the FASB Codification became the source of authoritative U.S. generally accepted accounting principles. As a result of the Codification project, the FASB established Accounting Standards Codification 985-605 as the authoritative guidance for software revenue recognition. This guidance incorporated pre-codification GAAP guidance, including SOP 97-2 and EITF 03-05.

In October 2009, the FASB released *Accounting Standard Update 2009-14, Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14). As this statement would primarily impact SSAP No. 81, rather than an interpretation, this issue has been brought to the Statutory Accounting Principles Working Group. However, ASU 2009-14 is consensus of the FASB Emerging Issues Task Force. ASU 2009-14 revises the guidance incorporated within the FASB Codification from EITF 03-05. The provisions from ASU 2009-14 affect vendors that sell or lease tangible products in an arrangement that contains software that is more than incidental to the tangible product as a whole and are summarized as follows:

- ASU 2009-14 changes the accounting model for revenue arrangements that include both intangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance in Codification Subtopic 985-605 (Software Revenue Recognition). The ASU 2009-14 amendments require that hardware components of the tangible product containing software components always be excluded from the software revenue guidance.

- Amendments from 2009-14 provide guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of revenue guidance:

  - If the software contained on the tangible product is essential to the tangible product's functionality, the software is excluded from the scope of the software revenue guidance. This exclusion includes essential software that is sold with or embedded within the product and undelivered software elements that relate to that tangible product's essential software.

- Amendments from 2009-14 also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software:

  - If a tangible product contains software that is not essential to the product's functionality, that nonessential software and any other deliverables within the arrangement (other than the nonsoftware components of the tangible product) that relate to that nonessential software are within the scope of the software revenue guidance.

  - If an undelivered element relates to a deliverable within scope, and a deliverable excluded from scope, the undelivered element shall be bifurcated into a software deliverable and a nonsoftware deliverable. This software deliverable is considered within scope of the software revenue guidance, and the nonsoftware deliverable is not within the scope.

Vendors that are affected by ASU 2009-14 are required to provide disclosures that are included within the amendments in ASU 2009-13. (This item is being addressed by the Emerging Accounting Issues Task Force.)

Existing Authoritative Literature:

SSAP No. 81—Software Revenue Recognition (SSAP No. 81) – Adopts with modification SOP 97-2

INT 04-13, EITF 03-05: Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software (INT 04-13) – Consensus adopts EITF 03-05

INT 04-18, EITF 00-21: Revenue Arrangements with Multiple Deliverables (INT 04-18) – Consensus to adopt EITF 00-21 for non-insurance related activities only as an interpretation of *SSAP No. 22—Leases, SSAP No. 40—Real Estate Investments, SSAP No. 77—An Amendment to SSAP No. 40—Real Estate Investments*, and *SSAP No. 81—Software Revenue Recognition*.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
A related issue, ASU 2009-13, is currently on the Emerging Accounting Issues Working Group agenda.

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

Ref #2010-03

Staff Recommendation:

SSAP No. 81 provides guidance on software revenue recognition, but it is in a format that is different from other SSAPs as it only references the adopted GAAP guidance with a listing of the modifications for statutory accounting. With this format, readers are required to access the requisite GAAP guidance (which is located in the Issue Paper) and then apply the statutory modifications to determine the appropriate accounting guidance for their statutory financial statements.

Pursuant to *Issue Paper No. 111—Software Revenue Recognition,* SSAP No. 81 was developed as a result of significant changes that occurred in the world of technology and the opportunities available to insurance entities to license, sell, lease or otherwise market computer software. (During the development of the initial SSAPs, issues related to software revenue recognition were deemed to be not applicable to statutory accounting.) The primary modifications in SSAP No. 81 to existing GAAP guidance are to modify references to statutory guidance and to reject paragraph 73 of SOP 97-2 as not applicable because of the requirement to follow FAS No. 86 in the case of capitalizing funded software-development costs. This approach is inconsistent with the provisions of SSAP No. 17 and the requirement to expense such costs. The directive to expense such costs eliminates the ability to capitalize such costs.

In accordance with preliminary information received from Working Group members, it appears that few insurers have software revenue recognition transactions under SSAP No. 81 on a direct basis. From the information that has been received, it seems that software revenue recognition activities are conducted by non-insurance subsidiaries. With this structure, SSAP No. 81 would primarily be applied to subsidiaries that are carried at GAAP with statutory adjustments as directed under SSAP No. 97. (SSAP No. 97 paragraph 9 indicates that noninsurance SCA and foreign insurance SCAs shall be valued based on underlying audited U.S. GAAP with noted statutory modifications. Paragraph 9b requires that such entities "expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting.")

Before NAIC staff provides a recommendation for ASU 2009-14, additional information is desired with regards to the extent transactions within the scope of SSAP No. 81 impact statutory financial statements. NAIC staff recommends that the Working Group expose this issue and specifically request information from regulators, insurers and members of the AICPA as follows:

- Commentary regarding the current form and structure of SSAP No. 81 (i.e., whether explicit guidance on SOP 97-2 and/or ASU 2009-14 (ASC Topic 605) should be incorporated).
- Information regarding the extent (frequency and magnitude) of direct transactions by reporting entities currently affected by SSAP No. 81.
- Information regarding the extent of transactions captured within SSAP No. 81 by non-insurance subsidiaries.
- Information regarding the extent to which the statutory basis of non-insurance subsidiaries (8.b.ii entities) is adjusted in the statutory financial statements (SSAP No. 97, paragraph 9b) as a result of GAAP and SAP differences captured under SSAP No. 81.

Additional information or recommendation with regards to SSAP No. 81, and the consideration of the related GAAP guidance would also be welcome by all responders.

UPDATED Staff Recommendation – June 2010:

As a result of exposing this issue and requesting information as detailed above, NAIC staff received comment from interested parties indicating that it does not appear that these types of arrangements are prevalent among insurers. Accordingly, interested parties have no comment on this issue. As a result of the comments received, it seems guidance for software revenue recognition would not be considered applicable for most insurers. However, rather than completely reject the GAAP guidance on software revenue recognition reflected within FASB Codification 985-605, as modified by ASU 2009-14, as not applicable, **it is staff's suggestion that reference to the adoption of this GAAP guidance be moved from SSAP No. 81 to another existing SSAP to address all GAAP guidance on the accounting of software**. With such an approach, **the GAAP guidance would be adopted, with modification, to reflect statutory accounting concepts and restrictions**. In further reviewing the existing SSAPs that address software, staff has identified that the various aspects of how an entity may utilize software (asset recognition, development for internal or external use, etc) are individually addressed in separate SSAPs. Furthermore, with the previous approach to address superseded guidance in a new SSAP, the applicable guidance for software is currently stretched among six SSAPs:

1. SSAP No. 16—Electronic Data Processing Equipment and Software
2. SSAP No. 17—Preoperating and Research and Development Costs
3. SSAP No. 79—Depreciation of Nonoperating System Software – An Amendment to SSAP No. 16
4. SSAP No. 81—Software Revenue Recognition
5. SSAP No. 82—Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs
6. SSAP No. 87—Capitalization Police, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82

In order to improve the presentation of the SSAPs, and provide clear information on the accounting for software, it is staff's recommendation that SSAP No. 16 be revised to incorporate all guidance regarding "software" currently included within other SSAPs. This would be considered a substantive change as there SSAPs are being superseded, however as these changes would be a placement revision and not the adoption of new concepts; staff does not recommend drafting new issue papers. With this approach, there will be one SSAP (SSAP No. 16R) to address the various accounting situations regarding software (i.e., asset recognition, development for internal and external use, etc). Additionally, references to the adoption of GAAP guidance will continue to be provided in case insurers elect to engage in such activities, with statutory modifications to reflect appropriate terms and concepts.

Pursuant to this proposal, it is staff's recommendation that the following SSAP's be superseded, with the incorporation of guidance in SSAP No. 16R.

- SSAP No. 79—Depreciation of Nonoperating System Software–An Amendment to SSAP No. 16
- SSAP No. 81—Software Revenue Recognition
- SSAP No. 82—Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs

This proposal also recommends for nonsubstantive revisions to SSAP No. 17 and SSAP No. 87 as specific components of the guidance from these SSAPs are proposed for inclusion within SSAP No. 16. The proposed tracked changes revisions to these SSAPs are as follows:

Ref #2010-03

SSAP No. 17

6. This statement adopts *FASB Statement No. 2, Accounting for Research and Development Costs* and *FASB Interpretation No. 6, Applicability of FASB Statement No. 2 to Computer Software*. From January 1, 2001 through October 2010,t~~T~~his statement also adopteds~~s~~ FASB Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, with the exception of paragraphs 5 and 6 and paragraphs 8 through 11. These paragraphs have been rejected to preclude the capitalization of software development costs. FASB Emerging Issues Task Force No. 96-14, Accounting for the Costs Associated with Modifying Computer Software for the Year 2000 is ~~also~~ was adopted. Effective October 2010, FAS 86 and EITF 96-14 were rejected as FASB issued new GAAP guidance which is reviewed in SSAP No. 16 R.

SSAP No. 87 (remaining paragraphs will be renumbered)

~~7. This statement amends paragraph 4 of SSAP No. 79 to the following:~~

> ~~In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold shall be expensed when purchased, otherwise the assets shall be capitalized and depreciated in accordance with this statement.~~

~~8. This statement amends paragraph 4 of SSAP No. 82 to the following:~~

> ~~In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of such costs shall be expensed when incurred.~~

Although not included as tracked changes within this agenda item, this proposal would also result with all references to SSAP No. 79, SSAP No. 81, SSAP No. 82 being revised to reflect SSAP No. 16.

In accordance with the discussion above, it is recommended that the Working Group move this item to the Substantive active listing and expose the draft revisions to SSAP No. 16R as reflected in exhibit A of the Agenda Item**, the revisions to SSAP No. 17 and SSAP No. 87 illustrated above, as well as the intent to supersede SSAP No. 79, SSAP No. 81 and SSAP No. 82.** These revisions, with exception of the adoption, with modification, of ASU 2009-14, shall not change existing statutory accounting guidance; it is considered substantive since it involves superseding SSAPs. The adoption of ASU 2009-14 is considered nonsubstantive and would be effective immediately.

Staff Review Completed by:
Julie Gann - January 2010
Updated – June 2010

Status:
On March 26, 2010, the Statutory Accounting Principles Working Group requested comments on the prevalence and need for statutory accounting guidance on this issue.

June 2010 – NAIC Staff drafted an updated recommendation after considering interested parties comments.

On August 14, 2010, the Statutory Accounting Principles Working Group exposed a proposed SSAP No. 16R as described in the updated June 2010 staff recommendation.

Ref #2010-03

On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final the proposed *SSAP No. 16R—Electronic Processing Equipment and Accounting for Software* (SSAP No. 16R) as illustrated. In accordance with this adoption the following additional SSAPs will be impacted:

1. SSAP No. 17– Nonsubstantive revisions as illustrated.
2. SSAP No. 79 – Superseded
3. SSAP No. 81 – Superseded
4. SSAP No. 82 – Superseded
5. SSAP No. 87 – Nonsubstantive revisions as illustrated.

Ref #2010-03

Statement of Statutory Accounting Principles No. 16 Revised

Electronic Data Processing Equipment and Accounting for Software

STATUS

Type of Issue:	Common Area
Issued:	Initial Draft
Effective Date:	January 1, 2001; January 1, 2002 and January 1, 2004
Affects:	Supersedes SSAP No. 79, SSAP No. 81 and SSAP No. 82, effective October 2010 Supersedes paragraphs 7 and 8 of SSAP No. 87, effective October 2010 Amends paragraph 6 of SSAP No. 17, effective October 2010 ~~No other pronouncements~~
Affected by:	~~Paragraphs 3 and 8 superseded by SSAP No. 79~~No Other Pronouncements
Interpreted by:	INT 01-18, INT 01-21; INT 04-13; INT 08-4

Electronic Data Processing Equipment and Accounting for Software

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for electronic data processing (EDP) equipment and provisions for the accounting of other software.

SUMMARY CONCLUSION

EDP Equipment and Operating / Nonoperating System Software

2. EDP equipment and software generally meet the definition of assets established in *SSAP No. 4—Assets and Nonadmitted Assets*. EDP equipment and operating system software are admitted assets to the extent they conform to the requirements of this statement. Nonoperating system software are nonadmitted assets.

3. EDP equipment and operating system software shall be depreciated over the lesser of its useful life or three years. Nonoperating system software shall be depreciated over the lesser of its useful life or five years. In either case, the methods detailed in *SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements* (SSAP No. 19) shall be used.~~EDP equipment and software shall be depreciated for a period not to exceed three years using methods detailed in *SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements*.~~

4. The aggregate amount of admitted EDP equipment and operating system software (net of accumulated depreciation) shall be limited to three percent of the reporting entity's capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating system software, net deferred tax assets and net positive goodwill.

5. In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold shall be expensed when purchased, otherwise the EDP Equipment, operating and nonoperating system software assets shall be capitalized and depreciated in accordance with paragraph 3. The reporting entity shall maintain a capitalization policy containing the predefined thresholds for each asset class to be made available for the department(s) of insurance.

Research and Development Costs Incurred to Obtain or Develop Computer Software

6. Guidance on the accounting for research and development costs is provided in *SSAP No. 17—Preoperating and Research and Development Costs* (SSAP No. 17), and requires all research and development costs to be exposed when incurred. Pursuant to the guidance adopted within that SSAP:

   a. To the extent that the acquisition, development, or improvement of a process by an enterprise for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs.

b. Costs incurred to purchase or lease computer software developed by others are not research and development costs unless the software is for use in research and development activities.

c. Costs incurred by an enterprise in developing computer software internally for use in its research and development activities are research and development costs. This includes costs incurred during all phases of software development because all of those costs are incurred in a research and development activities.

7. Costs for computer software determined to be research and development costs shall be accounted for and disclosed in accordance with SSAP No. 17. Software costs not considered to be research and development costs shall be accounted for in accordance with this SSAP.

Accounting for the Costs of Computer Software to be Sold

8. This Statement adopts *FASB Codification 985-20, Software - Costs of Software to be Sold, Leased or Marketed* (ASC 985-20) with modification to preclude the capitalization of software development costs and to reject guidance regarding the treatment of capitalized costs. Additionally, this Statement rejects *FASB Codification 985-330, Software - Inventory (ASC 985-330)*. Statutory modifications to ASC 985-20 and rejection of ASC 985-330 precludes capitalization of costs, and requires such costs to be expensed, for:

a. Costs of producing product masters incurred subsequent to establishing technological feasibility. Those costs include coding and testing performed subsequent to establishing technological feasibility.

b. Software production costs for computer software that is to be used as an integral part of a product or process.

c. All indirect costs, including overhead related to programmers and the facilities they occupy.

d. Costs incurred for duplicating computer software, documentation and training materials from product masters and for physically packaging the product for distribution.

Software Revenue Recognition

9. This Statement adopts *FASB Codification 985-605, Revenue Recognition* (ASC 985-605), as revised by *ASU 2009-14, Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14), with modification for statutory accounting terms and concepts:

a. References to GAAP guidance outside FASB Codification topic 985-605 shall be followed only to the extent in which that specific GAAP guidance has been adopted[1] for

[1] If statutory accounting principles do not address the FASB Codification reference, consideration of whether the GAAP guidance is adopted for statutory accounting shall be determined in accordance with the respective pre-codification GAAP guidance.

statutory accounting. The guidance within the applicable SSAP or statutory interpretation shall be considered the authoritative statutory guidance.

b. Any references to the accounting for capitalized development costs is rejected as all development costs are required to be expensed when incurred.

Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs

10. This Statement adopts *FASB Codification 350-40, Internal Use Software* (ASC 350-40) with modification for statutory accounting terms and concepts. This Statement also adopts *FASB Codification 350-50, Website Development Costs* (ASC 350-50) in its entirety.

11. The modifications to ASC 350-40 are as follows:

a. ASC 350-40-15-4 states that the accounting for costs of reengineering activities, which often are associated with new or upgraded software applications, is not included within scope. This guidance is expanded to require that such costs be expensed as incurred.

b. ASC 350-40-25-16 is amended to require that entities that license internal-use computer software follow the operating lease provisions outlined in *SSAP No. 22—Leases*

c. ASC 350-40-35-4 is amended to require entities to follow the amortization guidelines as established in paragraph 9 of *SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements*

d. ASC 350-40-35-5 is amended to require that capitalized operating system software shall be depreciated for a period not to exceed three years. Capitalized nonoperating system software shall be depreciated for a period not to exceed five years. This is consistent with paragraph 3 of this Statement.

e. ASC 350-40-35-9 is amended to require that if during the development of internal use software, an entity decided to market the software to others, the entity shall immediately expense any amounts previously capitalized.

f. ASC 350-40-50-1 is amended to require entities to follow the disclosure provisions provided in paragraph 13 of this SSAP and paragraph 4 of SSAP No. 17.

g. Any software costs capitalized in accordance with paragraphs 10 and 11 shall be deemed either operating or nonoperating system software costs. Entities shall make this determination in accordance with the definitions of operating and nonoperating system software contained in the Glossary. As noted in paragraph 2, nonoperating system software is a nonadmitted asset.

12. In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of costs incurred within scope of paragraphs 10 and 11 shall be expensed when incurred. The reporting entity shall maintain a capitalization policy containing the predefined thresholds for each asset class to be made available for the department(s) of insurance.

Disclosures

~~5~~13. The disclosures in this paragraph are specific to EDP equipment and operating and nonoperating system software, but shall also be followed as directed under paragraph 11f. ~~The following disclosures shall be made in the financial statements:~~

a. Depreciation and amortization expense for the period;

b. For EDP equipment and operating system software, balances of major classes of depreciable assets, by nature or function, at the balance sheet date;

c. For EDP equipment and operating system software, accumulated depreciation and amortization, either by major classes of depreciable assets or in total, at the balance sheet date; and

d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

14. Disclose if the capitalization policies, identified in paragraphs 5 and 12, and the resultant thresholds have changed from the prior period and the reason(s) for such change.

~~6~~15. Refer to the preamble for further discussion regarding disclosure requirements. The disclosures in paragraphs 13 and 14 ~~5~~ above shall be included in the annual audited statutory financial reports only.

Effective Date and Transition

~~7~~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*.

~~8~~17. EDP equipment and operating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or three years. Nonoperating system software capitalized prior to January 1, 2001 shall be depreciated over the lesser of its remaining useful life or five years.~~EDP equipment and software capitalized prior to January 1, 2001 shall be depreciated over the shorter of its remaining useful life or three years.~~

Relevant Literature

18. The revisions to this Statement, adopted in October 2010, result from incorporating previously adopted statutory accounting guidance from SSAP No. 17, SSAP No. 79, SSAP No. 81, SSAP No. 82 and SSAP No. 87 into this Statement. Revisions to incorporate the previously adopted statutory accounting guidance within this SSAP shall not be considered new statutory accounting guidance. This Statement also adopts, with modification, ASU 2009-14, which revises the previous GAAP guidance adopted under

SSAP No. 81. The GAAP revisions adopted within ASU 2009-14 are considered nonsubstantive and are effective immediately.

19. This Statement references GAAP guidance in accordance with the current FASB Codification. The references to the FASB Codification are intended to reflect the previously adopted pre-codification GAAP guidance as communicated within SSAP No. 17, SSAP No. 81 and SSAP No. 82:

a. The pre-codification GAAP guidance reflected within SSAP No. 17 and incorporated within paragraph 8 through reference to the FASB ASC 985-20 includes:

   i. *FASB Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* was adopted with the exception of paragraphs 5 and 6 and paragraphs 8 through 11. Those paragraphs were rejected to preclude the capitalization of software development costs.

   ii. *FASB Emerging Issues Task Force No. 96-14, Accounting for Costs Associated with Modifying Computer Software for the Year 2000* was adopted. This guidance was not included within the FASB Codification as it is considered no longer technologically helpful.

b. The pre-codification GAAP guidance reflected within SSAP No. 81 and incorporated within paragraph 9 through reference to the FASB ASC 985-605 includes:

   i. *AICPA Statement of Position 97-2, Software Revenue Recognition* paragraphs 6 through 91 was adopted with certain modifications.

   ii. *AICPA Statement of Position 98-9, Modification of SOP 97-2 Software Revenue Recognition, With Respect to Certain Transactions* paragraphs 6 through 8 was adopted. (Note: The adopted paragraphs reflect all of the changes to SOP 97-2.)

   iii. *FASB Emerging Issues Task Force 00-3, Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware* was adopted in its entirety.

   iv. *AICPA Statement of Position 98-4, Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition* was considered not applicable because the effective date was inconsistent with SSAP No. 81.

c. The pre-codification GAAP guidance reflected within SSAP No. 82 and incorporated within paragraphs 10 and 11 through reference to the FASB ASC 350-40 includes:

   i. *AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* paragraphs 11 through 42 and paragraph 93 were adopted with modification.

   ii. *FASB Emerging Issues Task Force 00-2, Accounting for Web Site Development Costs* was adopted in its entirety.

20. SSAP No. 16, SSAP No. 17 and SSAP No. 79 were effective for years beginning January 1, 2001. SSAP No. 81 and SSAP No. 82 were effective for years beginning January 1, 2002. SSAP No. 87

was effective for years beginning on and after January 1, 2004. Transition guidance from the initial adoption of these SSAPs has expired and is not duplicated within this Statement.

RELEVANT ISSUE PAPERS

- Issue Paper No. 16—Electronic Data Processing Equipment and Software
- Issue Paper No. 17—Preoperating and Research and Development Costs
- Issue Paper No. 109—Depreciation of Non-Operating System Software – An Amendment to SSAP No. 16
- Issue Paper No. 111—Software Revenue Recognition
- Issue Paper No. 112—Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs

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Ref #2010-11

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Superseded Items within the NAIC Accounting Practices and Procedures Manual

Check (applicable entity):

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

Description of Issue:
This agenda item addresses the current inclusion of 100% superseded SSAPs and interpretations (INTs) within Volume I of the *NAIC Accounting Practices and Procedures Manual* (Manual). It is current practice that when an SSAP or INT is superseded, the superseded item is shaded but continues to remain in numerical order within Volume I of the Manual.

It is proposed to revise the process to remove 100% superseded items within Volume I for the following reasons:

- <u>Inclusion of the superseded items within Volume I hinders the ability to effectively conduct searches within the Folio View C.D</u>. Under the current process, since superseded items are intermingled with the current applicable SSAPs and INTs, there are no provisions to restrict searches for only the current authoritative guidance.

- <u>The extent of content (pages) allowed within Volume I is limited</u>. Pursuant to the publication process, there are a limited number of pages that can be bound in a volume. With regards to Volume I, we are very close to reaching the allowable page count. Once this occurs, other aspects of Volume I will likely need to be split into the other volumes. Although this is a situation that will likely only be postponed by removing the 100% superseded items from Volume I, moving the superseded guidance from Volume I seems to be an appropriate first step in managing the material included within this volume.

- <u>Inclusion of superseded items within Volume I may create confusion on what is authoritative guidance</u>. Although superseded items are shaded to illustrate that they are no longer authoritative, it is anticipated that removing these items from Volume I will further reduce potential confusion on the current authoritative statutory accounting guidance.

Existing Authoritative Literature:
Instructional guidance in the manual references the shading of superseded SSAPs and INTs. There is no specific reference to the placement or inclusion of the superseded SSAP within the manual or the website.

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

Ref #2010-11

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
None.
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 revisions to the NAIC AP&P Manual to remove 100% superseded SSAPs and INTs from Volume I of the Manual and include these items within a new Appendix H (Volume III) in the Manual.

In developing this recommendation, NAIC staff originally considered moving these items into Volume III of the manual, or permanently including these items within the SAPWG Updates page on the website. To receive feedback on this issue, NAIC staff requested information on the preferred location from the Accounting Practices and Procedures Subgroup. From the Subgroup responders, a majority prefers including these items in a new Appendix within Volume III of the Manual. None of the Subgroup responders disagreed with the proposal, and several noted support for the proposal to remove these items from Volume I. (Two states on the Subgroup specifically supported the website over the Manual.)

As a result of the Subgroup responses, NAIC staff is currently recommending inclusion within Appendix H of Volume III. However, the Working Group is requested to provide their preference for future placement. In either location (Manual or Website), if the company or regulator has the current manual, they would have access to the superseded items.

Staff notes that this recommendation would not impact situations in which less than 100% of an SSAP or INT has been superseded. In such situations, the shaded superseded guidance will continue to remain within the body of the existing SSAP or INT.

Although the placement of these items is not included within an SSAP or policy statement, reference to this new approach is anticipated to be included within the instructions on how to use the manual:

Proposed Changes to the NAIC AP&P Manual:

How to Use this Manual - Summary of Changes:

This section provides a summary of the changes that were made to the As of March 2009 version of the Accounting Practices and Procedures Manual to create the As of March 2010 version. This summary is separated into two sections. The first section summarizes the substantive revisions to the Manual. These substantive revisions introduce original or modified accounting principles. If a new SSAP had superseded an existing SSAP, the superseded language is noted and the reader is referred to the new SSAP. In addition, superseded language is shaded in the text of the SSAP. SSAPs and INTs that are completely superseded will be moved from Volume I of the Manual and included in Appendix H. Beginning with the As of 2009 Manual, substantive revisions may also be made directly to an existing SSAP. In such instances, the front of the SSAP identifies that substantive changes were made as well as the effective date of these substantive revisions. These substantive revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be shown in subsequent manuals. The substantively revised SSAP also refers to an Issue Paper that will reflect the substantive revisions for historical purposes. The second section summarizes the nonsubstantive changes to the Manual. Nonsubstantive changes are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. These nonsubstantive changes are depicted by underlines (new language) and strikethroughs (removed language) in the applicable SSAP and will not be shown as marked in subsequent manuals.

Summary of Changes to the As of March 2009 Version of the Accounting Practices and Procedures Manual included in the As of March 2010:

The following represents a summary of the changes that were made to the As of March 2009 version of the Accounting Practices and Procedures Manual (Manual) to create the As of March 2010 version. This summary is separated into two sections. The first section summarizes substantive revisions. Substantive revisions introduce original or modified accounting principles. Substantive revisions can be reflected in an existing SSAP or a new SSAP. When substantive revisions are made to an existing SSAP, the front of the SSAP identifies the substantive changes and effective date of the substantive revisions. If substantive revisions in an existing SSAP are depicted by underlines (new language) and strikethroughs (removed language) this tracking will not be shown in subsequent manuals. Substantively revised SSAPs and new SSAPs usually refer to a corresponding Issue Paper that will reflect the substantive revisions for historical purposes. If language in an existing SSAP is superseded, the superseded language is shaded, with the reader referred to the new or substantively revised SSAP. SSAPs and INTs that are completely superseded will be moved from Volume I of the Manual and included in Appendix H. The second section summarizes the nonsubstantive revisions to the Manual. Nonsubstantive changes are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Nonsubstantive changes are depicted by underlines (new language) and strikethroughs (removed language) and will not be shown as marked in subsequent manuals.

Items currently 100% superseded that would be removed from Volume I under this Proposal:

SSAPs:
SSAP No. 8—Pensions
SSAP No. 18—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SSAP No. 28—Nonmonetary Transactions
SSAP No. 31—Derivative Instruments
SSAP No. 33—Securitization
SSAP No. 45—Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements
SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities
SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46
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

Interpretations:
INT 99-02, Accounting for Collateral in Excess of Debt Principal
INT 99-03, Accounting for Investment in Subsidiary, Controlled or Affiliated (SCA) Entities with subsequent Downstream Investment in an Insurance Company
INT 99-21, EITF 98-7: Accounting for Exchanges of Similar Equity Method Investments
INT 99-24, Accounting for Restructuring Charges
INT 99-28, Accounting for SCA Mutual Funds, Broker-Dealers and Similar Entities Under SSAP No. 46
INT 00-01, Investment in Foreign SCA Entity
INT 00-21, Disclose Requirement of SSAP No. 10 Paragraphs 17 & 18
INT 00-22, Application of SSAP No. 10 to Admissibility of Deferred Tax Assets
INT 01-04, SSAPs No. 18 and 33 and Issues Surrounding Securitizations
INT 01-17, Accounting for Nonqualified Retirement Plans, Nonvested Ancillary Benefits Within Retirement Plans, and Protected Benefits Such as Early Retirement Subsidies in Retirement Plans
INT 01-19, Measurement of Deferred Tax Assets Associated with Nonadmitted Assets
INT 01-20, Utilization of Tax Planning Strategies for the Admissibility of Deferred Tax Assets

Ref #2010-11

INT 01-22, Use of Interim Financial Statements in Computing Reporting Entity's Investment in Subsidiary Under the GAAP Equity Method
INT 01-24, Application of SSAP No. 46 and 48 to Certain Noninsurance Subsidiary, Controlled or Affiliated Entities
INT 02-07, Definition of Phrase "Other Than Temporary"
INT 02-18, Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraph 9 d.v. and 9 f.
INT 02-20, Due Date for Installment Premium Under an Agency Relationship
INT 03-01, Application of SSAP No. 35 to the Florida Hurricane Catastrophe Fund
INT 09-04, Application of the Fair Value Definition

Recommending Party:
Julie Gann, NAIC Staff - June 2010

Status:
On August 14, 2010, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to incorporate a process to remove 100% superseded SSAPs and interpretations from Volume I of the Manual and include these items within a new Appendix H in Volume III of the Manual.

On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final the exposed process to remove 100% superseded SSAPs and interpretations from Volume I of the Manual and include these items within a new Appendix H in Volume III.

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Ref. #2010-13

Statistical Accounting Principles Working Group

Maintenance Agenda Submission Form

Form A

Issue:
ASU 2010-08, Technical Corrections to Various Topics

Check (applicable entity):

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

Description of Issue:
In February 2010, the FASB issued *Accounting Standards Update 2010-08, Omnibus Update – Technical Corrections to Various Topics* (ASU 2010-08). This update prescribes minor, technical corrections and provides clarifications to guidance within U.S. GAAP Accounting Standards. The FASB has noted that the amendments from ASU 2010-08 eliminate inconsistencies and outdated provisions and provides needed clarifications. FASB considers the related changes nonsubstantive in nature. The FASB concluded that the guidance in the amendments will not result in pervasive changes to current practice, however it is possible that the application of the guidance may result in a change to existing practice.

Existing Authoritative Literature:
Various Statutory Accounting References

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:
Staff has reviewed this item as part of the Statutory Accounting Principles Working Group's maintenance process, but does not believe the majority of the technical corrections from ASU 2010-08 warrant further statutory review. As detailed below, most of the underlying GAAP guidance with technical corrections have previously been rejected, deemed not applicable for statutory accounting, or is still pending for statutory accounting consideration. For items that have previously been adopted for statutory, the clarification revisions are minimal and do not substantively change the guidance. GAAP items revised by ASU 2010-08 that are pending statutory review will be subsequently considered in accordance with the review of the GAAP guidance.

As provided below, staff considered revisions to existing statutory accounting terminology for "minor ownership interest" to reflect the GAAP term reflected in ASU 2010-08 ("noncontrolling interests"), **but is not recommending a change to existing statutory guidance**. This recommendation is based on variations between GAAP and SAP in ownership percentages for when a presumption of control exists, as well as existing statutory accounting guidance for the definition of "control".

Ref. #2010-13

Also as reflected below, **staff is recommending nonsubstantive modifications to SSAP No. 86 to continue reflecting adopted GAAP guidance for derivatives and hedging**.
Discussion of GAAP guidance revised by ASU 2010-08 and Consideration for Statutory Accounting:

- *Subtopic 230-10, Statement of Cash Flows* - Revisions from ASU 2010-08 clarify the treatment of depreciation and amortization with regard to the Statement of Cash Flows. The underlying GAAP guidance was previously reflected within *FASB Statement No. 95, Statement of Cash Flows* and **rejected** for statutory accounting.

- *Subtopic 255-10, Changing Prices* – Revisions from ASU 2010-08 change the terminology in the guidance from "minority shareholders" to "noncontolling shareholders". The underlying GAAP guidance was previously reflected within *FASB Statement No. 89, Financial Reporting and Changing Prices,* and determined to be **not applicable** for statutory accounting.

- *Subtopic 272-10, Limited Liability Entities* – Revisions from ASU 2010-08 clarifies the language surrounding the formation of a limited liability company which results in a new reporting entity. The underlying GAAP guidance was previously reflected within *AICPA Practice Bulletin No. 14, Accounting and Reporting by Limiting Liability Companies and Limited Liability Partnerships,* and determined to be **not applicable** for statutory accounting.

- *Subtopic 320-10, Investments – Debt and Equity Securities* – Revisions from ASU 2010-08 changes the terminology in the guidance from "minority shareholders" to "noncontolling shareholders". The underlying GAAP guidance was previously reflected within *ACIPA Statement of Position No. 78-9, Accounting for Investments in Real Estate Ventures,* and **rejected** for statutory accounting.

- *Subtopic 323-10, Equity Method and Joint Ventures* – Revisions from ASU 2010-08 clarifies language surrounding accounting for an investment in common stock of an investee that was previously accounted for on other than the equity method that now qualifies for the equity method. The underlying GAAP guidance was previously reflected within *APB No. 18, The Equity Method of Accounting for Investments in Common Stock,* and **rejected** for statutory accounting**.**

- *Subtopic 350-30, Intangibles – Goodwill and Other – General Intangibles Other than Goodwill* – Revisions from ASU 2010-08 clarifies the language regarding initial measurement of assets acquired in exchange transactions. This GAAP guidance was previously reflected within paragraph 9 of *FASB Statement No. 142, Goodwill and Other Intangible Assets,* and **rejected** for statutory accounting.

- *Subtopic 740-30, Income Taxes – Other Considerations or Special Areas* – Revisions from ASU 2010-08 changes the terminology in the guidance from "minority shareholders" to "noncontolling shareholders". The underlying GAAP guidance was taken from *FASB Statement No. 109, Accounting for Income Taxes,* and **adopted with modification within SSAP No. 10.** The statutory modifications included paragraph No. 33 of FAS No. 109, which was a paragraph specifically **rejected** for statutory accounting

- Subtopics 805-30, 805-40 and 805-50 – All related to Business Combinations – Revisions from ASU 2010-08 primarily reflect changes related to determining and allocating cost for nonmonetary transactions. The underlying GAAP guidance revised was taken from *FASB Statement No. 141R, Business Combinations – December 2007,* and is currently **pending review** for statutory accounting**.** Changes to the GAAP guidance will be considered when the GAAP guidance is reviewed for statutory accounting.

- *Subtopic 810-10, Consolidation* – Revisions from ASU 2010-08 primarily reflect changes in the terminology from "minority shareholders" to "noncontolling shareholders" and clarify the language for variable interest entity disclosures. The underlying GAAP guidance was taken from *Emerging Issues Task Force No. 96-16, Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights* (EITF 96-16)*, FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities* (FIN 46R) and *Emerging Issues Task Force No. 85-12, Retention of Specialized Accounting for Investments in Consolidation* (EITF 85-12). EITF 96-16 was previously **rejected** and EITF 85-12 was previously determined to be **not applicable** for statutory accounting. FIN 46R is **pending** statutory accounting review. As there is a current Statutory Accounting Principles Working Group project to consider variable interest entity disclosures (*FAS 167, Amendments to FASB Interpretation No. 46(R)*)**,** the revisions to the GAAP guidance related to consolidation and variable interest entities will be considered in accordance with that project.

- *Subtopic 815-15, Derivatives and Hedging – Embedded Derivatives* and *815-20, Derivatives and Hedging – Hedging* – Revisions from ASU 2010-08 clarifies language surrounding call (put) options and the accounting treatment of embedded call (put) options. The underlying GAAP guidance was taken from *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities,* and previously **adopted with modification within *SSAP No. 86—Accounting for Derivatives and Hedging Activities* (SSAP No. 86).** Although most of the GAAP revisions incorporated from ASU 2010-08 are not applicable to the guidance within SSAP No. 86, staff identified that the GAAP guidance within ASC 815-20-25-15 is reflected within paragraph 21(e) of SSAP No. 86. In order to continue reflecting the adopted GAAP guidance, **staff recommends revisions to paragraph 21(e) to reflect the clarifying revisions to 815-20-25-15 that changes the term "hedged item's" to "related financial asset's or liability's" as illustrated below:**

    21(e) If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is (1) the risk of changes in the overall fair value of the entire hedged item, (2) the risk of changes in its fair value attributable to changes in benchmark interest rate (3) the risk of changes in its fair value attributable to changes in the related foreign currency exchange rates, or (4) the risk of changes in its fair value attributable to both changes in the obligor's creditworthiness and changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's ~~hedged item's~~ credit sector at inception of the hedged (referred to as credit risk). If the risk designated as being hedged is not the risk in paragraph 21(e)(1) above, two or more of the other risks (benchmark interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

- *Subtopic 845-10, Nonmonetary Transactions* – Revisions from ASU 2010-08 removes the scope limitation on this guidance for oil and gas producing activities. Underlying The GAAP guidance was taken from *EITF 01-02, Interpretations of APB Opinion No. 29*. This guidance was **adopted with modification** within INT 06-13. As guidance for oil and gas producing activities is considered **not applicable for statutory accounting**, this reference within EITF 01-02 was not included in INT 06-13.

- *Subtopic 852-740, Reorganizations – Income Taxes* – Revisions from ASU 2010-08 removes guidance regarding recognition of tax benefits pre and post reorganizations. The underlying GAAP guidance was taken from *EITF D-033*, *Timing of Recognition of Tax Benefits for Pre-reorganization Temporary Differences and Carryforwards*. EITF abstracts, Appendix D – Other Technical Matters **are not reviewed** as part of the statutory maintenance process.

- *Subtopic 954-810, Health Care Entities - Consolidation* – Revisions from ASU 2010-08 reflect changes in the terminology from "minority shareholders" to "noncontolling shareholders". The GAAP guidance was taken from the *Audit and Accounting Guide – Health Care Organizations* and **rejected** for statutory accounting.

- *Subtopic 970-323, Real Estate – General – Investments – Equity Method and Joint Ventures* - Revisions from ASU 2010-08 reflect changes in the terminology from "minority shareholders" to "noncontolling shareholders". The underlying GAAP guidance was taken from the *AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures* and **rejected** for statutory accounting.

Staff has identified that several of the revisions within ASU 2010-08 change the reference from "minority shareholders" to "noncontrolling shareholders". In reviewing the FASB Codification master glossary, the term "noncontrolling interest" has the following definition:

> <u>Noncontrolling Interest</u> - The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

For statutory accounting, the use of the term "minor ownership interest" is utilized in *SSAP No. 48—joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97). In these situations, this term is defined as an ownership interest of "less than 10%". In the SSAPs, the term "minor ownership interest" is usually coupled with "or otherwise lacks control" and the definition of "control":

SSAP No. 48:

8. Joint ventures, partnerships and limited liability companies in which the entity has a minor ownership interest (**i.e., less than 10%) or lacks control** as stipulated in paragraphs 10 and 11 below…

10. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity. *(Also SSAP No. 97, paragraph 5)*

11. Control as defined in paragraph 10 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13% and therefore each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment based on the criteria in *FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18.* The corollary is required to demonstrate control when a reporting entity owns less than 10% of the voting interests of an investee. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner. Examples of situations where the presumption of control may be in doubt include the following: *(Also SSAP No. 97, paragraph 6)*

    a. Any limited partner investment in a Limited Partnership, unless the limited partner is affiliated with the general partner.

    b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

c. An entity where the insurer has given up participation rights as a shareholder to the investee.

Staff notes that paragraph 11 of SSAP No. 48 (and paragraph 6 of SSAP No. 97) references FIN 35. However, staff identifies that the percentage of ownership for when a presumption of control exists differs between FIN 35 and statutory accounting. Under statutory, the presumption is 10%, whereas FIN 35 defines the presumption at 20%: (Staff notes that the situations of when control may be in doubt are similar for GAAP and SAP.)

> ASC 323-10-15-8 (FIN 35 paragraph 2): An investment (direct or indirect) of **20 percent** or more of the voting stock of an investee shall lead to a presumption that in the absence of predominant evidence to the contrary an investor has the ability to exercise significant influence over an investee. **Conversely, an investment of less than 20 percent of the voting stock of an investee shall lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated.** The equity method shall not be applied to the investments described in this paragraph insofar as the limitations on the use of the equity method outlined in paragraph 323-10-25-2 would apply to investments other than those in subsidiaries.
>
> a. Any limited partner investment in a Limited Partnership, unless the limited partner is affiliated with the general partner.
>
> b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.
>
> c. An entity where the insurer has given up participation rights as a shareholder to the investee.

Due to the different percentage thresholds of minor ownership interest between GAAP and SAP, as well as the differentiation between "ownership interest" and "control" in SSAP No. 48 and SSAP No. 97, **staff does not recommend utilizing the GAAP terms of "noncontrolling interest" or "noncontrolling shareholder" to replace "minor ownership interest" within SSAP No. 48 or SSAP No. 97.**

Pursuant to the above discussion, staff recommends that the Statutory Accounting Principles Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to SSAP No. 86, paragraph 21(e) and 55 as reflected below.

Proposed revisions to SSAP No. 86:

21(e) If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is (1) the risk of changes in the overall fair value of the entire hedged item, (2) the risk of changes in its fair value attributable to changes in benchmark interest rate (3) the risk of changes in its fair value attributable to changes in the related foreign currency exchange rates, or (4) the risk of changes in its fair value attributable to both changes in the obligor's creditworthiness and changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's ~~hedged item's~~ credit sector at inception of the hedged (referred to as credit risk). If the risk designated as being hedged is not the risk in paragraph 21(e)(1) above, two or more of the other risks (benchmark interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

55. This statement adopts the framework established by FAS 133, FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the

provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No.45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement adopts revisions to ASC 815-20-25-15 as reflected within *ASU 2010-08, Technical Corrections to Various Topics*. It should be noted that the conclusions reached in this statement are not intended to usurp the rules and regulations put forth by states in their respective investment laws. The contents of this statement are intended to provide accounting guidance on the use of derivatives as allowed by an insurer's state of domicile. It is not intended to imply that insurers may use derivatives or cash instruments that the insurer's state of domicile does not allow under the state's insurance regulatory requirements, e.g., in replication transactions.

Recommending Party:
Julie Gann – NAIC Staff
June 2010

Status:
On August 14, 2010, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to SSAP No. 86, paragraph 21(e) and paragraph 55 as illustrated above. Other revisions reflected within ASU 2010-08 for which the related GAAP guidance has been considered for statutory accounting are considered rejected for statutory accounting. GAAP items revised by ASU 2010-08 that have yet to be addressed for statutory accounting will be considered in accordance with the review of the underlying GAAP guidance and not through a subsequent review of ASU 2010-08.

On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final the nonsubstantive revisions to SSAP No. 86, paragraph 21(e) and paragraph 55 as illustrated above. Other revisions reflected within ASU 2010-08 for which the related GAAP guidance has been considered for statutory accounting are rejected. GAAP items revised by ASU 2010-08 that have yet to be addressed for statutory accounting will be considered in accordance with the review of the underlying GAAP guidance and not through a subsequent review of ASU 2010-08.

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Ref #2010-14

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue:
ASU 2010-16, Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities

Check (applicable entity):

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

Description of Issue:
In April 2010, the FASB issued *Accounting Standards Update 2010-16, Casinos (Topic 924): Accruals for Casino Jackpot Liabilities* (ASU 2010-16). This update addresses diversity in practice in accounting for casino base jackpot liabilities.

Previous GAAP guidance related to this issue has previously been considered not applicable for statutory accounting.

Existing Authoritative Literature:
None.

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:

Staff has reviewed this item as part of the statutory accounting maintenance process, and does not believe the amendments into the FASB Codification warrant further statutory review. As noted, the GAAP issues have been previously considered not applicable. **Staff recommends that the Working Group move this item to the nonsubstantive active listing and expose nonsubstantive revisions to *Issue Paper No. 99—Nonapplicable GAAP Pronouncements* rejecting ASU 2010-16 as not applicable to statutory accounting.**

Recommending Party:
Julie Gann – NAIC Staff
May 2010

<u>Status:</u>
On August 14, 2010, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to Issue Paper No. 99 to reference ASU 2010-16 as not applicable to statutory accounting.
On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final the nonsubstantive revisions to Issue Paper No. 99 to reference ASU 2010-16 as not applicable to statutory accounting.

Ref #2010-15

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Expand Withdrawal Disclosures

Check (applicable entity):

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

Description of Issue:
There is currently a disclosure in Life and Fraternal Annual statements on this required by *SSAP No. 51—Life Contract* (SSAP No. 51*), SSAP No. 52—Deposit Type Contracts* (SSAP No. 52) and *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61), however it would be beneficial to expand the existing disclosure to include categories for the general account, the separate account and more descriptive totals.

Existing Authoritative Literature:
Essentially the same disclosure is in three statutory accounting statements, for annuity contracts, deposit type contracts and reinsurance.

SSAP No. 51—Life Contracts requires the following disclosure:

38. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

a. Subject to discretionary withdrawal:
i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;
(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the insurer;
(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period;
ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in (v.(d)) below;
iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current 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 fair value;
v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:
(a) In a lump sum without adjustment;
(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;
(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

b. Not subject to discretionary withdrawal;
c. Total gross;
d. Reinsurance ceded;
e. Total net.

SSAP No. 52—Deposit Type Contracts requires the following disclosure:

17. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the reporting entity; and

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in subparagraph v.(d) below;

iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current 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 fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

b. Not subject to discretionary withdrawal;
c. Total gross;
d. Reinsurance ceded;
e. Total net.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance requires the following disclosure:

59. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics as follows:

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;
   (a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the entity;
   (b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in v.(d) below;

iii. At 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 fair value, and the liabilities are stated at the current 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 fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:
   (a) In a lump sum without adjustment;
   (b) In installments over less than five years, with or without a reduction in interest rate during the installment period;
   (c) In a lump sum subject to a fixed surrender charge of less than 5%;
   (d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues.

b. Not subject to discretionary withdrawal;
c. Total gross;
d. Reinsurance ceded;
e. Total net.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
A blanks proposal on this issue has been submitted to the Blanks Working Group, 2010-15 BWG attached. This item is expected to be referred to the Statutory Accounting Principles Working Group.

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

Recommended Conclusion or Future Action on Issue:
The current breakdown by withdrawal characteristics currently includes general and separate account amounts combined in each line. The percentage split by withdrawal characteristics can then be somewhat misleading, depending on how much the separate account contributes to each line. For example, we may tend be more concerned with a company's vulnerability to annuity withdrawals if there was a large portion of the general account annuity reserves and deposit-type funds available for discretionary withdrawal with little or no surrender charge. But the presence of separate account amounts in the breakdown can mask vulnerability to the general account by distorting the allocations. Withdrawal of separate account amounts is usually not as much of an issue, when those funds are in unitized separate accounts, however, it would be beneficial to divide the separate accounts disclosure between guaranteed and nonguaranteed amounts.

Showing the amounts separately for the general and separate accounts gives a more meaningful breakdown of a company's sensitivity to annuity and deposit-type contract withdrawals. It is recommended that the Working Group expose the following nonsubstantive changes to the disclosures currently in SSAP No. 51, 52 and 61:

Changes to *SSAP No. 51—Life Contracts*

38. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed and the total as follows:

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the insurer;

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period;

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in (v.(d)) below;

iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current 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 fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

b. Not subject to discretionary withdrawal;

c. Total gross;

d. Reinsurance ceded;

e. Total net.

Changes to *SSAP No. 52—Deposit-Type Contracts:*

17. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed and the total as follows:

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the reporting entity; and

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in subparagraph v.(d) below;

iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current 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 fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

b. Not subject to discretionary withdrawal;

c. Total gross;

d. Reinsurance ceded;

e. Total net.

Changes to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*:

59. Disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed and the total as follows:

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the entity;

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in v.(d) below;
iii. At 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 fair value, and the liabilities are stated at the current 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 fair value;
v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:
(a) In a lump sum without adjustment;
(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;
(c) In a lump sum subject to a fixed surrender charge of less than 5%;
(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues.

b. Not subject to discretionary withdrawal;
c. Total gross;
d. Reinsurance ceded;
e. Total net.

Recommending Party:
Blaine Shepherd
Valuation Actuary
Minnesota Department of Commerce
87 7th Pl. E. Ste. 500
St. Paul, MN 55101-2198

Staff Recommendation:
The attached Blanks Proposal, which is being referred by the Blanks Working Group has a suggested year-end 2011 date, as that is the next time something could be modified in the annual statement blanks change process. The Working Group should discuss what effective date is preferred.

Staff recommends that the Working Group expose the nonsubstantive changes to SSAP No. 51, 52 and 61 disclosures as shown in the Form A with an effective date beginning January 1, 2011.

Staff Review Completed by:
Robin Marcotte
NAIC Staff
July 2010

<u>Status:</u>
On August 14, 2010, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to SSAP No. 51, SSAP No. 52 and SSAP No. 61, as

illustrated above, to expand disclosures to include categories for the general account, the separate account and more descriptive totals.

On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final nonsubstantive revisions to SSAP No. 51, SSAP No. 52 and SSAP No. 61, as illustrated above, to expand disclosures to include categories for the general account, the separate account and more descriptive totals. These expanded disclosures are effective January 1, 2011.

Ref #2010-15

NAIC BLANKS (E) WORKING GROUP
Blanks Agenda Item Submission Form

DATE: 07/08/2010	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2010-15BWG
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [ ]
ON BEHALF OF:	New Reporting Requirement [X]
NAME: Blaine Shepherd	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Valuation Actuary	No Impact [ ]
AFFILIATION: Minnesota Department of Commerce	Modifies Required Disclosure [X]
ADDRESS: 87 7th Pl. E. Ste. 500	**DISPOSITION**
St. Paul, MN 55101-2198	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment [ ] Adopted Date ____ [ ] Rejected Date ____ [ ] Deferred Date ____ [ ] Other (Specify) ____

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT** [ ] **QUARTERLY STATEMENT**
[X] **INSTRUCTIONS** [ ] **CROSSCHECKS** [ ] **BLANK**

[X] Life and Accident & Health [ ] Property/Casualty [ ] Health
[ ] Separate Accounts [X] Fraternal [ ] Title
[ ] Other Specify

Anticipated Effective Date: Annual 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instruction and illustration for Note 32 A through E to disclose the general account and separate account amounts as well as the total.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to enhance information available to regulators for analysis of the vulnerability to withdrawal.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2011 should not be a problem

Other Comments:
Proposal adds a new disclosure requirement and will need to be reviewed by the Statutory Accounting Principles Working Group

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL STATEMENT INSTRUCTIONS – LIFE AND FRATERNAL

NOTES TO FINANCIAL STATEMENTS

Detail Eliminated To Conserve Space

32. Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics

Instruction:

Disclose the amount of annuity actuarial reserves and deposit-type contract funds and other liabilities without life or disability contingencies by withdrawal characteristics as follows:

For A through E below disclose the general account and separate account with guarantees, separate account nonguaranteed amounts as well as the total.

A. Subject to discretionary withdrawal:

(1) With fair value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and

a. In a lump sum with adjustments to reflect general changes in interest rates or asset values since receipt of funds by the reporting entity, or

b. In installments over five years or more, with or without a reduction in the interest rate during the installment period.

(2) At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in subparagraph A5 (d) below.

(3) At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value and the liabilities are stated at the current 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.

(4) Total with adjustment or at fair value.

(5) At book value without adjustment (minimal or no charge or adjustment) where the withdrawal of funds is either payable at all times or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

a. In a lump sum without adjustment;

b. In installments over less than five years, with or without a reduction in interest rate during the installment period;

c. In a lump sum subject to a fixed surrender charge of less than 5%;

d. In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

e. All others.

B. Not subject to discretionary withdrawal.

C. Total (Gross: Direct + Assumed).

D. Reinsurance ceded.

E. Total (net) (C) – (D).

Detail Eliminated To Conserve Space

Illustration:

Withdrawal Characteristics of Annuity Actuarial Reserves and Deposit-Type Contract Funds and other Liabilities Without Life or Disability Contingencies

	(1) General Account	(2) Separate Account with Guarantees	(3) Separate account nonguaranteed	(~~1~~4) ~~Amount~~ Total	(~~2~~5) % of Total
A. Subject to discretionary withdrawal:					
(1) With fair value adjustment	$	$	$	$	
(2) At book value less current surrender charge of 5% or more					
(3) At fair value					
(4) Total with adjustment or at fair value (Total of 1 through 3)					
(5) At book value without adjustment (minimal or no charge or adjustment)					
B. Not subject to discretionary withdrawal					
C. Total (gross: direct + assumed)					
D. Reinsurance ceded					
E. Total (net)* (C) – (D)	$	$	$	$	

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities.

Detail Eliminated To Conserve Space

Statement of Statutory Accounting Principles No. 5 - REVISED

Liabilities, Contingencies and Impairments of Assets

STATUS

Type of Issue:	Common Area
Issued:	Initial Draft, Substantively Revised – October 18, 2010
Effective Date:	January 1, 2001, Substantive revisions – December 31, 2011
Affects:	No other pronouncements
Affected by:	No other pronouncements
Interpreted by:	INT 01-31, INT 01-32, INT 03-17, INT 04-05, INT 08-6

Liabilities, Contingencies and Impairments of Assets

SCOPE OF STATEMENT

1. This statement defines and establishes statutory accounting principles for liabilities, contingencies and impairments of assets.

SUMMARY CONCLUSION

Liabilities

2. A liability is defined as certain or probable[1] future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).

3. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable[1] future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

Loss Contingencies or Impairments of Assets

5. For purposes of implementing the statutory accounting principles of loss contingency or impairment of an asset described below, the following additional definitions shall apply:

   a. Probable—The future event or events are likely to occur;

   b. Reasonably Possible—The chance of the future event or events occurring is more than remote but less than probable;

   c. Remote—The chance of the future event or events occurring is slight.

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[1] *FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements*, states:

> Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in *FASB Statement 5, Accounting for Contingencies*, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

6. A loss contingency or impairment of an asset is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an enterprise that will ultimately be resolved when one or more future event(s) occur or fail to occur (e.g., collection of receivables).

7. An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and

b. The amount of loss can be reasonably estimated.

8. This accounting shall be followed even though the application of other prescribed statutory accounting principles or valuation criteria may not require, or does not address, the recording of a particular liability or impairment of an asset (e.g., a known impairment of a bond even though the VOS manual has not recognized the impairment).

9. Additionally, in instances where a judgment, assessment or fine has been rendered against a reporting entity, there is a presumption that the criteria in paragraph 7 a. and 7 b. have been met. The amount of the liability shall include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and shall take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management's intended response to the litigation, claim, or assessment.

10. When condition 7 a. above is met with respect to a particular loss contingency, and the reasonable estimate of the loss is a range, which meets condition 7 b. above, an amount shall be accrued for the loss. When an amount within management's estimate of the range of a loss appears to be a better estimate than any other amount within the range, that amount shall be accrued. When, in management's opinion, no amount within management's estimate of the range is a better estimate than any other amount, however, the midpoint (mean) of management's estimate in the range shall be accrued. For purposes of this paragraph, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be used.

11. The use of the midpoint in a range will be applicable only in the rare instance where there is a continuous range of possible values, and no amount within that range is any more probable than any other. This guidance is not applicable when there are several point estimates which have been determined as equally possible values, but those point estimates do not constitute a range. If there are several point estimates with equal probabilities, management should determine their best estimate of the liability.

Gain Contingencies

12. A gain is defined as an increase in surplus which results from peripheral or incidental transactions of a reporting entity and from all other transactions and other events and circumstances affecting the reporting entity except those that result from revenues or investments by owners. If, on or before the balance sheet date, (a) the transaction or event has been fully completed, and (b) the amount of the gain is

determinable, then the transaction or event is considered a gain, and is recognized in the financial statements. The definition of a gain excludes increases in surplus that result from activities that constitute a reporting entity's ongoing major or central operations or activities. Because investment activities are central to an insurer's operations, increases in surplus that result from such investment activities are excluded from the definition of gains. Revenues are inflows or other enhancements of assets of a reporting entity or settlements of its liabilities (or a combination of both) from providing products, rendering services, or other activities that constitute the reporting entity's ongoing major or central operations. Investments by owners include any type of capital infused into the surplus of the reporting entity.

13. A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (as defined in the preceding paragraph) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur (e.g., a plaintiff has filed suit for damages associated with an event occurring prior to the balance sheet, but the outcome of the suit is not known as of the balance sheet date). Gain contingencies shall not be recognized in a reporting entity's financial statements. However, if subsequent to the balance sheet date but prior to the issuance of the financial statements, the gain contingency is realized, the gain shall be disclosed in the notes to financial statements and the unissued financial statements should not be adjusted to record the gain. A gain is generally considered realizable when noncash resources or rights are readily convertible to known amounts of cash or claims to cash.

Guarantees

14. A guarantee contract is a contract that contingently requires the guarantor to make payments (either in cash, financial instruments, other assets, shares of its stock, or provision of services) to the guaranteed party based on changes in the underlying that is related to an asset, a liability, or an equity security of the guaranteed party. Commercial letters of credit and loan commitments, by definition, are not considered guarantee contracts. Also excluded from the definition are indemnifications or guarantees of an entity's own performance, subordination arrangements or a noncontingent forward contract. This definition could include contingent forward contracts if the characteristics of this paragraph are met.

15. The following guarantee contracts are not subject to the guidance in paragraphs 18-23 and paragraphs 26-29:

a. Guarantees already excluded from the scope of SSAP No. 5R;

b. Guarantee contracts accounted for as contingent rent;

c. Insurance contract guarantees, including guarantees embedded in deposit-type contracts;

d. Contracts that provide for payments that constitute a vender rebate by the guarantor based on either the sales revenue or the number of units sold by the guaranteed party;

e. A guarantee or indemnification whose existence prevents the guarantor from being able to either account for a transaction as the sale of an asset that is related to the guarantee's underlying or recognize in earnings the profit from that sale transaction;

f. Registration payment arrangements; and

g. a guarantee that is accounted for as a credit derivative instrument at fair value under SSAP No. 86, as described in paragraph 53e of SSAP No. 86.

16. The following types of guarantees are exempted from the initial liability recognition in paragraphs 18-23, but are subject to the to the disclosure requirements in paragraphs 26-29:

a. Guarantee that is accounted for as a derivative instrument, other than credit derivatives within SSAP No. 86;

b. Guarantee for which the underlying is related to the performance of nonfinancial assets that are owned by the guaranteed party, including product warranties;

c. Guarantee issued in a business combination that represents contingent consideration;

d. Guarantee in which the guarantor's obligation would be reported as an equity item;

e. Guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligator;

f. Guarantees (as defined in paragraph 14) made to/or on behalf of a wholly-owned subsidiary; and

g. Intercompany and related party guarantees that are considered "unlimited" (e.g., typically in response to a rating agency's requirement to provide a commitment to support).

17. With the exception of the provision for guarantees made to/or on behalf of a wholly-owned subsidiaries in paragraph 16f and "unlimited" guarantees in 16g, this guidance does not exclude guarantees issued as intercompany transactions or between related parties from the initial liability recognition requirement. Thus, unless the guarantee is provided on behalf of a wholly-owned subsidiary or considered "unlimited," guarantees issued between the following parties are subject to the initial recognition and disclosure requirements:

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

b. A parent's guarantee of its subsidiary's debt to a third party; and

c. A subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent.

18. At the inception of a guarantee, the guarantor shall recognize in its statement of financial position a liability for that guarantee. Except as indicated in paragraph 20, the objective of the initial measurement of the liability is the fair value[2] of the guarantee at its inception.

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[2] As practical expedients, when a guarantee is issued in a standalone arm's-length transaction, the liability recognized at the inception of the guarantee should be the premium received or receivable by the guarantor. When a guarantee is issued as part of a transaction with multiple elements, the liability recognized at the inception of the guarantee should be an estimate of the

19. The issuance of a guarantee obligates the guarantor (the issuer) in two respects: (a) the guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur (the noncontingent aspect) and (b) the guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect). Because the issuance of a guarantee imposes a noncontingent obligation to stand ready to perform in the event that the specified triggering event occurs, the provisions of paragraph 7 should not be interpreted as prohibiting the guarantor from initially recognizing a liability for that guarantee even though it is not probable that payments will be required under that guarantee.

20. In the event that, at the inception of the guarantee, the guarantor is required to recognize a liability under paragraph 7 for the related contingent loss, the liability to be initially recognized for that guarantee shall be the greater of (a) the amount the satisfies the fair value objective as discussed in paragraph 18 or (b) the contingent liability amount required to be recognized at inception of the guarantee by paragraph 7. For many guarantors, it would be unusual for the contingent liability under (b) above to exceed the amount that satisfies the fair value objective at the inception of the guarantee.

21. The offsetting entry pursuant to the liability recognition at the inception of the guarantee depends on the circumstances in which the guarantee was issued. Examples include:

a. If the guarantee was issued in a standalone transaction for a premium, the offsetting entry would the consideration received.

b. If the guarantee was issued in conjunction with the sale of assets, a product, or a business, the overall proceeds would be allocated between the consideration being remitted to the guarantor for issuing the guarantee and the proceeds from that sale. That allocation would affect the calculation of the gain or loss on the sale transaction.

c. If a residual value guarantee were provided by a lessee-guarantor when entering into an operating lease, the offsetting entry would be reflected as prepaid rent, which would nonadmitted under SSAP No. 29.

d. 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.

22. Except for the measurement and recognition of continued guarantee obligations after the settlement of a contingent guarantee liability described in paragraph 23, this standard does not describe in detail how the guarantor's liability for its obligations under the guarantee would be measured subsequent to initial recognition. The liability that the guarantor initially recognized in accordance with paragraph 18 would typically be reduced (as a credit to income) as the guarantor is released from risk under the guarantee. Depending on the nature of the guarantee, the guarantor's release from risk has typically been recognized over the term of the guarantee (a) only upon either expiration or settlement of the guarantee, (b) by a systematic and rational amortization method, or (c) as the fair value of the guarantee changes (for example, guarantees accounted for as derivatives). The reduction of liability does not encompass the recognition and subsequent adjustment of the contingent liability recognized under paragraph 7 related to the contingent loss for the guarantee. If the guarantor is required to subsequently recognize a contingent

guarantee's fair value. In that circumstance, guarantors should consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm's-length transaction.

liability for the guarantee, the guarantor shall eliminate any remaining noncontingent liability for that guarantee and recognize a contingent liability in accordance with paragraph 7.

23. After recognition and settlement of a contingent guarantee liability in accordance with paragraph 7, a guarantor shall assess whether remaining potential obligations exist under the guarantee agreement. If the guarantor still has potential obligations under the guarantee contract, the guarantor shall recognize the remaining noncontingent guarantee that represents the current fair value of the potential obligation remaining under the guarantee agreement. This noncontingent guarantee liability shall be released in accordance with paragraph 22.

Disclosures

24. If a loss contingency or impairment of an asset is not recorded because only one of the conditions 7 a. or 7 b. is met, or if exposure to a loss exists in excess of the amount accrued pursuant to the provisions described above, disclosure of the loss contingency or impairment of the asset shall be made in the financial statements when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.

25. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.

26. Certain loss contingencies, the common characteristic of each being a guarantee, shall be disclosed in financial statements even though the possibility of loss may be remote. Examples include (a) guarantees of indebtedness of others, and (b) guarantees to repurchase receivables (or, in some cases, to repurchase related properties) that have been sold or otherwise assigned. The disclosure of those loss contingencies, and others that in substance have the same characteristics, shall be applied to statutory financial statements. The disclosure shall include the nature and amount of the guarantee. Consideration shall be given to disclosing, if estimable, the value of any recovery that could be expected to result, such as from the guarantor's right to proceed against an outside party.

27. A guarantor shall disclose the following information about each guarantee, or each group or similar guarantees (except product warranties addressed in paragraph 29), even if the likelihood of the guarantor's having to make any payments under the guarantee is remote. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed:

a. The nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events and circumstances that would require the guarantor to perform under the guarantee, the ultimate impact to the financial statements (specific financial statement line item) after the settlement of the contract guarantee if action under the guarantee was required (e.g., increase to the investment, dividends to stockholder, etc) and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the guarantee. For example, the current status of the payment/performance risk of a credit-risk-related guarantee could be based on either recently issued external credit ratings or current internal groupings used by the guarantor to manage its risk. An entity that uses internal groupings shall disclose how those groupings are determined and used for managing risk.

b. The potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantee (which are addressed under (d) below). If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, that fact shall be disclosed. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, the guarantor shall disclose the reasons why it cannot estimate the maximum potential amount.

c. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee (including the amount, if any, recognized under paragraph 7), regardless of whether the guarantee is freestanding or embedded in another contract.

d. The nature of (1) any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee and (2) any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee. The guarantor shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee.

28. An aggregate compilation of guarantee obligations shall include the maximum potential of future payments of all guarantees (undiscounted), the current liability (contingent and noncontingent) reported in the financial statements, and the ultimate financial statement impact based on maximum potential payments (undiscounted) if performance under those guarantees had been triggered.

29. As product warranties are excluded from the initial recognition and initial measurement requirements for guarantees, a guarantor is not required to disclose the maximum potential amount of future payments. Instead the guarantor is required to disclose for product warranties the following information:

a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (Including any liability associated with extended warranties).

b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period. That reconciliation should present the beginning balance of the aggregate product warranty liability, the aggregate reductions in that liability for payments made (in cash or in kind) under the warranty, the aggregate changes in the liability for accruals related to product warranties issued during the reporting period, the aggregate changes in the liability for accruals related to preexisting warranties (including adjustments related to changes in estimates), and the ending balance of the aggregate product warranty liability.

30. The financial statements shall contain adequate disclosure about the nature of any gain contingency. However, care should be exercised to avoid misleading implications as to the likelihood of realization.

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

Relevant Literature

32. This statement adopts FASB Statement No. 5, Accounting for Contingencies (FAS 5), FASB Statement 114, Accounting by Creditors for Impairment of a Loan only as it amends in part FAS 5 and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements. FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5 (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14.

33. This statement adopts, with modification, *FASB Interpretation No. 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* (FIN 45), *FASB Interpretation No. 45-3, Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Grated to a Business or Owner* (FSP FIN 45-3)*, and FASB Staff Position FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45* (FSP FAS 133-1 and FIN 45-4). Statutory Modifications to FIN 45 include initial liability recognition for guarantees issued as part of intercompany or related party transactions, assessment and recognition of non-contingent guarantee obligations after recognition and settlement of a contingent obligation and revise the GAAP guidance to reflect statutory accounting terms and restrictions. Under this issue paper, intercompany and related party guarantees (including guarantees between parents and subsidiaries) should have an initial liability recognition unless the guarantee is considered "unlimited" or is made to/or on behalf of a wholly-owned subsidiary. (An example of an intercompany "unlimited" guarantee would be a guarantee issued in response to a rating agency's requirement to provide a commitment to support.) In instances in which an "unlimited" guarantee exists or a guarantee has been made to/or on behalf of a wholly-owned subsidiary, this statement requires disclosure, pursuant to the disclosure requirements adopted from FIN 45. The adoption of FIN 45 superseded the previously adopted guidance *in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, An interpretation of FASB Statement No. 5.* This statement also adopts Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 2 and 3 with the modification that AVR, IMR and Schedule F Penalty shall be shown gross. Appropriation of retained earnings discussed in paragraph 15 of FAS 5 is addressed in SSAP No. 72—Surplus and Quasi-reorganizations.

Effective Date and Transition

34. 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*.

35. The guidance for guarantees included within paragraphs 14-23 and 27-29 shall be applicable to all guarantees issued or outstanding as of December 31, 2011. Thereafter, disclosure of all guarantees

shall be annually reported, with interim reporting required for new guarantees issued, and/or existing guarantees when significant changes are made.

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

FASB Statement No. 5, Accounting for Contingencies
FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan
FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements
FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5

- *FASB Interpretation No. 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*

- *FASB Interpretation No. 45-3, Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Grated to a Business or Owner*

FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45 and Clarification of the Effective Date of FASB Statement No. 161
Accounting Principles Board Opinions No. 12, Omnibus Opinion—1967, paragraphs 2 and 3

RELEVANT ISSUE PAPERS

Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets
Issue Paper No. 20—Gain Contingencies
Issue Paper No. 135—Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

Ref #2003-12

SSAP No. 5R – Appendix A – Disclosure Illustrations

Example illustration for paragraph 27a, including the potential maximum guarantee from paragraph 27b:

Nature and circumstances of guarantee and key attributes, including date and duration of agreement	Liability recognition of guarantee Include amount recognized at inception. If no initial recognition, document exception allowed under SSAP No. 5R.)	Ultimate financial statement impact if action under the guarantee is required	Maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee. If unable to develop an estimate, this should be specifically note.	Current status of payment or performance risk of guarantee. Also provide additional discussion as warranted

Example Illustration – Paragraph 28:

1. Aggregate Maximum Potential of Future Payments of All Guarantees (undiscounted) the guarantor could be required to make under guarantees. (This amount should agree to the total amount reported for all guarantees within Appendix A, thus it excludes guarantees for which estimates of potential future payment cannot be made.)	$
2. Current Liability Recognized in F/S:	
a. Noncontingent Liabilities	$
b. Contingent Liabilities	$
3. Ultimate Financial Statement Impact if action under the guarantee is required. (This should equal the total reported in line 1 reflected in the applicable financial statement line items.)	
a. Investments in SCA	$
b. Joint Venture	$
c. Dividends to Stockholders (capital contribution)	$
d. Expense	$
e. Other…	$

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Ref #2003-12

Statement of Statutory Accounting Principles No. 25

Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties

STATUS

Type of Issue:	Common Area
Issued:	Initial Draft
Effective Date:	January 1, 2001
Affects:	No other pronouncements
Affected by:	New paragraph 6 added by SSAP No. 96
Interpreted by:	No other pronouncements

Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties

SCOPE OF STATEMENT

1. Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny. This statement establishes statutory accounting principles and disclosure requirements for related party transactions.

SUMMARY CONCLUSION

2. Related parties are defined as entities that have common interests as a result of ownership, control, affiliation or by contract. Related parties shall include but are not limited to the following:

a. Affiliates of the reporting entity, as defined in paragraph 3;

b. Trusts for the benefit of employees, such as pension and profit-sharing trusts and Employee Stock Ownership Plans that are managed by or under the trusteeship of management of the reporting entity, its parent or affiliates;

c. The principal owners of the reporting entity;

d. The management of the reporting entity, its parent or affiliates (including directors);

e. Members of the immediate families of principal owners and management of the reporting entity, its parent or affiliates and their management;

f. Parties with which the reporting entity may deal if either party directly or indirectly controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interest;

g. A party which can, directly or indirectly, significantly influence the management or operating policies of the reporting entity, which may include a provider who is contracting with the reporting entity. This is not intended to suggest that all provider contracts create related party relationships;

h. A party which has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests;

i. Attorney-in-fact of a reciprocal reporting entity or any affiliate of the attorney-in-fact; and

j. A U.S. manager of a U.S. Branch or any affiliate of the U.S. manager of a U.S. Branch.

3. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include

partnerships, joint ventures, and limited liability companies as defined in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48). Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity.

4. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by contract for goods or nonmanagement services where the volume of activity results in a reliance relationship (d) by common management, or (e) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.

5. Control as defined in paragraph 4 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13%, and therefore, each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment based on the criteria in *FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18*. The corollary is required to demonstrate control when a reporting entity owns less than 10% of the voting securities of an investee. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner. Examples of situations where the presumption of control may be in doubt include the following:

a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.

b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

c. An entity where the insurer has given up participation rights[1] as a shareholder to the investee.

6. NOTE: This paragraph is added by *SSAP No. 96—Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25— Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties.* Remaining paragraphs are renumbered.

Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall

[1] The term "participating rights" refers to the type of rights that allows an investor to effectively participate in significant decisions related to an investee's ordinary course of business and is distinguished from the more limited type of rights referred to as “protective rights”. Refer to the sections entitled: “Protective Rights” and “Substantive Participating Rights” in EITF 96-16, *Investor's Accounting for an Investee When the Investor Owns a Majority of the Voting Stock but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*. The term “participating rights” shall be used consistent with the discussion of substantive participating rights in this EITF.

be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principles (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

Related Party Loans

7. Loans or advances (including debt, public or private) made by a reporting entity to its parent or principal owner shall be admitted if approval for the transaction has been obtained from the domiciliary commissioner and the loan or advance is determined to be collectible based on the parent or principal owner's independent payment ability. An affiliate's ability to pay shall be determined after consideration of the liquid assets or revenues available from external sources (i.e., determination shall not include dividend paying ability of the subsidiary making the loan or advance) which are available to repay the balance and/or maintain its account on a current basis. Evaluation of the collectibility of loans or advances shall be made periodically. If, in accordance with *SSAP No. 5R—Definition of Liabilities, Loss Contingencies and Impairments of Assets* – Revised (SSAP No. 5R), it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made.

8. Loans or advances by a reporting entity to all other related parties shall be evaluated by management and nonadmitted if they do not constitute arm's-length transactions as defined in paragraph 11. Loans or advances made by a reporting entity to related parties (other than its parent or principal owner) that are economic transactions as defined in paragraph 11 shall be admitted. This includes financing arrangements with providers of health care services with whom the reporting entity contracts with from time to time. Such arrangements can include both loans and advances to these providers. Evaluation of the collectibility of loans or advances shall be made periodically. If, in accordance with SSAP No. 5R, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made.

9. Any advances under capitation arrangements made directly to providers, or to intermediaries that represent providers, that exceed one month's payment shall be nonadmitted assets.

10. Indirect loans are loans or extensions of credit to any person who is not an affiliate, where the reporting entity makes loans or extensions of credit with the agreement or understanding that the proceeds of the transactions, in whole or in substantial part, are to be used to make loans or extensions of credit to, to purchase assets of, or to make investments in, any affiliate of the reporting entity making the loans or extensions of credit. The admissibility of indirect loans made by a reporting entity for the benefit of its parent or principal owner shall be determined in accordance with the guidelines in paragraph 7. Indirect loans or advances made for the benefit of all other related parties shall be evaluated and accounted for consistent with loans or advances to related parties as described in paragraphs 8 and 9.

Transactions Involving the Exchange of Assets or Liabilities

11. An arm's-length transaction is defined as a transaction in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing to participate. A transaction between related parties involving the exchange of assets or liabilities shall be designated as either an economic transaction or non-economic transaction. An economic transaction is defined as an arm's-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., "permanence." The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have

economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. If subsequent events or transactions reverse the effect of an earlier transaction prior to the issuance of the financial statements, the reversal shall be considered in determining whether economic substance existed in the case of the original transaction. Subsequent events are addressed in *SSAP No. 9—Subsequent Events*. An economic transaction must represent a bonafide business purpose demonstrable in measurable terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

12. In determining whether there has been a transfer of the risks and rewards of ownership in the transfer of assets or liabilities between related parties, the following—and any other relevant facts and circumstances related to the transaction—shall be considered:

a. Whether the seller has a continuing involvement in the transaction or in the financial interest transferred, such as through the exercise of managerial authority to a degree usually associated with ownership;

b. Whether there is an absence of significant financial investment by the buyer in the financial interest transferred, as evidenced, for example, by a token down payment or by a concurrent loan to the buyer;

c. Whether repayment of debt that constitutes the principal consideration in the transaction is dependent on the generation of sufficient funds from the asset transferred;

d. Whether limitations or restrictions exist on the buyer's use of the financial interest transferred or on the profits arising from it;

e. Whether there is retention of effective control of the financial interest by the seller.

13. A transaction between related parties may meet the criteria for treatment as an economic transaction at one level of financial reporting, but may not meet such criteria at another level of financial reporting. An example of such a transaction is a reporting entity purchasing securities at fair value from an affiliated reporting entity that carried the securities at amortized cost. This transaction meets the criteria of an economic transaction at this level of financial reporting, and therefore, the selling reporting entity would record a gain and the acquiring reporting entity would record the securities at their cost (fair value on the transaction date). At the common parent level of reporting, this transaction has resulted in the mere inflation of surplus, and therefore, is a non-economic transaction. The parent reporting entity shall defer the net effects of any gain or increase in surplus resulting from such transactions by recording a deferred gain and an unrealized loss. The deferred gain shall not be recognized by the parent reporting entity unless and until arms-length transaction(s) with independent third parties give rise to appropriate recognition of the gain.

14. A non-economic transaction is defined as any transaction that does not meet the criteria of an economic transaction. Similar to the situation described in paragraph 13, transfers of assets from a parent reporting entity to a subsidiary, controlled or affiliated entity shall be treated as non-economic transactions at the parent reporting level because the parent has continuing indirect involvement in the assets.

15. When accounting for a specific transaction, reporting entities shall use the following valuation methods:

a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under common control, the controlling reporting entity shall defer the effects of such transactions that result in gains or increases in surplus (see paragraph 13);

b. Non-economic transactions between reporting entities, which meet the definition of related parties above, shall be recorded at the lower of existing book values or fair values at the date of the transaction;

c. Non-economic transactions between a reporting entity and an entity that has no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or it's affiliates, shall be recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, that gain shall be deferred until such time as permanence can be verified;

d. Transactions which are designed to avoid statutory accounting practices shall be reported as if the reporting entity continued to own the assets or to be obligated for a liability directly instead of through a subsidiary.

Examples of transactions deemed to be non-economic include security swaps of similar issues between or among affiliated companies, and swaps of dissimilar issues accompanied by exchanges of liabilities between or among affiliates.

Transactions Involving Services

16. Transactions involving services between related parties can take a variety of different forms. One of the significant factors as to whether these transactions will be deemed to be arm's length is the amount charged for such services. In general, amounts charged for services are based either on current market rates or on allocations of costs. Determining market rates for services is difficult because the circumstances surrounding each transaction are unique. Unlike transactions involving the exchange of assets and liabilities between related parties, transactions for services create income on one party's books and expense on the second party's books, and therefore, do not lend themselves to the mere inflation of surplus. These arrangements are generally subject to regulatory approval.

17. Transactions involving services provided between related parties shall be recorded at the amount charged. Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action. Expenses that result from cost allocations shall be allocated subject to the same fair and reasonable standards, and the books and records of each party shall disclose clearly and accurately the precise nature and details of the transaction. See *SSAP No 70—Allocation of Expenses* for additional discussion regarding the allocation of expenses.

Disclosures

18. The financial statements shall include disclosures of all material related party transactions. In some cases, aggregation of similar transactions may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. Transactions shall not be purported to be arm's-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:

a. The nature of the relationships involved;

b. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions which involve less than ½ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:

   i. Date of transaction;

   ii. Explanation of transaction;

   iii. Name of reporting entity;

   iv. Name of affiliate;

   v. Description of assets received by reporting entity;

   vi. Statement value of assets received by reporting entity;

   vii. Description of assets transferred by reporting entity; and

   viii. Statement value of assets transferred by reporting entity.

c. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period;

d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement;

e. Any guarantees or undertakings, written or otherwise, shall be disclosed in accordance with the requirements of SSAP No. 5R~~for the benefit of an affiliate or related party which result in a material contingent exposure of the reporting entity's or any related party's assets or liabilities~~. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed.~~;~~

f. A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party. This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts, which remove assets otherwise recordable (and potentially nonadmitted) on the reporting entity's financial statements;

g. The nature of the control relationship whereby the reporting entity and one or more other enterprises are under common ownership or control and the existence of that control could result in operating results or financial position of the reporting entity significantly different from those that would have been obtained if the enterprises were autonomous. The relationship shall be disclosed even though there are no transactions between the enterprises; and

h. The amount deducted from the value of an upstream intermediate entity or ultimate parent owned, either directly or indirectly, via a downstream subsidiary, controlled, or affiliated entity, in accordance with the NAIC *Purposes and Procedures of the Securities Valuation Office*, "Procedures for Valuing Common Stocks and Stock Warrants."

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

Relevant Literature

20. This statement adopts *FASB Statement No. 57, Related Party Disclosures* with a modification to paragraph 2 to require disclosure of compensation arrangements, expense allowances, and other similar items in the ordinary course of business.

21. This statement rejects AICPA Accounting Interpretations, Business Combinations: Accounting Interpretations of APB Opinion No. 16, #39, "Transfers and Exchanges Between Companies Under Common Control."

Effective Date and Transition

22. 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*.

AUTHORITATIVE LITERATURE

Statutory Accounting

- NAIC *Purposes and Procedures of the Securities Valuation Office*

Generally Accepted Accounting Principles

- *FASB Statement No. 57, Related Party Disclosures*

RELEVANT ISSUE PAPERS

- Issue Paper No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties

Statutory Issue Paper No. 143

Prospective-Based Guaranty Fund Assessments

STATUS:
Finalized October 18, 2010

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. Current statutory accounting guidance on guaranty funds and assessments is provided within *SSAP No. 35—Guaranty Fund and Other Assessments* (SSAP No. 35). SSAP No. 35 rejected the GAAP guidance for recording guaranty fund and other assessments previously contained within AICPA *Statement of Position 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments* (SOP 97-3) and currently included within the *Accounting Standards Codification 405-30, Insurance Related Assessments* (ASC 405-30).

2. As detailed within *Issue Paper No. 35, Accounting for Guaranty Fund and Other Assessments* (Issue Paper No. 135), SOP 97-3 defined the condition of obligation differently than Issue Paper No. 35. Issue Paper No. 35 identified that probability and obligation have been satisfied when insolvency has occurred, regardless of whether the assessment is based upon premiums or losses written, incurred or paid before or after the insolvency. Issue Paper No. 35 also identified that SOP 97-3 was rejected because it was inconsistent with the concepts of conservatism and recognition outlined in the Statement of Concepts, as well as the accounting principles set out in *Issue Paper No. 5, Definition of Liabilities, Loss Contingencies and Impairments of Assets* (Issue Paper No. 5). Issue Paper No. 35 identified that language from SOP 97-3 regarding the 'Ability to Reasonably Estimate the Liability' was incorporated into statutory accounting.

3. The purpose of this Issue Paper is to re-evaluate the previous conclusion within Issue Paper No. 35, and reflected within SSAP No. 35, regarding the adoption of SOP 97-3 (ASC 405-30) for statutory accounting.

SUMMARY CONCLUSION

4. Entities subject to assessments should recognize liabilities for insurance-related assessments when all of the following conditions are met:

   a. An assessment has been imposed or information available prior to the issuance of the financial statements indicates it is probable that an assessment will be imposed.

   b. The event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements.

   c. The amount of the assessment can be reasonably estimated.

5. Premium-based guaranty-fund assessments, except those that are prefunded, are presumed probable when a formal determination of insolvency occurs, and presumed not probable prior to a formal determination of insolvency. Pre-funded guaranty fund assessments and premium-based administrative-type assessments are presumed probable when the premiums on which the assessments are expected to be based are written. Loss-based administrative-type and second-injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

6. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance enterprise cannot avoid paying a particular assessment even if that insurance enterprise reduces its premium writing in the future. In such circumstances, the event that obligates the entity is a formal determination of insolvency or similar triggering event. Regulatory practice would be determined based on the stated intentions or prior history of the insurance regulators.

7. For loss-based assessments, the event that obligates the entity is an entity incurring the losses on which the assessments are expected to be based.

8. The following provides guidance on how guaranty-fund assessments and other insurance-related assessments should be applied:

a. *Retrospective-premium-based guaranty-fund assessments* – An assessment is probable of being imposed when a formal determination of insolvency occurs. At that time, the premium that obligates the entity for the assessment liability has already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment should recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. *Prospective-premium-based guaranty-fund assessments* – The event that obligates the entity for the assessment liability generally is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessments are to be based. Therefore, the event that obligates the entity generally will not have occurred at the time of the insolvency.

i. In states that, through law or regulatory practice, provide that an entity cannot avoid paying a particular assessment in the future (even if the entity reduces premium writings in the future), the event that obligates the entity is a formal determination of insolvency or a similar event. An entity that has the ability to reasonably estimate the amount of the assessment should recognize a liability for the entire amount of future assessments that cannot be avoided related to a particular insolvency when a formal determination of insolvency occurs.

ii. In states without such a law or regulator practice, the event that obligates the entity is the writing of, or becoming obligated to write, the premiums on which the expected future assessments are to be based. An entity that has the ability to reasonably estimate the amount of the assessments should recognize a liability when the related premiums are written or when the entity becomes obligated to write the premiums.

c. *Prefunded-premium-based guaranty fund assessments* – A liability for an assessment arises when premiums are written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment should recognize a liability as the related premiums are written.

d. *Other premium-based assessments* – Other premium-based assessments shall be accounted for in the same manner as prefunded-premium-based guaranty-fund assessments.

e. *Loss-based assessments* – An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment should recognize a liability as the related loss is incurred.

DISCUSSION

9. Current statutory accounting guidance within SSAP No. 35 rejected the provisions of SOP 97-3, and required assessments for guaranty fund obligations to be accrued at the time of the insolvency, regardless of whether an event that “obligates” the reporting entity (i.e., the writing of premiums) has occurred. This position was considered necessary to be consistent with the concepts of conservatism and recognition outlined in the Statement of Concepts.

10. Before codification (and SSAP No. 35), the statutory accounting practice was driven by the line of insurance written by the reporting entity. For life insurers, assessments were accrued at the time of the insolvency, as the guaranty fund obligations were based on premiums written prior to the insolvency. For property and casualty insurers, the practice varied to reflect when the premiums were written. For assessments based on premiums written after an insolvency, the assessment was accrued when the premiums were written, as this was considered the event that obligated the entity.

11. Interested parties have identified that after the adoption of SSAP No. 35, property and casualty insurers have been able to develop estimates of their respective market shares, but that these insurers have had difficulty in trying to estimate the ultimate loss expected from insolvencies. Although property and casualty insurers have worked with the National Conference of Insurance Guaranty Funds (NCIGF) and various State Guaranty Fund Associations in an attempt to obtain additional information related to the ultimate loss expected from insolvencies, the rate information provided by the NCIGF does not extend beyond one year. Additionally, the NCIGF information does not provide sufficient data to allow for the calculation of an ultimate expected assessment exposure, which is necessary to meet the SSAP No. 35 requirements.

12. Interested parties also identified that the range of outcomes among property and casualty insurers illustrates that there is a lack of consistency of estimates among these reporting entities. This lack of consistency creates concern as to the extent SSAP No. 35 can be applied reliably. Based on the request of interested parties, the Statutory Accounting Principles Working Group formed the Guaranty Fund Subgroup to review the current statutory requirements within SSAP No. 35 and reconsider the adoption of SOP 97-3 (ASC 405-30).

13. To complete an assessment, the Subgroup conducted state surveys and received information from the NCIGF. In considering the results of state surveys, several states noted that waiting to record prospective-based guaranty fund assessments until the obligating premium was written would not impact their assessment of the insurers. A few states indicated that waiting would actually improve their assessment of the insurer as the liability information would be more accurate. In contrast, two states

specifically noted that insurers should not wait to record the liability on their financial statements, and thus favored the current SSAP No. 35 approach.

14. After considering the presentation by NCIGF, the Subgroup concluded that in addition to mirroring the GAAP requirements, adopting the approach within ACS 405-30 (SOP 97-3) would result with the recognition of liabilities that are better estimates, more consistently determined, and more verifiable than the existing statutory approach.

a. *Better Estimates* - Using the current approach, it has been communicated that insurers do not have adequate information to calculate ultimate expected assessment exposure as of the liquidation date. It has been communicated that relying on the last annual statement filed of the insolvent insurer would not be timely or provide the best estimate for assessments. This is due to limited filed financial statement information, if any, if rehabilitation or runoff has occurred prior to insolvency. Insurers have communicated that they can use the NCIGF "Assessment Liability Report" to estimate their assessment liabilities and that this report is accepted by auditors as support for determining assessment liabilities under ACS 405-30 (SOP 97-3).

b. *More Consistently Determined* – The guaranty associations determine annually how much to assess the insurance industry according to their funding needs. State laws establish the maximum assessment percentage that can be assessed by a guaranty association per year. Under the prospective assessment method, used by 54 of the 57 guaranty associations (as reported by the NCIGF), the assessment amount is a percentage of direct written premiums for the prior year for lines covered by the guaranty association. Assessments received by the guaranty association in a particular year are used to fund claims originating from all insolvencies, regardless of when those insolvencies occurred. Prospective-premium based assessments are assessments made on premiums written after an insolvency occurs; assessments in any year are generally limited to a percentage of premiums written the year before the assessment is made.

c. *More Verifiable* – It has been communicated that utilizing the GAAP method improves the auditability of property and casualty insurer estimates as the information is based on "real" data. As previously stated in this issue paper, it has been communicated that the information provided by the NCIGF, which is in accordance with the GAAP standards, is accepted as support for the insurance company's assessment liability.

15. The Subgroup also 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. As the result of these findings, the Subgroup agreed to present an Issue Paper to the Working Group proposing substantive revisions to SSAP No. 35 to incorporate the ASC 405-30 (SOP 97-3) approach for guaranty fund liability recognition. Under this approach, accounting requirements for guaranty fund assessments would be determined in accordance with the type of guaranty-fund assessment imposed, and incorporate the concept of an 'obligating event' for prospective-based premium assessments in determining whether liability accrual should occur.

16. Exhibit A includes the proposed substantive revisions to reflect the adoption with modification of ASC 405-30 (SOP 97-3), in the form of *SSAP No. 35—Guaranty Form and Other Assessments – Revised* (SSAP No. 35R). The substantive revisions are proposed to be initially effective for the reporting period beginning January 1, 2011.

17. Statutory accounting modifications from ASC 405-30 (SOP 97-3) are as follows:

a. The option to discount accrued liabilities (and reflect the time value of money of anticipated recoverables) is rejected for statutory accounting. Liabilities for guaranty funds or other assessments shall not be discounted.

b. The use of a valuation allowance for premium tax offsets and policy surcharges no longer probable for realization has been rejected for statutory accounting. Evaluation of assets shall be made in accordance with SSAP No. 5, and if it is probable that the asset is no longer realizable, the asset shall be written off and charged to income in the period the determination is made.

c. Guidance within ASC 405-30 pertaining to noninsurance entities has been rejected as not applicable for statutory accounting.

18. SSAP No. 35 has three statutory accounting interpretations (INTs). No revisions are considered necessary to these interpretations as a result of the substantive revisions proposed within SSAP No. 35R:

a. *INT 02-22, Accounting for the U.S. Terrorism Risk Insurance Program* (INT 02-22) – This interpretation indicates that there is a transfer of underwriting insurance risk under the Terrorism Insurance Program and accordingly, the recovery of such losses should be reported as reinsured losses. This interpretation also indicates that because the terrorism loss risk-spreading premium is imposed on policyholders as a surcharge, and that the Department of Treasury provides for insurers to collect the surcharge and "remit amounts collected to the Secretary", the surcharge generally meets the requirements of paragraph 10 of SSAP No. 35:

> 10. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:
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> a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and
>
> b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

b. *INT 03-01, Application of SSAP No. 35 to the Florida Hurricane Catastrophe Fund* (INT 03-01) – This interpretation was nullified due to Florida Legislative Changes.

c. *INT 07-03, EITF 06-3: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)* (INT 07-3) – This interpretation discusses the correct accounting treatment of taxes charged to a customer by collected and remitted by a reporting entity. Similar to INT 02-22, this interpretation focuses on the application of paragraph 10 and how the collection of assessments or charges from policyholders shall impact the reporting entity's financial statements.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

19. SSAP No. 35 provides the following guidance:

> 1. This statement establishes statutory accounting principles for guaranty fund and other assessments.
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> 2. Guaranty fund assessments represent a funding mechanism employed by states to provide funds to cover policyholder obligations of insolvent reporting entities. Most states have enacted legislation establishing guaranty funds for both life and health insurance and for property and casualty insurance to provide for covered claims or to meet other insurance obligations of insolvent reporting entities in the state. Guaranty funds generally make assessments after an insolvency based upon retrospective premium writings.
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> 3. This statement addresses other assessments including but not limited to workers' compensation second injury funds and for funds that pay operating costs of an insurance department, a state guaranty fund, and/or the workers' compensation board. This statement also addresses health related assessments including but not limited to state health insurance high-risk pools, health insurance small group and individual reinsurance pools, state health demographic or risk adjustment assessments.
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> SUMMARY CONCLUSION
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> 4. This statement applies *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5) to guaranty fund and other assessments. SSAP No. 5 requires accrual of a liability when both of the following conditions are met:
>
> a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and
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> b. The amount of loss can be reasonably estimated.
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> For the purposes of subparagraph 4 b., loss generally means assessment or assessment rate. Guaranty fund and other assessments shall be charged to expense (Taxes, Licenses and Fees) and a liability shall be accrued when the above criteria are met except for certain health related assessments which shall be reported as a part of claims. Health related assessments that are reported as a part of claims instead of taxes, licenses and fees are those assessments that are designed for the purpose of spreading the risk of severe claims or adverse enrollment selection among all participating entities, and where the funds collected via the assessment are re-distributed back to the participating entities based upon the cost of specific claims, enrollment demographics, or other criteria affecting health care expenses.
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> 5. For refunded guaranty or other fund assessments and assessments used to fund state operating expenses, reporting entities shall credit the refund or charge the assessment to expense when notification of the refund or assessment is made.

6. For guaranty fund assessments, subparagraph 4 a. is met when the insolvency has occurred, regardless of whether the assessments are based on premiums written before or after the insolvency. For purposes of applying this guidance, the insolvency shall be considered to have occurred when a reporting entity meets a state's (ordinarily the state of domicile of the insolvent reporting entity) statutory definition of an insolvent reporting entity. In most states, the reporting entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation. Loss-based administrative-type and second injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

7. Subparagraph 4 b. requires that the amounts can be reasonably estimated. For guaranty fund assessments, a reporting entity's estimate of the liability shall reflect an estimate of its share of the ultimate loss expected from the insolvency. The reporting entity shall also estimate any applicable premium tax credits and policy surcharges. An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund making the assessment will incur costs and pay claims to determine the amounts and the timing of assessments. The best available information about market share or premiums by state and premiums by line of business generally should be used to estimate the amount of future assessments. Estimates of loss-based assessments should be consistent with estimates of the underlying incurred losses and should be developed based upon enacted laws or regulations and expected assessment rates. Premium tax credits or policy surcharges may only be considered in the estimate if it is probable they will be realized. Changes in the amount of the liability (or asset) as a result of the passage of time and revisions to estimates in the amount or timing of the payments shall be recorded in taxes, licenses and fees.

8. In accordance with SSAP No. 5, when the reasonable estimate of the loss is a range, the amount in the range that is considered the best estimate shall be accrued. When, in management's opinion, no amount within management's estimate of the range is a better estimate than any other amount, however, the midpoint (mean) of management's estimate in the range shall be accrued. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued.

9. The liability for assessments shall be established gross of any probable and estimable recoveries from premium tax credits and premium surcharges. Because assessments are generally paid before premium tax credits are realized or policy surcharges are collected, an asset may result, which represents a receivable for premium tax credits that will be taken and policy surcharges which will be collected in the future. These amounts, to the extent it is probable they will be realized, meet the definition of assets, as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. The asset shall be established and reported independent from the liability (not reported net).

10. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:

a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and

b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

Disclosures

11. Describe the nature of any assessments that could have a material financial effect and state the estimate of the liability or that an estimate cannot be made. To the extent assessments have been accrued disclose the amounts of the liabilities, any related asset for premium tax credits or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

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

Relevant Literature

13. This statement rejects GAAP guidance for recording guaranty fund and other assessments, which is contained in *AICPA Statement of Position 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*.

Generally Accepted Accounting Principles

14. *Accounting Standards Codification 405-30, Insurance-Related Assessments* (ASC 405-30) provides the following guidance:

405-30-05 Overview and Background

05-1 Insurance entities as well as noninsurance entities are subject to a variety of assessments related to insurance activities, including those by state guaranty funds and workers' compensation second-injury funds. Some entities may be subject to insurance-related assessments because they self-insure against loss or liability. This Subtopic provides guidance on accounting for insurance-related assessments.

State Guaranty Funds

05-2 States have enacted legislation establishing guaranty funds. The state guaranty funds assess entities licensed to sell insurance in the state to provide for the payment of covered claims or to meet other insurance obligations—subject to prescribed limits—of insolvent insurance entities. The assessments are generally based on premium volume for certain covered lines of business. Most state guaranty funds assess entities for costs related to a particular insolvency after the insolvency occurs. At least one state, however, assesses entities before insolvencies.

05-3 State guaranty funds use a variety of methods for assessing entities. This Subtopic identifies the following four primary methods of guaranty-fund assessments:

a. *Retrospective-premium-based assessments*. Guaranty funds covering benefit payments of insolvent life, annuity, and health insurance entities typically assess entities based on premiums written or received in one or more years before the year of insolvency. Assessments in any year are generally limited to an established percentage of an entity's average premiums for the three years preceding the insolvency. Assessments for a given insolvency may take place over several years.

b. *Prospective-premium-based assessments*. Guaranty funds covering claims of insolvent property and casualty insurance entities typically assess entities based on premiums written in one or more years after the insolvency. Assessments in any year are generally limited to an established percentage of an entity's premiums written or received for the year preceding the assessment. Assessments for a given insolvency may take place over several years.

c. *Prefunded-premium-based assessments*. At least one state uses this kind of assessment to cover claims of insolvent property and casualty insurance entities. This kind of assessment is intended to prefund the costs of future insolvencies. Assessments are imposed before any particular insolvency and are based on the current level of written premiums. Rates to be applied to future premiums are adjusted as necessary.

d. *Administrative-type assessments*. These assessments are typically a flat (annual) amount per entity to fund operations of the guaranty association, regardless of the existence of an insolvency.

05-4 State laws often allow for recoveries of guaranty-fund assessments by entities subject to assessments through such mechanisms as premium tax offsets, policy surcharges, and future premium rate structures. The policy surcharges referred to in this Subtopic are those surcharges that are intended to provide an opportunity for assessed entities to recover some or all of the amounts assessed over a period of time.

Other Insurance-Related Assessments

05-5 Entities are subject to a variety of other insurance-related assessments. Many states and a number of local governmental units have established other funds supported by assessments. The two most prevalent uses for such assessments are as follows:

a. To fund operating expenses of state insurance regulatory bodies (for example, the state insurance department or workers' compensation board)

b. To fund second-injury funds, which provide reimbursement to insurance carriers or employers for workers' compensation claims when the cost of a second injury combined with a prior accident or disability is greater than what the second accident alone would have produced. The employer of an injured or handicapped worker is responsible only for the workers' compensation benefit for the most recent injury; the second-injury fund would cover the cost of any additional benefits for aggravation of a prior condition or injury. The intent of the fund is to help insure that employers are not made to suffer a greater monetary loss or increased insurance costs because of hiring previously injured or handicapped employees.

05-6 The primary methods used to assess for these other insurance-related assessments are the following:

a. *Premium-based*. The assessing entity imposes the assessment based on the entity's written premiums. The assessing entity may be at the state, county, municipality, or other such level. The base year of premiums is generally either the current year or the year preceding the assessment.

b. *Loss-based*. The assessing entity imposes the assessment based on the entity's incurred losses or paid losses in relation to that amount for all entities subject to that assessment in the particular jurisdiction.

405-30-10 Objectives

10-1 The objective of this Subtopic is to establish consistent accounting and disclosures for guaranty-fund and other insurance-related assessments to improve comparability of reported information.

405-30-15 Scope and Scope Exceptions

Entities

15-1 The guidance in this Subtopic applies to all entities that are subject to guaranty-fund and other insurance-related assessments, including entities that are subject to insurance-related assessments because they self-insure against loss or liability. For example, one state specifies that self-insurers of workers' compensation should use as a base for assessment the amount of premium the self-insurer would have paid if it had insured its liability with an insurer for the previous calendar year.

Transactions

15-2 The guidance in this Subtopic applies to assessments mandated by statute or regulatory authority that are related directly or indirectly to underwriting activities (including self-insurance), except for income taxes and premium taxes.

15-3 The guidance in this Subtopic does not apply to the following transactions and activities:

a. Amounts payable or paid as a result of reinsurance contracts or arrangements that are in substance reinsurance, including assumed reinsurance activities and certain involuntary pools that are covered by Topic 944.

b. Assessments of depository institutions related to bank insurance and similar funds.

405-30-25 Recognition

Reporting Liabilities

25-1 Entities subject to assessments shall recognize liabilities for insurance-related assessments when all of the following conditions are met:

a. *Probability of assessment*. An assessment has been imposed or information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates it is probable that an assessment will be imposed.

b. *Obligating event*. The event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements.

c. *Ability to reasonably estimate*. The amount of the assessment can be reasonably estimated.

See Examples 1 through 3 (paragraphs 405-30-55-1 through 55-15) for illustrations of the computation of assessment liabilities.

Probability of Assessment

25-2 Premium-based guaranty-fund assessments, except those that are prefunded, are presumed probable when a formal determination of insolvency occurs, and presumed not probable before a formal determination of insolvency. For purposes of this Subtopic, a formal determination of insolvency occurs when an entity meets a state's (ordinarily the state of domicile of the insolvent insurer) statutory definition of an insolvent insurer. In most states, the entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation.

25-3 Prefunded guaranty-fund assessments and premium-based administrative-type assessments, as defined in paragraph 405-30-05-3, are presumed probable when the premiums on which the assessments are expected to be based are written. Loss-based administrative-type and second-injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

Obligating Event

25-4 Because of the fundamental differences in how assessment mechanisms operate, the event that makes an assessment probable (for example, an insolvency) may not be the event that obligates an entity. The following defines the event that obligates an entity to pay an assessment for each kind of assessment identified in this Subtopic:

a. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance entity cannot avoid paying a particular assessment even if that insurance entity reduces its premium writing in the future. In such circumstances, the event that obligates the entity is a formal determination of insolvency or similar triggering event. For example, in certain states, an insurance entity may remain liable for assessments even though the insurance entity discontinues the writing of premiums. In this circumstance, the underlying cause of the liability is not the writing of the premium, but the insolvency. Regulatory practice would be determined based on the stated intentions or prior history of the insurance regulators.

b. For loss-based assessments, the event that obligates an entity is an entity's incurring the losses on which the assessments are expected to be based.

Ability to Reasonably Estimate

25-5 One of the conditions (see paragraph 450-20-25-2(b)) for recognition of a liability is that the amount can be reasonably estimated. Paragraph 450-20-25-5 provides that some amount of loss can be reasonably estimated when available information indicates that the estimated amount of the loss is within a range of amounts. Paragraph 450-20-30-1 explains that, if no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued.

Applying the Recognition Criteria

25-6 Application of the recognition criteria in paragraphs 405-30-25-1 through 25-5 to the methods used to address guaranty-fund assessments and other insurance-related assessments, as described in paragraphs 405-30-05-3 through 05-6, is as follows:

a. *Retrospective-premium-based guaranty-fund assessments*. An assessment is probable of being imposed when a formal determination of insolvency occurs. At that time, the premium that obligates the entity for the assessment liability has already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. *Prospective-premium-based guaranty-fund assessments*. The event that obligates the entity for the assessment liability generally is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessments are to be based (for example, multiple-year contracts under which an insurance entity has no discretion to avoid writing future premiums). Therefore, the event that obligates the entity generally will not have occurred at the time of the insolvency. Law or regulatory practice affects the event that obligates the entity in either of the following ways:

    1. In states that, through law or regulatory practice, provide that an entity cannot avoid paying a particular assessment in the future (even if the entity reduces premium writings in the future), the event that obligates the entity is a formal determination of insolvency or a similar event. An entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments that cannot be avoided related to a particular insolvency when a formal determination of insolvency occurs.

    2. In states without such a law or regulatory practice, the event that obligates the entity is the writing of, or becoming obligated to write, the premiums on which the expected future assessments are to be based. An entity that has the ability to reasonably estimate the amount of the assessments shall recognize a liability when the related premiums are written or when the entity becomes obligated to write the premiums.

c. *Prefunded-premium-based guaranty-fund assessments*. A liability for an assessment arises when premiums are written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related premiums are written.

d. *Other premium-based assessments*. Other premium-based assessments, as described in paragraph 405-30-05-5, would be accounted for in the same manner as prefunded-premium-based guaranty-fund assessments.

e. *Loss-based assessments*. An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related loss is incurred.

25-7 Administrative-type assessments are generally expensed in the period assessed.

Asset for Premium Tax Offsets and Policy Surcharges

25-8 When it is probable that a paid or accrued assessment will result in an amount that is recoverable from premium tax offsets or policy surcharges, an asset shall be recognized for that recovery.

25-9 For retrospective-premium-based assessments, to the extent that it is probable that paid or accrued assessments will result in a recoverable amount in a future period from business currently in force considering appropriate persistency rates for long-duration contracts (see paragraph 405-30-30-11), an asset shall be recognized at the time the liability is recorded.

25-10 An asset shall not be established for paid or accrued assessments that are recoverable through future premium rate structures.

25-11 Policy surcharges that are required as a pass-through to the state or other regulatory bodies shall be accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed (meaning, similar to accounting for sales tax).

405-30-30 Initial Measurement

Estimating the Liability

30-1 Entities subject to assessments may be able to obtain information to assist in estimating the total guaranty-fund cost or the following years' assessments, as appropriate, for an insolvency from entities such as the state guaranty fund associations, the National Organization of Life and Health Insurance Guaranty Associations, and the National Conference of Insurance Guaranty Funds.

30-2 An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund will incur costs and pay claims that will determine the amounts and the timing of assessments.

30-3 The best available information about market share or premiums by state and premiums by line of business shall be used to estimate the amount of an insurance entity's future assessments.

30-4 If a noninsurance entity's assessments are based on premiums, it may be necessary to consider the amount of premium the self-insurer would have paid if it had insured its liability with an insurer. If a noninsurance entity's assessments are based on losses, it shall consider the losses that have been incurred by the entity when determining the liability. Most often, assessments that have an impact on noninsurance entities that self-insure workers' compensation obligations are for second-injury funds. Second-injury funds generally assess insurance entities and self-insurers based on paid losses.

30-5 A noninsurance entity may develop an accrual for its second-injury liability based on any of the following:

a. The ratio of the entity's prior period paid workers' compensation claims to aggregate workers' compensation claims in the state that was used as a basis for previous assessments

b. Total fund assessments in prior periods

c. Known changes in the current period to either the number of employees self-insured by the entity or the number of workers who are the subject of recoveries from the second-injury fund that might alter total fund assessments and the entity's proportion of the total fund assessments.

30-6 Estimates of loss-based assessments shall be consistent with estimates of the underlying incurred losses and shall be developed based on enacted laws or regulations and expected assessment rates.

30-7 Estimates of some insurance-related assessment liabilities may be difficult to derive. The development or determination of estimates is particularly difficult for guaranty-fund assessments because of uncertainties about the cost of the insolvency to the guaranty fund and the portion that will be recovered through assessment. Examples of uncertainties include the following:

a. Limitations, as provided by statute, on the amount of individual contract liabilities that the guaranty fund will assume, that cause the guaranty fund associations' liability to be less than the amount by which the entity is insolvent

b. Contract provisions (for example, credited rates) that may be modified at the time of the insolvency or alternative payout options that may be offered to contract holders that affect the level and payout of the guaranty fund's liability

c. The extent and timing of available reinsurance recoveries, which may be subject to significant uncertainties

d. Alternative strategies for the liquidation of assets of the insolvent entity that affect the timing and level of assessments

e. Certain liabilities of the insolvent insurer that may be particularly difficult to estimate (for example, asbestos or environmental liabilities).

30-8 Because of the uncertainties surrounding some insurance-related assessments, the range of assessment liability may have to be reevaluated regularly during the assessment process. For some ranges, there may be amounts that appear to be better estimates than any other within the range. If this is the case, the liability recorded shall be based on the best estimate within the range. For ranges in which there is no such best estimate, the liability that should be recorded shall be based on the amount representing the minimum amount in the range.

Present Value Measurement of the Obligation

30-9 Current practice in the insurance industry is to allow, but not require (with limited exceptions, such as pensions and postretirement benefits), the discounting of liabilities to reflect the time value of money when the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable for a particular liability.

30-10 Similarly, for assessments that meet those criteria, the liability may be recorded at its present value by discounting the estimated future cash flows at an appropriate interest rate.

Asset for Premium Tax Offsets and Policy Surcharges

30-11 The asset recognized under paragraph 405-30-25-8 shall be measured based on current laws and projections of future premium collections or policy surcharges from in-force policies. In determining the asset to be recorded, in-force policies do not include expected renewals of short-duration contracts but do include assumptions as to persistency rates for long-duration contracts.

30-12 The time value of money need not be considered in the determination of the recorded amount of a potential recovery if the liability is not discounted. In instances in which the recovery period for an asset is substantially longer than the payout period for the liability, it may be appropriate to record the asset on a discounted basis regardless of whether the liability is discounted.

30-13 The recognition of such assets related to prospective-premium-based assessments is limited to the amount of premium an entity has written or is obligated to write and to the amounts recoverable over the life of the in-force policies. The expected premium tax offset or policy surcharge asset related to the accrual of prospective-premium-based assessments shall be based on and limited to the amount recoverable as a result of premiums the insurer has written or is obligated to write.

405-30-35 Subsequent Measurement

Asset for Premium Tax Offsets and Policy Surcharges
35-1 The asset recorded under paragraph 405-30-25-8 for premium tax offsets and policy surcharges shall be subject to a valuation allowance to reflect any portion of the asset that is no longer probable of realization. Considering expected future premiums other than on in-force policies in evaluating the recoverability of premium tax offsets or policy surcharges is not appropriate.

405-30-50 Disclosure

50-1 Sections 275-10-50 and 450-20-55 address disclosures related to loss contingencies. That guidance is applicable to assessments covered by this Subtopic. Additionally, if amounts have been discounted, the entity shall disclose in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used. If amounts have not been discounted, the entity shall disclose in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

405-30-55 Implementation Guidance and Illustrations

Illustrations
Example 1: Prospective-Premium-Based Assessment
55-1 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a prospective-premium-based assessment. This kind of assessment is considered prospective because the assessment relates to premium written after the insolvency. As a result of insolvencies in prior years, ABC Property & Liability Insurance Company (ABC) expects to be assessed in the future by the guaranty fund in a state where it writes premiums. Any such assessments will be limited to 2 percent of premium writings in the prior year and are recoverable through premium tax offsets on a ratable basis over the 5-year period following the year of each assessment.

55-2 Although it does not expect to do so, ABC is free to cease writing the lines of business that are subject to the guaranty-fund assessments.

55-3 As of December 31, 19X0, ABC has neither paid nor received a notice of an assessment related to the insolvencies. Based on communications from the state guaranty association, ABC expects to receive an assessment in 19X1, which is allocated among entities based on 19X0 market share, for at least 1 percent of 19X0 premiums that are subject to the assessment. A best estimate cannot be determined, and no amount within the range of estimates (meaning, from 1 to 2 percent of 19X0 premiums) is a better estimate than any other amount, therefore the minimum amount in the range shall be accrued.

55-4 As of December 31, 19X0, ABC should recognize a liability equal to 1 percent of the premiums written in 19X0 that are subject to the assessment. No additional liability should be recognized, and no asset related to the premium tax offset should be recognized. Disclosure of the loss contingency of up to an additional 1 percent of the subject premiums should be considered.

55-5 ABC would recognize a liability only for those future assessments it is obligated to pay as a result of the premiums written. Because ABC is not obligated to write any future premiums, its liability is limited to that related to premiums written in 19X0. Because no amount within the range of estimates is a better estimate than any other amount, the minimum amount in the range is accrued. Further, because the premium tax offset is realizable only on business that will be written in the future (that is, 19X2 and subsequent years), no asset or receivable is recognized as of December 31, 19X0.

Example 2: Retrospective-Premium-Based Assessment

55-6 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a retrospective-premium-based assessment. As a result of an insolvency that occurred during 19X0, DEF Life and Health Insurance Company (DEF) expects to be assessed in the future by the guaranty fund in a state where it has written business. Any such assessment will be based on DEF's average market share, determined based on premiums that are subject to the assessment for the three years before the insolvency, and limited to 2 percent of the average annual subject premiums for the three years before the insolvency. Further, such assessments are recoverable through premium tax offsets over the five-year period following the year of payment for each assessment.

55-7 As of December 31, 19X0, DEF has not paid or received a notice of an assessment related to the insolvency. Based on initial input from the National Organization of Life and Health Insurance Guaranty Associations and experience with other insolvencies, DEF assumes that the first assessment will not be made until 19X3 and that it will take three to five annual assessments for the guaranty fund to be able to meet its obligations. Based on the estimated nationwide cost of the insolvency and the distribution of the insolvent entity's business, DEF estimates that its assessment will be at least 1 percent of the average annual premiums that are subject to the assessment. No amount within the range of estimates (meaning, from 1 to 2 percent of the average annual premiums for 3 to 5 years) is a better estimate than any other amount, therefore the minimum amount in the range shall be accrued.

55-8 As of December 31, 19X0, DEF should recognize a liability for 3 years of assessments at 1 percent of the average annual premiums that are subject to the assessment (that is, the assessments expected in 19X3, 19X4, and 19X5). Disclosure of the loss contingency for additional assessments (meaning, in 19X6 and 19X7) or assessment of greater than 1 percent of the average annual premiums that are subject to the assessment should be considered. An asset related to premium tax offsets that are available on accrued assessments would be recorded provided there were sufficient premium taxes based on business in force at December 31, 19X0 (with assumed levels of policy retention), to allow realization of the asset.

55-9 The resulting recognized liability and asset are as follows (shown on both a discounted and undiscounted basis, based on paragraphs 405-30-30-9 through 30-12, discounting is optional), assuming average annual subject premiums of $100,000 for the 3 years before the insolvency.

	Recorded at	Cash Payments									
Assessments	12/31/19X0	19X1	19X2	19X3	19X4	19X5	19X6	19X7	19X8	19X9	20X0
19X3 Assessment				1,000							
19X4 Assessment					1,000						
19X5 Assessment						1,000					
Total	3,000			1,000	1,000	1,000					
Premium tax offset											
19X3 Assessment [a]					200	200	200	200	200		
19X4 Assessment [a]						200	200	200	200	200	
19X5 Assessment [a]							200	200	200	200	200
Total	3,000				200	400	600	600	600	400	200
Present value of assessments At 12/31/19X0 [b]	2,470										
Present value of premium Tax offset at 12/31/19X0 [b]	2,139										

(a) Assumed that, based upon anticipated levels of policy retention from the business in force at December 31, 19X0, there will be sufficient premium to realize the premium tax offset.
(b) Discounted at 5 percent, assuming all assessments are paid and offsets realized at the end of each year.

55-10 DEF would record a liability for all future assessments related to the insolvency. Because no amount within the range of estimates (meaning, from 1 to 2 percent of the average annual premiums for 3 to 5 years) is a better estimate than any other amount, the minimum amount in the range (meaning, 1 percent per year for 3 years of assessments) is accrued.

55-11 Since it is assumed that based on the anticipated levels of policy retention from the business in force at December 31, 19X0, there will be sufficient premium to realize the premium tax offset, the premium tax offset is recorded.

Example 3: Loss-Based Assessment
55-12 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a loss-based assessment. GHI Industrial Company (GHI) is self-insured for workers' compensation and therefore participates in the second injury fund in the state where it conducts operations. GHI is entitled to recover from the fund some or all of the indemnity claims for previously injured workers. GHI is also subject to annual assessments (maximum of 1 percent per year) on indemnity claims paid each year.

55-13 Assessment rates have been climbing steadily, from 0.6 percent 5 years previous to 0.75 percent in 19X0.

55-14 As of December 31, 19X0, GHI should have an assessment liability recognized for 0.75 percent of its liability for the payment of future indemnity claims, unless there was information to support the assessment rate being reduced or the assessments being eliminated in the future. Disclosure of the loss contingency of up to an additional 0.25 percent of the liability for the payment of future indemnity claims should be considered.

55-15 GHI would recognize a liability based on the current assessment rate, unless there was clear evidence that the rate would change. The liability would be based on the entire liability base that was subject to the assessment.

RELEVANT LITERATURE

Statutory Accounting

- *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*

- *SSAP No. 35—Guaranty Fund and Other Assessments*
- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- *Issue Paper No. 35—Accounting for Guaranty Fund and Other Assessments*

Generally Accepted Accounting Principles

- *Accounting Standards Codification 405-30, Insurance-Related Assessments*
- *SOP 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*

State Regulations

- No additional guidance obtained from state statutes or regulations.

Statement of Statutory Accounting Principles No. 35 - Revised

Guaranty Fund and Other Assessments

Status

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Guaranty Fund and Other Assessments

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for guaranty fund and other assessments.

2. Guaranty fund assessments represent a funding mechanism employed by states to provide funds to cover policyholder obligations of insolvent reporting entities. Most states have enacted legislation establishing guaranty funds for both life and health insurance and for property and casualty insurance to provide for covered claims or to meet other insurance obligations of insolvent reporting entities in the state. ~~Guaranty funds generally make assessments after an insolvency based upon retrospective premium writings.~~

3. This statement addresses other assessments including but not limited to workers' compensation second injury funds and for funds that pay operating costs of an insurance department, a state guaranty fund, and/or the workers' compensation board. This statement also addresses health related assessments including but not limited to state health insurance high-risk pools, health insurance small group and individual reinsurance pools, state health demographic or risk adjustment assessments.

SUMMARY CONCLUSION

4. This statement adopts with modification guidance from *Accounting Standard Codification 405-30, Insurance-Related Assessments* (ASC 405-30) as reflected within this SSAP. Consistent with ASC 405-30-25-1, entities subject to assessments shall recognize liabilities for insurance-related assessments when all of the following conditions are met (paragraph 13 provides guidance on applying the recognition criteria): ~~applies *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5) to guaranty fund and other assessments. SSAP No. 5 requires accrual of a liability when both of the following conditions are met:~~

a. An assessment has been imposed or information available ~~Information available~~ prior to issuance of the statutory financial statements indicates that it is probable that an assessment will be imposed. ~~an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and~~

b. The event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements.

~~b.~~c. The amount of ~~loss~~ the assessment can be reasonably estimated.

~~For the purposes of subparagraph 4 b., loss generally means assessment or assessment rate.~~ Guaranty fund and other assessments shall be charged to expense (Taxes, Licenses and Fees) and a liability shall be accrued when the above criteria are met except for certain health related assessments which shall be reported as a part of claims. Health related assessments that are reported as a part of claims instead of taxes, licenses and fees are those assessments that are designed for the purpose of spreading the risk of severe claims or adverse enrollment selection among all participating entities, and where the funds collected via the assessment are re-distributed back to the participating entities based upon the cost of specific claims, enrollment demographics, or other criteria affecting health care expenses. This standard does not permit liabilities for guaranty funds or other assessments to be discounted.

5. For refunded guaranty or other fund assessments and assessments used to fund state operating expenses, reporting entities shall credit the refund or charge the assessment to expense when notification of the refund or assessment is made.

6. For premium-based guaranty fund assessments, except those that are prefunded, subparagraph 4a. is met when the insolvency has occurred~~, regardless of whether the assessments are based on premiums written before or after the insolvency~~. For purposes of applying this guidance, the insolvency shall be considered to have occurred when a reporting entity meets a state's (ordinarily the state of domicile of the insolvent reporting entity) statutory definition of an insolvent reporting entity. In most states, the reporting entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation. Prefunded guaranty-fund assessments and premium-based administrative type assessment are presumed probable when the premiums on which the assessments are expected to be based are written. Loss-based administrative-type and second injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

7. Subparagraph 4b requires that the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements. Based on the fundamental differences in how assessment mechanisms operate, the event that makes an assessment probable (for example, an insolvency) may not be the event that obligates an entity. The following defines the event that obligates an entity to pay an assessment:

   a. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance entity cannot avoid paying a particular assessment even if that insurance entity reduces its premium writing in the future. In such circumstances, the event that obligates the entity is a formal determination of insolvency or similar triggering event. For example, in certain states, an insurance entity may remain liable for assessments even though the insurance entity discontinues the writing of premiums. In this circumstance, the underlying cause of the liability is not the writing of the premium, but the insolvency. Regulatory practice would be determined based on the stated intentions or prior history of the insurance regulators.

   b. For loss-based assessments, the event that obligates an entity is an entity's incurring the losses on which the assessments are expected to be based.

~~7.~~8. Subparagraph 4 ~~b~~c. requires that the amounts can be reasonably estimated. For retrospective-premium-based guaranty fund assessments, a reporting entity's estimate of the liability shall reflect an estimate of its share of the ultimate loss expected from the insolvency. The reporting entity shall also estimate any applicable premium tax credits and policy surcharges. An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund making the assessment will incur costs and pay claims to determine the amounts and the timing of assessments. The best available information about market share or premiums by state and premiums by line of business generally should be used to estimate the amount of future assessments. Estimates of loss-based assessments should be consistent with estimates of the underlying incurred losses and should be developed based upon enacted laws or regulations and expected assessment rates. Premium tax credits or policy surcharges may only be considered in the estimate if it is probable they will be realized. Because of the uncertainties surrounding some insurance-related assessments, the range of assessment liability may have to be re-evaluated regularly during the assessment process. Changes in the amount of the liability (or asset) as information becomes available over time~~a result of the passage of time~~ and revisions to estimates in the amount or timing of the payments shall be recorded in taxes, licenses and fees.

~~8.~~9. In accordance with SSAP No. 5, when the reasonable estimate of the loss is a range, the amount in the range that is considered the best estimate shall be accrued. When, in management's opinion, no amount within management's estimate of the range is a better estimate than any other amount, however, the midpoint (mean) of management's estimate in the range shall be accrued. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued.

Reporting Assets for Premium Tax Offsets and Policy Surcharges

10. The liability for accrued assessments shall be established gross of any probable and estimable recoveries from premium tax credits and premium surcharges. When it is probable that a paid or accrued assessment will result in an amount that is recoverable from premium tax offsets or policy surcharges, an asset shall be recognized for that recovery in an amount that is determined based on current laws, projections of future premium collections or policy surcharges from in-force policies, and as permitted in accordance with subparagraphs 10a, 10b and 10c. Any recognized asset from premium tax credits or policy surcharges shall be re-evaluated regularly to ensure recoverability. Upon expiration, tax credits no longer meet the definition of an asset and shall be written off.

a. For ~~Because~~ assessments ~~are generally~~ paid before premium tax credits are realized or policy surcharges are collected, an asset ~~may~~ results, which represents a receivable for premium tax credits that will be taken and policy surcharges which will be collected in the future. These ~~amounts~~receivables, to the extent it is probable they will be realized, meet the definition of assets, as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. The asset shall be established and reported independent from the liability (not reported net).

b. Assets recognized from accrued liability assessments shall be determined in accordance with the type of guaranty fund assessment as detailed in the following subparagraphs. Assets recognized from accrued liability assessments meet the definition of an asset under SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement.

i. For retrospective-premium-based and loss-based assessments, to the extent that it is probable that accrued liability assessments will result in a recoverable amount in a future period from business currently in-force considering appropriate persistency rates for long-duration contracts, an asset shall be recognized at the time the liability is recorded. (In-force policies do not include expected renewals of short-term contracts.

ii. For prospective-premium-based assessments, the recognition of assets from accrued liability assessments is limited to the amount of premium an entity has written or is obligated to write and to the amounts recoverable over the life of the in-force policies. This SSAP requires reporting entities to recognize prospective-based-premium assessments as the premium is written or obligated to be written by the reporting entity. Accordingly, the expected premium tax offset or policy surcharge asset related to the accrual of prospective-premium-based assessments shall be based on and limited to the amount recoverable as a result of premiums the insurer has written or is obligated to write.

c. An asset shall not be established for paid or accrued assessments that are recoverable through future premium rate structures.

11. An evaluation of assets recognized under paragraph 10 shall be made in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5) to determine if there is any impairment. If, in accordance with SSAP No. 5, it is probable that the asset is no longer realizable, the asset shall be written off to the extent it is not realizable and charged to income in the period the determination is made. Considering expected future premiums other than on in-force policies in evaluating recoverability of premium tax offsets or policy surcharges is not permitted.

Acting as an Agent for Collection and Remittance of Fees and Assessments

~~10.~~12. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:

a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and

b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

Applying the Recognition Criteria

13. Application of the recognition criteria in paragraph 4:

a. *Retrospective-premium-based guaranty-fund assessments* - An assessment is probable of being imposed when a formal determination of insolvency occurs[1]. At that time, the premium that obligates the entity for the assessment liability has already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. *Prospective-premium-based guaranty-fund assessments* - The event that obligates the entity for the assessment liability generally is the writing of, or becoming obligated to

[1] As detailed within paragraph 6 for premium-based guaranty-fund assessments, an insolvency shall be considered to have occurred when a reporting entity meets a state's (ordinarily the state of domicile of the insolvent reporting entity) statutory definition of an insolvent reporting entity. In most states, the reporting entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation.

write or renew, the premiums on which the expected future assessments are to be based (for example, multiple-year contracts under which an insurance entity has no discretion to avoid writing future premiums). Therefore, the event that obligates the entity generally will not have occurred at the time of the insolvency. Law or regulatory practice affects the event that obligates the entity in either of the following ways:

i. In states that, through law or regulatory practice, provide that an entity cannot avoid paying a particular assessment in the future (even if the entity reduces premium writings in the future), the event that obligates the entity is a formal determination of insolvency or a similar event. An entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments that cannot be avoided related to a particular insolvency when a formal determination of insolvency occurs.

ii. In states without such a law or regulatory practice, the event that obligates the entity is the writing of, or becoming obligated to write, the premiums on which the expected future assessments are to be based. An entity that has the ability to reasonably estimate the amount of the assessments shall recognize a liability when the related premiums are written or when the entity becomes obligated to write the premiums.

c. *Prefunded-premium-based guaranty-fund assessments* - A liability for an assessment arises when premiums are written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related premiums are written.

d. *Other premium-based assessments* - Other premium-based assessments shall be accounted for in the same manner as prefunded premium-based guaranty-fund assessments.

e. *Loss-based assessments* - An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related loss is incurred.

f. *Administrative-type assessments* – As this assessment is typically an annual amount per entity assessed to fund operations of the guaranty association, regardless of the existence of an insolvency, such assessments are generally expensed in the period assessed.

Disclosures

~~11.~~14. A reporting entity shall disclose the following:

a. Describe the nature of any assessments that could have a material financial effect, by type of assessment, and state the estimate of the liability, identifying whether the corresponding liability has been recognized under paragraph 4, a liability has not been recognized as the obligating event has not yet occurred, or that an estimate cannot be made.

b. For ~~To the extent~~ assessments with liabilities recognized under paragraph 4, ~~have been accrued~~ disclose the amount~~s~~ of the recognized liabilities, any related asset for premium tax credits or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

c. Disclose assets recognized from paid and accrued premium tax offsets or policy surcharges, and include a reconciliation of assets recognized within the previous year's Annual Statement to the assets recognized in the current year's Annual Statement. The reconciliation shall reflect, in aggregate, each component of the increase and decrease in paid and accrued premium tax offsets and policy surcharges, including the amount charged off.

d. Disclosures shall be made in accordance with paragraph 14 of SSAP No. 5 when there is at least a reasonable possibility that the impairment of an asset from premium tax offsets or policy surcharges may have been incurred.

~~12.~~15. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

16. This statement ~~rejects~~ adopts GAAP guidance for recording guaranty fund and other assessments, which is contained in *Accounting Standards Codification 405-30, Insurance Related Assessments* (ASC 405-30) to the extent reflected in this SSAP.~~*AICPA Statement of Position 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*.~~ Statutory accounting modifications from ASC 405-30 are as follows:

a. The option to discount accrued liabilities (and reflect the time value of money in anticipated recoverables) is rejected for statutory accounting. Liabilities for guaranty funds or other assessments shall not be discounted.

b. The use of a valuation allowance for premium tax offsets and policy surcharges no longer probable for realization has been rejected for statutory accounting. Evaluation of assets shall be made in accordance with SSAP No. 5, and if it is probable that the asset is no longer realizable, the asset shall be written off and charged to income in the period the determination is made.

c. Guidance within ASC 405-30 pertaining to noninsurance entities has been rejected as not applicable for statutory accounting.

Effective Date and Transition

17. 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*. Substantive revisions to paragraphs 4, 6, 7, 8, 10, 11, 13 and 14 are initially effective for the reporting period beginning January 1, 2011. The result of applying this revised Statement shall be considered a change in accounting principle in accordance with SSAP No. 3. Pursuant to SSAP No. 3, the cumulative effect of changes in accounting principles shall be reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect recognized through surplus from initial application of this Statement shall reflect the removal of liabilities established under SSAP No. 35, and the re-establishment of liabilities required under SSAP No. 35R. If there is no change in the liabilities recognized (for example, retrospective-premium based assessments), no cumulative effect adjustment shall occur. With regards to assets, the entity shall complete an assessment of the SSAP No. 35 asset reported as of the transition date.

If it is determined that the reported asset exceeds what is allowed under SSAP No. 35R, then the excess asset shall be written-off, through unassigned funds, so the ultimate asset reflected corresponds with what is permitted under SSAP No. 35R. Although it is possible that the excess asset will be reinstated once the liability assessment is recognized (prospective-premium based assessments), it is inappropriate to continue to reflect an asset for assessments that are not reflected within the financial statements.

RELEVANT ISSUE PAPERS

- Issue Paper No. 35—Accounting for Guaranty Fund and Other Assessments
- Issue Paper No. 143—Prospective-Based Guaranty Fund Assessments

Exhibit A – Primary Methods of Guaranty Fund Assessments:

a. *Retrospective-premium-based assessments* - Guaranty funds covering benefit payments of insolvent life, annuity, and health insurance entities typically assess entities based on premiums written or received in one or more years before the year of insolvency. Assessments in any year are generally limited to an established percentage of an entity's average premiums for the three years preceding the insolvency. Assessments for a given insolvency may take place over several years.

b. *Prospective-premium-based assessments* - Guaranty funds covering claims of insolvent property and casualty insurance entities typically assess entities based on premiums written in one or more years after the insolvency. Assessments in any year are generally limited to an established percentage of an entity's premiums written or received for the year preceding the assessment. Assessments for a given insolvency may take place over several years.

c. *Prefunded-premium-based assessments* - This kind of assessment is intended to prefund the costs of future insolvencies. Assessments are imposed before any particular insolvency and are based on the current level of written premiums. Rates to be applied to future premiums are adjusted as necessary.

d. *Administrative-type assessments* - These assessments are typically a flat (annual) amount per entity to fund operations of the guaranty association, regardless of the existence of an insolvency.

d. *Other premium-based assessments* - Entities are subject to a variety of other insurance-related assessments. Many states and a number of local governmental units have established other funds supported by assessments. The most prevalent uses for such assessments are (*a*) to fund operating expenses of state insurance regulatory bodies (for example, the state insurance department or workers' compensation board) and (*b*) to fund second-injury funds.

   i. *Premium-based* - The assessing organization imposes the assessment based on the entity's written premiums. The base year of premiums is generally either the current year or the year preceding the assessment.

   ii. *Loss-based* - The assessing organization imposes the assessment based on the entity's incurred losses or paid losses in relation to that amount for all entities subject to that assessment in the particular jurisdiction.

Statement of Statutory Accounting Principles No. 35 - Revised

Guaranty Fund and Other Assessments

Status

Type of Issue:	Common Area
Issued:	Finalized March 13, 2000, Substantively Revised October 18, 2010
Effective Date:	January 1, 2001, Substantive revisions effective January 1, 2011
Affects:	No other pronouncements
Affected by:	No other pronouncements
Interpreted by:	INT 02-22, INT 03-01, INT 07-03

Guaranty Fund and Other Assessments

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for guaranty fund and other assessments.

2. Guaranty fund assessments represent a funding mechanism employed by states to provide funds to cover policyholder obligations of insolvent reporting entities. Most states have enacted legislation establishing guaranty funds for both life and health insurance and for property and casualty insurance to provide for covered claims or to meet other insurance obligations of insolvent reporting entities in the state.

3. This statement addresses other assessments including but not limited to workers' compensation second injury funds and for funds that pay operating costs of an insurance department, a state guaranty fund, and/or the workers' compensation board. This statement also addresses health related assessments including but not limited to state health insurance high-risk pools, health insurance small group and individual reinsurance pools, state health demographic or risk adjustment assessments.

SUMMARY CONCLUSION

4. This statement adopts with modification guidance from *Accounting Standard Codification 405-30, Insurance-Related Assessments* (ASC 405-30) as reflected within this SSAP. Consistent with ASC 405-30-25-1, entities subject to assessments shall recognize liabilities for insurance-related assessments when all of the following conditions are met (paragraph 13 provides guidance on applying the recognition criteria):

a. An assessment has been imposed or information available prior to issuance of the statutory financial statements indicates that it is probable that an assessment will be imposed.

b. The event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements.

c. The amount of the assessment can be reasonably estimated.

Guaranty fund and other assessments shall be charged to expense (Taxes, Licenses and Fees) and a liability shall be accrued when the above criteria are met except for certain health related assessments which shall be reported as a part of claims. Health related assessments that are reported as a part of claims instead of taxes, licenses and fees are those assessments that are designed for the purpose of spreading the risk of severe claims or adverse enrollment selection among all participating entities, and where the funds collected via the assessment are re-distributed back to the participating entities based upon the cost of specific claims, enrollment demographics, or other criteria affecting health care expenses. This standard does not permit liabilities for guaranty funds or other assessments to be discounted.

5. For refunded guaranty or other fund assessments and assessments used to fund state operating expenses, reporting entities shall credit the refund or charge the assessment to expense when notification of the refund or assessment is made.

6. For premium-based guaranty fund assessments, except those that are prefunded, subparagraph 4a. is met when the insolvency has occurred. For purposes of applying this guidance, the insolvency shall be considered to have occurred when a reporting entity meets a state's (ordinarily the state of domicile of the

insolvent reporting entity) statutory definition of an insolvent reporting entity. In most states, the reporting entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation. Prefunded guaranty-fund assessments and premium-based administrative type assessment are presumed probable when the premiums on which the assessments are expected to be based are written. Loss-based administrative-type and second injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

7. Subparagraph 4b requires that the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements. Based on the fundamental differences in how assessment mechanisms operate, the event that makes an assessment probable (for example, an insolvency) may not be the event that obligates an entity. The following defines the event that obligates an entity to pay an assessment:

a. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance entity cannot avoid paying a particular assessment even if that insurance entity reduces its premium writing in the future. In such circumstances, the event that obligates the entity is a formal determination of insolvency or similar triggering event. For example, in certain states, an insurance entity may remain liable for assessments even though the insurance entity discontinues the writing of premiums. In this circumstance, the underlying cause of the liability is not the writing of the premium, but the insolvency. Regulatory practice would be determined based on the stated intentions or prior history of the insurance regulators.

b. For loss-based assessments, the event that obligates an entity is an entity's incurring the losses on which the assessments are expected to be based.

8. Subparagraph 4 c. requires that the amounts can be reasonably estimated. For retrospective-premium-based guaranty fund assessments, a reporting entity's estimate of the liability shall reflect an estimate of its share of the ultimate loss expected from the insolvency. The reporting entity shall also estimate any applicable premium tax credits and policy surcharges. An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund making the assessment will incur costs and pay claims to determine the amounts and the timing of assessments. The best available information about market share or premiums by state and premiums by line of business generally should be used to estimate the amount of future assessments. Estimates of loss-based assessments should be consistent with estimates of the underlying incurred losses and should be developed based upon enacted laws or regulations and expected assessment rates. Premium tax credits or policy surcharges may only be considered in the estimate if it is probable they will be realized. Because of the uncertainties surrounding some insurance-related assessments, the range of assessment liability may have to be re-evaluated regularly during the assessment process. Changes in the amount of the liability (or asset) as information becomes available over time and revisions to estimates in the amount or timing of the payments shall be recorded in taxes, licenses and fees.

9. In accordance with SSAP No. 5, when the reasonable estimate of the loss is a range, the amount in the range that is considered the best estimate shall be accrued. When, in management's opinion, no

amount within management's estimate of the range is a better estimate than any other amount, however, the midpoint (mean) of management's estimate in the range shall be accrued. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued.

Reporting Assets for Premium Tax Offsets and Policy Surcharges

10. The liability for accrued assessments shall be established gross of any probable and estimable recoveries from premium tax credits and premium surcharges. When it is probable that a paid or accrued assessment will result in an amount that is recoverable from premium tax offsets or policy surcharges, an asset shall be recognized for that recovery in an amount that is determined based on current laws, projections of future premium collections or policy surcharges from in-force policies, and as permitted in accordance with subparagraphs 10a, 10b and 10c. Any recognized asset from premium tax credits or policy surcharges shall be re-evaluated regularly to ensure recoverability. Upon expiration, tax credits no longer meet the definition of an asset and shall be written off.

a. For assessments paid before premium tax credits are realized or policy surcharges are collected, an asset results, which represents a receivable for premium tax credits that will be taken and policy surcharges which will be collected in the future. These receivables, to the extent it is probable they will be realized, meet the definition of assets, as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement. The asset shall be established and reported independent from the liability (not reported net).

b. Assets recognized from accrued liability assessments shall be determined in accordance with the type of guaranty fund assessment as detailed in the following subparagraphs. Assets recognized from accrued liability assessments meet the definition of an asset under SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement.

    i. For retrospective-premium-based and loss-based assessments, to the extent that it is probable that accrued liability assessments will result in a recoverable amount in a future period from business currently in-force considering appropriate persistency rates for long-duration contracts, an asset shall be recognized at the time the liability is recorded. (In-force policies do not include expected renewals of short-term contracts.

    ii. For prospective-premium-based assessments, the recognition of assets from accrued liability assessments is limited to the amount of premium an entity has written or is obligated to write and to the amounts recoverable over the life of the in-force policies. This SSAP requires reporting entities to recognize prospective-based-premium assessments as the premium is written or obligated to be written by the reporting entity. Accordingly, the expected premium tax offset or policy surcharge asset related to the accrual of prospective-premium-based assessments shall be based on and limited to the amount recoverable as a result of premiums the insurer has written or is obligated to write.

c. An asset shall not be established for paid or accrued assessments that are recoverable through future premium rate structures.

11. An evaluation of assets recognized under paragraph 10 shall be made in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5) to determine if there is any impairment. If, in accordance with SSAP No. 5, it is probable that the asset is no longer realizable, the asset shall be written off to the extent it is not realizable and charged to income in the period the determination is made. Considering expected future premiums other than on in-force policies in evaluating recoverability of premium tax offsets or policy surcharges is not permitted.

Acting as an Agent for Collection and Remittance of Fees and Assessments

12. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:

a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and

b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

Applying the Recognition Criteria

13. Application of the recognition criteria in paragraph 4:

a. *Retrospective-premium-based guaranty-fund assessments* - An assessment is probable of being imposed when a formal determination of insolvency occurs[1]. At that time, the premium that obligates the entity for the assessment liability has already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. *Prospective-premium-based guaranty-fund assessments* - The event that obligates the entity for the assessment liability generally is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessments are to be based (for example, multiple-year contracts under which an insurance entity has no discretion to avoid writing future premiums). Therefore, the event that obligates the entity generally will not have occurred at the time of the insolvency. Law or regulatory practice affects the event that obligates the entity in either of the following ways:

i. In states that, through law or regulatory practice, provide that an entity cannot avoid paying a particular assessment in the future (even if the entity reduces premium writings in the future), the event that obligates the entity is a formal

[1] As detailed within paragraph 6 for premium-based guaranty-fund assessments, an insolvency shall be considered to have occurred when a reporting entity meets a state's (ordinarily the state of domicile of the insolvent reporting entity) statutory definition of an insolvent reporting entity. In most states, the reporting entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation.

determination of insolvency or a similar event. An entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments that cannot be avoided related to a particular insolvency when a formal determination of insolvency occurs.

ii. In states without such a law or regulatory practice, the event that obligates the entity is the writing of, or becoming obligated to write, the premiums on which the expected future assessments are to be based. An entity that has the ability to reasonably estimate the amount of the assessments shall recognize a liability when the related premiums are written or when the entity becomes obligated to write the premiums.

c. *Prefunded-premium-based guaranty-fund assessments* - A liability for an assessment arises when premiums are written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related premiums are written.

d. *Other premium-based assessments* - Other premium-based assessments shall be accounted for in the same manner as prefunded premium-based guaranty-fund assessments.

e. *Loss-based assessments* - An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related loss is incurred.

f. *Administrative-type assessments* – As this assessment is typically an annual amount per entity assessed to fund operations of the guaranty association, regardless of the existence of an insolvency, such assessments are generally expensed in the period assessed.

Disclosures

14. A reporting entity shall disclose the following:

a. Describe the nature of any assessments that could have a material financial effect, by type of assessment, and state the estimate of the liability, identifying whether the corresponding liability has been recognized under paragraph 4, a liability has not been recognized as the obligating event has not yet occurred, or that an estimate cannot be made.

b. For assessments with liabilities recognized under paragraph 4, disclose the amount of the recognized liabilities, any related asset for premium tax credits or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

c. Disclose assets recognized from paid and accrued premium tax offsets or policy surcharges, and include a reconciliation of assets recognized within the previous year's Annual Statement to the assets recognized in the current year's Annual Statement. The reconciliation shall reflect, in aggregate, each component of the increase and decrease in paid and accrued premium tax offsets and policy surcharges, including the amount charged off.

d. Disclosures shall be made in accordance with paragraph 14 of SSAP No. 5 when there is at least a reasonable possibility that the impairment of an asset from premium tax offsets or policy surcharges may have been incurred.

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

Relevant Literature

16. This statement adopts GAAP guidance for recording guaranty fund and other assessments, which is contained in *Accounting Standards Codification 405-30, Insurance Related Assessments* (ASC 405-30) to the extent reflected in this SSAP. Statutory accounting modifications from ASC 405-30 are as follows:

a. The option to discount accrued liabilities (and reflect the time value of money in anticipated recoverables) is rejected for statutory accounting. Liabilities for guaranty funds or other assessments shall not be discounted.

b. The use of a valuation allowance for premium tax offsets and policy surcharges no longer probable for realization has been rejected for statutory accounting. Evaluation of assets shall be made in accordance with SSAP No. 5, and if it is probable that the asset is no longer realizable, the asset shall be written off and charged to income in the period the determination is made.

c. Guidance within ASC 405-30 pertaining to noninsurance entities has been rejected as not applicable for statutory accounting.

Effective Date and Transition

17. 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*. Substantive revisions to paragraphs 4, 6, 7, 8, 10, 11, 13 and 14 are initially effective for the reporting period beginning January 1, 2011. The result of applying this revised Statement shall be considered a change in accounting principle in accordance with SSAP No. 3. Pursuant to SSAP No. 3, the cumulative effect of changes in accounting principles shall be reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect recognized through surplus from initial application of this Statement shall reflect the removal of liabilities established under SSAP No. 35, and the re-establishment of liabilities required under SSAP No. 35R. If there is no change in the liabilities recognized (for example, retrospective-premium based assessments), no cumulative effect adjustment shall occur. With regards to assets, the entity shall complete an assessment of the SSAP No. 35 asset reported as of the transition date. If it is determined that the reported asset exceeds what is allowed under SSAP No. 35R, then the excess asset shall be written-off, through unassigned funds, so the ultimate asset reflected corresponds with what is permitted under SSAP No. 35R. Although it is possible that the excess asset will be reinstated once the liability assessment is recognized (prospective-premium based assessments), it is inappropriate to continue to reflect an asset for assessments that are not reflected within the financial statements.

RELEVANT ISSUE PAPERS

- Issue Paper No. 35—Accounting for Guaranty Fund and Other Assessments
- Issue Paper No. 143—Prospective-Based Guaranty Fund Assessments

Exhibit A – Primary Methods of Guaranty Fund Assessments:

a. *Retrospective-premium-based assessments* - Guaranty funds covering benefit payments of insolvent life, annuity, and health insurance entities typically assess entities based on premiums written or received in one or more years before the year of insolvency. Assessments in any year are generally limited to an established percentage of an entity's average premiums for the three years preceding the insolvency. Assessments for a given insolvency may take place over several years.

b. *Prospective-premium-based assessments* - Guaranty funds covering claims of insolvent property and casualty insurance entities typically assess entities based on premiums written in one or more years after the insolvency. Assessments in any year are generally limited to an established percentage of an entity's premiums written or received for the year preceding the assessment. Assessments for a given insolvency may take place over several years.

c. *Prefunded-premium-based assessments* - This kind of assessment is intended to prefund the costs of future insolvencies. Assessments are imposed before any particular insolvency and are based on the current level of written premiums. Rates to be applied to future premiums are adjusted as necessary.

d. *Administrative-type assessments* - These assessments are typically a flat (annual) amount per entity to fund operations of the guaranty association, regardless of the existence of an insolvency.

e. *Other premium-based assessments* - Entities are subject to a variety of other insurance-related assessments. Many states and a number of local governmental units have established other funds supported by assessments. The most prevalent uses for such assessments are (*a*) to fund operating expenses of state insurance regulatory bodies (for example, the state insurance department or workers' compensation board) and (*b*) to fund second-injury funds.

   i. *Premium-based* - The assessing organization imposes the assessment based on the entity's written premiums. The base year of premiums is generally either the current year or the year preceding the assessment.

   ii. *Loss-based* - The assessing organization imposes the assessment based on the entity's incurred losses or paid losses in relation to that amount for all entities subject to that assessment in the particular jurisdiction.

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Ref# 2010-12

Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A

Issue: Clarify definitions of loan-backed and structured securities

Check (applicable entity):

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

Description of Issue:

Since the adoption of *SSAP No. 43R—Loan-backed and Structured Securities* (SSAP No. 43R) and because of the increased scrutiny of loan backed and structured securities, staff has received numerous inquiries on loan-backed or structured securities. Various regulators have also noted that some reporting entities are reporting certain securities which are clearly loan-backed or structured securities in other reporting categories. As such, there is a need to clarify the descriptions of loan-backed and structured securities in SSAP No. 43R.

Existing Authoritative Literature:

SSAP No. 43R—Loan-backed and Structured Securities provides the following:

> 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.

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

The current descriptions of loan-backed and structured securities were based on descriptions that were in the statutory accounting guidance prior to codification.

Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:
As noted above, some reporting entities are classifying structured securities or pass through certificates as bonds which are covered by *SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities* instead of loan-backed securities under SSAP No. 43 R.

Recommended Conclusion or Future Action on Issue:
It is recommended that the Statutory Accounting Principles Working Group expose the following nonsubstantive changes to SSAP No. 43 R:

> 2. Loan-backed securities are defined as ~~pass-through certificates, collateralized mortgage obligations (CMOs), and other~~ securitized assets~~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~~payments received by the issuer from the ~~mortgage~~ underlying assets ~~pool~~, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.
>
> 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~~payments received by the issuer from the ~~mortgage pool or other~~ underlying ~~securities~~assets.
>
> 4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring ~~parent~~ organization. ~~Mortgage loans or other securities~~The assets 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~~only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee ~~(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~~assets. Some sponsors do guarantee the performance of the underlying ~~loans~~assets.

Recommending Party:
Matti Peltonen
July 2010

Staff Recommendation:
Staff recommends that this issue be moved to the nonsubstantive active list and the proposed SSAP No. 43R revisions illustrated above be exposed for comment. In addition, the Working Group may want to request the Invested Assets Working Group to review the exposure draft.

Staff Review Completed by:
Robin Marcotte

Ref# 2010-12

Status:
On August 14, 2010, the Statutory Accounting Principles Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to SSAP No. 43R to clarify the definitions of loan-backed and structured securities as illustrated above.

On October 18, 2010, the Statutory Accounting Principles Working Group adopted as final the exposed revisions to SSAP No. 43R clarifying the definitions of loan-backed and structured securities. These revisions are effective January 1, 2011.

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Statutory Accounting Principles Working Group
2010 Maintenance Agenda
Pending Listing
October 4, 2010

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.
2010-16	7	AVR and IMR Determinations Through NAIC Designations	Rating Agency Working Group Referral	Recommends revisions to SSAP No. 7 as well as several SSAPs to provide statutory accounting guidance for allocating realized capital gains and losses to AVR and IMR. Also proposes to revise the Annual Statement Instructions to refer to the statutory accounting guidance.	A	10/4/2010	**Discussion Planned Fall 2011**
2010-17	52	Retained Asset Disclosure	Financial Condition (E) Committee	Recommends additional disclosures within SSAP No. 52 regarding retained assets	A	9/24/2010	This item was exposed by the Financial Condition (E) Committee until Oct. 8, 2010.
2010-18	99	Incorporate SSAP No. 99 Guidance Into Respective SSAPs	NAIC Staff	Recommends revisions to supersede SSAP No. 99 and incorporate revisions to SSAP Nos. 26, 32 and 34 to reflect the guidance previously included in SSAP No. 99. Although placement revision, it is considered a substantive change since SSAP No. 99 would be superseded. As this is just a placement revision, a new Issue Paper is not considered necessary.	A	10/4/2010	**Discussion Planned Fall 2011**
2010-19	62	Collateral Requirements for High Deductible Policies	Bernie Ganley of Chartis Re	Recommends revisions to allow a single deposit to cover multiple polices for multiple insured's.	A	10/4/2010	**Discussion Planned Fall 2011**
2010-20	22	Clarification of Treatment of the Early Termination of an Unexpired Lease	NAIC Staff	Recommends revisions to adopt the provisions within ASU 420 that specifically pertain to lease modifications or early termination in SSAP No. 22, with continued rejection of all other paragraphs (evidenced through the previous rejection of FAS 146) in SSAP No. 24. This action would result with the nullification of guidance previously adopted within EITF 88-10.	A	10/4/2010	**Discussion Planned Fall 2011**
2010-21	100	Clarification of Fair Value Disclosures	NAIC Staff	Recommends revisions to clarify the fair value disclosures within SSAP No. 100.	A	10/4/2010	**Discussion Planned Fall 2011**

Statutory Accounting Principles Working Group
2010 Maintenance Agenda
Substantive Listing
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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 - Staff directed to draft an IP. Oct. 2008 - IP proposes 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. Disclosure requirements of FIN 45 and FSP FIN 45-4 also proposed for adoption. Winter 2008 - Exposed IP No. 135. Spring 2009 - Staff directed to modify IP No. 135 to include exceptions within the body of the accounting guidance. Interested parties agreed to provide input on valuation of guarantees between related parties. Summer 2009 - Exposed revised IP 135. Fall 2009 - Adopted Issue Paper and directed staff to expose SSAP No. 5R. Winter 2009 - Re-exposed SSAP No. 5R to exclude wholly owned subsidiaries from the recognition requirement. Spring 2010 - Re-exposed SSAP No. 5R and directed staff to work with regulators and industry. Summer 2010 - Re-exposed SSAP No. 5R and SSAP No. 25. **Discussion in Fall 2010.**
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 state they will submit a proposal to amend SSAP No. 35 to adopt AICPA SOP 97-3 with modifications for statutory accounting. Winter 2008 - Received interested party proposal for adoption of 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. Winter 2009 - Subgroup update provided. Spring 2010 - Working Group received Subgroup referral and exposed Issue Paper No. 143 and proposed SSAP No. 35R for comment. Summer 2010 - Re-exposed SSAP No. 35R and IP 143. **Discussion expected in Fall 2010.**

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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. Spring 2010 - Working Group discussed information previously received from VOSTF Working Group deferred action to allow for additional review.
2008-14	SSAP No. 91	Measurement of Sufficient Collateralization for Securities Lending Transactions	AIG	Amendments to SSAP No. 91R to clarify securities lending. Includes new reporting schedules to document securities lending activity.	A	5/31/2008	In Summer 2008 staff 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 - 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. Winter 2009 - Subgroup update received. Working Group exposed Securities Lending Subgroup Recommendation until January 29, 2010. Spring 2010 - Working Group received Subgroup referral and exposed substantive revisions to SSAP No. 91R with a comment deadline of April 29, 2010. May 2010 - Adopted revised guidance. **Development of related Issue Paper expected in Fall 2010.**

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Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
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 - Requested industry comment on the proposal to eliminate the modification that excludes nonvested employees for pensions and OPEB plans. June 2007 - Working Group directed staff to draft an issue paper. Winter 2007 Issue Paper 132 and Issue Paper 133 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 draft 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. Summer 2010 - Revised SSAPs exposed. **Discussion planned in Fall 2010.**
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, Fall and Winter 2009 - Subgroup update received.
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. Winter 2009 - Discussed interested parties request to consider item - elected to continue deferral.
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.
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. Winter 2009 - Exposed IP No. 141 and formed Subgroup to review (joint subgroup with item #2009-15). Spring 2010 - The Working Group received comments on the exposed Issue Paper and referred them to the FAS 166/167 Subgroup.

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Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
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. Winter 2009- Exposed IP No. 142 for comment and formed subgroup to review (joint subgroup with item #2009-14). Spring 2010 - The Working Group received comments on the exposed Issue Paper and referred them to the FAS 166/167 Subgroup.
2010-03	81	ASU 2010-04: Certain Revenue Arrangements That Include Software Elements	GAAP Hierarchy	Recommends a SSAP No. 16R to incorporate all statutory accounting guidance related to software. Proposes to supersede SSAP No. 79, SSAP No. 81 and SSAP No. 82 and to make revisions to SSAP No. 17 and SSAP No. 87. Also proposes nonsubstantive adoption of ASU 2009-14.	A	8/14/2010	Summer 2010 - Exposed SSAP No. 16R and proposed modifications to other SSAPs. **Discussion expected in Fall 2010.**
2010-09	SSAP No. 10R	DTA Admission – SSAP No. 10R Analysis	SAPWG	As detailed in SSAP No. 10R, a Subgroup has been formed to complete discussion to determine the appropriate admission threshold for DTAs.			Summer 2010 - Update from DTA Subgroup. Exposed nonsubstantive revisions to SSAP No. 10R to extend sunset for one-year and to incorporate disclosures for tax-planning strategies. On Sept. 8, 2010 the sunset extension and tax-planning strategy disclosures were adopted. Discussion on the admittance of DTAs will continue by the DTA Subgroup and SAPWG.
2010-10	New SSAP SSAP No. 56	ASU 2010-15, Financial Services - Insurance - How Investments Held Through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments	GAAP Hierarchy	Referred this item to the FAS 166/167 Subgroup.	A	8/14/2010	Not Scheduled.
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)

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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	Dec. 2004 - Item to be researched. Possible addition of a disclosure requirement to SSAP No. 51. Oct. 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. Spring 2010 - Discussed item noting that public disclosure of information relative to insurers' exposure to stress liquidity risk is a key component in imposing discipline on insurer practices. Interested parties agreed to provide additional information by the May 28, 2010 comment deadline. Summer 2010 - Discussed IP provided information. **Discussion expected Spring 2011.**
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 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).
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.

Statutory Accounting Principles WG
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Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
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.
2009-11	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.
2010-06	New SSAP	ASU 2010-07, Consolidation (Topic 810) - Amendments for Certain Investment Funds	GAAP Hierarchy	Recommends that the item be moved to the nonsubstantive active listing with direction to the FAS 166 and 167 Subgroup to consider the guidance in accordance with comments received on IP No. 142	A	3/26/2010	Spring 2010 - Working Group directed the FAS 166/167 Subgroup to consider this item in addition to the review of comments received on Issue Paper Nos. 141 and 142. (see also #2009-14 and #2009-15)
2010-08	Appendix F	Policy Statement on Coordination with Valuation Manual	NAIC Staff	Proposes AP&P Manual policy statement for coordination with Valuation Manual	A	3/26/2010	Spring 2010 - Exposed a policy statement on coordination with the Valuation Manual for inclusion within Appendix F of the Accounting Practices and Procedures Manual. (The proposed policy statement is currently included within the Valuation Manual.) Summer 2010 - Re-exposed the proposed policy statement with revisions discussed during the meeting. **Discussion expected Fall 2010.**
2010-11	Various	Superseded Items Within the NAIC AP&P Manual	NAIC Staff	Proposes revisions to remove 100% superseded SSAPs and INTs from Volume I of the Manual and include those items within a new Appendix H (Volume III) in the Manual	A	8/14/2010	**Discussion expected Fall 2010.**
2010-12	SSAP No. 43R	Clarify Definitions of Loan-Backed and Structured Securities	NAIC Staff	Proposes revisions to SSAP No. 43R to revise definitions in the SSAP as proposed by NY.	A	8/14/2010	**Discussion expected Fall 2010.**
2010-13	SSAP No. 86	ASU 2010-08, Technical Corrections to Various Topics	GAAP Hierarchy	Proposes revisions to SSAP No. 86 to mirror FASB revisions in ASU 2010-08 for GAAP guidance previously adopted for statutory. Other aspects from the ASU 2010-08 are proposed to be rejected for statutory accounting.	A	8/14/2010	**Discussion expected Fall 2010.**
2010-14	IP 99	ASU 2010-16, Entertainment - Casino: Accruals for Casino Jackpot Liabilities	GAAP Hierarchy	Proposes revisions to Issue Paper No. 99 rejecting ASU 2010-16 as not applicable to statutory accounting.	A	8/14/2010	**Discussion expected Fall 2010.**

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Ref #	Statement Reference	Title	Proposed By	Description of Change	Priority	Moved to Active	Status
2010-15	51, 52 &61	Expand Withdrawal Disclosures	MN Dept of Insurance	Proposes nonsubstantive changes to SSAP Nos. 51, 52 and 61 disclosures with an effective date beginning Jan. 1, 2011	A	8/14/2010	**Discussion expected Fall 2010.**
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.

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Draft: 10/4/10

Statutory Accounting Principles (E) Working Group
Conference Call
September 24, 2010

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met via conference call Sept. 24, 2010. The following members participated: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Kim Hudson (CA); Jim Hanson (IL); Pamela Heemer (MI); Tom Burke (NH); Dale Bruggeman (OH); Steve Johnson (PA), David Smith (VA); Jamie Walker (TX) and Peter Medley (WI).

1. Financial Accounting Standards Board (FASB) Financial Instruments Comment Letter

Mr. Fritsch stated that the focus of the call was to discuss the draft Working Group comment letter response to the FASB exposed standard regarding financial instruments, noting that no comments had been received on the comment letter during the exposure period. He advised that some interested parties had commented directly to the FASB, and copies of those letters had been provided to the Working Group.

Rose Albrizio (AXA Equitable representing American Council of Life Insurers—ACLI and the Group of North American Insurance Enterprises—GNAIE) commented that they support an accounting model that reflects the business strategy and business model of the entity. Thus, they support the use of a mixed attribute model that includes amortized cost. She noted that it is important for the adopted standard to allow matching of the asset measurement with the liability measurement.

Mr. Fritsch summarized the Working Group comments, noting that the FASB and International Accounting Standards Board (IASB) appear to be going in different directions, and it is desired to have a consistent approach between the two accounting standards. He advised that the FASB financial instrument exposure draft focuses on a fair value measurement, whereas the adopted IASB guidance in International Financial Reporting Standard (IFRS) 9 incorporates a mixed model of either fair value or amortized cost depending on the characteristics of the financial instrument. Mr. Fritsch advised that although statutory accounting currently uses more of an amortized cost basis, the use of fair value for statutory reporting purposes could be addressed by adjusting risk-based capital (RBC).

Diane Behrens (State Farm representing GNAIE) also identified that IFRS 9 is an adopted standard, whereas the FASB issue is simply a draft standard out for exposure. She noted that the differences between the standards highlights concerns regarding the convergence of the IASB and FASB. She advised that fair value reporting would not support regulation or transparency. She stated that the Working Group comment letter seems to encourage recording measurements at fair value, with disclosures provided that detail amortized cost. However, she believes the letter should focus on the opposite approach—recording at amortized cost, disclosures at fair value—for the insurance industry. She advised that fair value measurements could be either depressed or inflated, thus creating a false picture of the company.

Mr. Fritsch advised that fair value for statutory accounting is a possibility, noting that considerations on this issue are also being considered by the International Association of Insurance Supervisors (IAIS) for international standards. He reiterated that if measurements were revised to reflect a fair value basis, statutory accounting would react through RBC.

Dan Daveline (NAIC) stated that the interested parties' comments are very accurate regarding the emphasis in the draft letter pertaining to a possible shift to IFRS or U.S. Generally Accepted Accounting Principles (GAAP), but does not see why regulators would want to change their accounting model at this time. He stated that the intent of the comment letter is to communicate the desire to have a process that would work well for regulators. Based on past needs, consistency is a theme, and this is emphasized in this comment letter. He noted that the most important focus of the letter is to voice the regulators' viewpoint when the roundtable discussions begin. Mr. Fritsch suggested revising the comment letter to identify pros and cons of the fair value method, as well as benefits of the amortized method. Mr. Hudsonagreed and stated that the comment letter should make it clear that the decision has not been made as to which method statutory accounting will use.

Rob Esson (NAIC) advised that IFRS 9 requires amortized cost reporting if the financial instruments meet specific business model requirements, thus the regulators may want to make a comment that at present the IFRS 9 standard is closer to current statutory requirements. He noted that although there is a fair value option, there would be fewer changes for statutory if FASB converged with IFRS 9 than if FASB proceeded with the current proposal. Mr. Hudson agreed with these suggestions.

Mr. Medley commented that the Working Group comments made in response to this FASB exposure draft would not bind the Working Group on future statutory accounting decisions.

Mr. Fritsch suggested incorporating two separate comments to be clear that a decision has not been made for statutory accounting and to communicate that amortized cost has worked historically. He also suggested that the letter identify some of the issues with the use of fair value, as well as some of the options regulators could implement if a decision is made to use fair value for financial instruments. He agreed with including a comment that IFRS would be less of a change for statutory accounting.

Keith Bell (Travelers) commented that the FASB does not want comments from the statutory accounting perspective. Rather, the FASB wants comments from the general purpose perspective. He stated that it would be better if the comments first focused on what makes sense from a conceptual viewpoint for general purpose financial statements, with secondary comments from a statutory perspective. He noted that the regulators have the ability to request information they need from reporting entities in the format or measurement method considered necessary.

Ms. Behrens stated if the purpose of the letter is to get a seat at the roundtable, then the comment letter could simply provide an overview of the issues, without specific comments, but with an indication that insurance regulators are interested in the debate because U.S. GAAP is considered in developing statutory accounting principles. Mr. Fritsch agreed that we need to state that we use U.S. GAAP as the basis for statutory accounting, and if IFRS 9 is adopted, there would be fewer changes for statutory accounting. He also agreed with incorporating comments as to state why insurance regulators need to be at the roundtable discussions.

Mr. Medley inquired on the comments provided in the first paragraph regarding how insurance regulators review the GAAP framework in establishing statutory accounting principles, and why that would be relevant to FASB. Mr. Daveline stated that the exposure draft referred to regulators' use of financial instruments and presentations. Also, the regulators would not be considering a change if it were not for the possibility of a policy change. Mr. Esson stated that FASB knows this is going on and if not acknowledged in the letter, it might raise more questions. Mr. Fritsch stated that changing the measurement method for financial instruments would be a major modification to statutory accounting once a convergence method is determined. This is part of why it will be important for regulators to be included in the roundtable.

Mr. Bell inquired whether the NAIC had contacted the FASB as the comment deadline to participate in the roundtable discussions was Sept. 1. Mr. Esson advised that FASB had been contacted and the NAIC will have a seat as long as the comments are submitted. Once an agreement is reached on the tone of the letter, it is expected the NAIC comment letter will be distributed to the FASB.

Mr. Fritsch stated that the tone of the letter should emphasize why the measurement change is important to regulators, clearly indicate that a decision has not been made for either fair value or amortized cost for statutory accounting, list pros and cons regarding the different measurement methods for future discussion, and advise that IFRS 9 is closer to current requirements under statutory accounting.

Jay Muska (Travelers) inquired on whether the regulators had considered a company's own debt. Mr. Esson commented that the International Association of Insurance Supervisors (IAIS) have argued that the own-credit-standing aspect for own debt should not be included in determining fair value. It was noted that changes in fair value go through earnings. Mr. Bell agreed to send suggested language regarding this issue for inclusion in the comment letter. It was also suggested that the comment letter consider addressing the exception for fair value for equity method investees.

Ms. Behrens suggested omitting question 1 and answering question 3 in the comment letter, noting that the point of both is that deposit-type contracts and investment contracts (written by insurance companies as part of their operations) should be governed by the Insurance Contracts Standard. She noted that question 1 has other related items that may not need to be addressed by the Working Group at this time (i.e., company's own debt). Mr. Daveline indicated that the language to be sent by Mr. Bell, after review, may still be included on Question 1.

John Tittle (NAIC) advised that staff will make changes and redistribute, with a request for an e-mail vote to adopt and distribute to the FASB. Upon a motion from Mr. Hudson, seconded by Mr. Medley, the Working Group unanimously agreed to modify the letter in accordance with the discussion, redistribute for e-mail vote, and then distribute to the FASB. Ed Stephenson (GNAIE) requested that the updated letter be circulated to interested parties. It was noted that due to the desire to have the comment letter to the FASB as quickly as possible, there would only be one or two days for interested parties to make additional comments.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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Draft: 11/1/10

Statutory Accounting Principles (E) Working Group
E-mail Vote
September 27, 2010

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-mail vote Sept. 27, 2010. The following members were contacted via e-mail: Joseph Fritsch, Chair (NY); Jim Armstrong, Vice Chair (IA); Kim Hudson (CA); Linda Sizemore and David Lonchar (DE); Jim Hanson, Kevin Fry, Eric Moser and Ken Skiera (IL); Caroline Brock, Denise Brignac and Steward Guerin (LA); Judy Weaver (MI); Tom Burke (NH); Louis Felice, Dennis Fernez, Tim Nauheimer 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>Voted to Adopt SAPWG – FASB Financial Instruments Comment Letter</u>

On Sept. 24, the Working Group held an interim conference call and directed NAIC staff to update the draft comment letter responding to the Financial Accounting Standards Board (FASB) Financial Instruments exposure as discussed and to incorporate suggested language provided by interested parties. During this conference call, the Working Group agreed to consider adoption of the comment letter via e-mail vote.

On Sept. 27, the Working Group received the updated comment letter and was asked to vote via e-mail to adopt and submit it to the FASB. On a motion received by e-mail from Mr. Hudson, seconded by Mr. Armstrong, the following states responded in the affirmative for adoption and submission to the FASB: California, Delaware, Iowa, Illinois, Louisiana, Michigan and New Hampshire. No responses were received objecting to the motion.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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Draft: 10/19/10

Blanks (E) Working Group
Orlando, FL
October 18, 2010

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Orlando, FL, Oct. 18, 2010. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Gloria Glover (AK); Al Franz (DE); Al Willis (FL); Eric Moser (IL); Cindy Donovan (IN); David Hurt (KY); Tom Record (ME); John Sands (MI); Jim Nixon (NE); Thomas Burke (NH); Russell Jones (NJ); Mathanji Shankar (OK); Russell Latham (OR); Steve Johnson (PA); Larry Knight (TN); Ken McGuckin (VT); and Leah Cooper (WV). Also participating was: Matti Peltonen (NY).

1. Received Memorandums

Mr. Garn stated that two memorandums were received from the Statutory Accounting Principles Working Group regarding changes adopted during the Summer 2010 National Meeting. One memorandum related to the SSAP 100 – Fair Value Measurements changes to be reflected in the disclosure reporting for Note 20 – Fair Value Measurements (Attachment Two-F). The second memorandum included changes to Note 9 – Income Taxes resulting from SSAP 10R – Income Taxes disclosure revisions, specifically related to deferred taxes (Attachment Two-G).

A memorandum was received from the Financial Conditions (E) Committee regarding a proposed disclosure for retained assets accounts for life insurers in Note 9 – Other Items which the Committee intends to adopt during the 2010 Fall National Meeting (Attachment Two-H). Mr. Garn indicated that in the event the disclosure is adopted by the Committee, the updated instruction will be posted to the NAIC web site. Upon a motion by Mr. Hudson, seconded by Mr. McGuckin, the Working Group voted unanimously to receive the memorandums.

2. Items Previously Exposed

a. Add a New Question to the General Interrogatories Part 1 Regarding Letters of Credit Unrelated to Reinsurance Capturing the American Bankers Association (ABA) Routing Number, Issuing or Confirming Bank's Name and the Circumstances Where the Letter of Credit Might be Triggered (2010-14BWG Modified) Effective 12/31/2011.

   Mr. Johnson stated that the proposal adds a general interrogatory to indicate if the company has any letters of credit unrelated to reinsurance. The disclosure asks for the name of the bank, the bank's routing number and circumstances that can trigger the letter of credit. Interested parties asked that the disclosure be limited to just those with a NAIC rating of 3 or below. Working Group members agreed with the modification. Mr. Johnson stated that an additional clarification would be made to line 15.1 adding the phrase "with a NAIC rating of 3 or below" to make it clear that the question is asking if the company has any letters of credit with a 3 or below rating, and if so, companies would disclose those items in the 15.2 table.

   Upon a motion by Mr. Franz, seconded by Ms. Glover, the Working Group voted unanimously to adopt the modifications to the proposal. Upon a motion by Mr. Johnson, seconded by Ms. Cooper, the Working Group voted unanimously to adopt the modified proposal (Attachment Two-A).

b. Add a New Interrogatory to the General Interrogatories Part 1 for Modified Duration Buckets Using Five Different Interest Rate Scenarios. Add a New Column (Electronic Only) for Modified Duration in Schedule D Part 1. Add a New Column (Electronic Only) for Modified Duration in Schedule D Part 2 Section 1 (2010-16BWG).

   Mr. Peltonen stated that this proposal adds a general interrogatory to assist regulators in looking at asset adequacy. He stated that a bond portfolio could be measured against the liabilities to evaluate the risk. Milum Livesay (Genworth Financial) stated that this information could be used for pricing and could be included with other public information. He stated that information is similar to that of other cash flow testing activities that are treated as regulator only information. He suggested that this information be reported for regulator only use and be kept confidential. Mr. Livesay suggested that the proposal be deferred to allow more time for discussion of the issue.

Mr. Peltonen stated that he does not believe the information to be confidential. The interrogatory addresses the balance sheet as a whole, not specific assets against specific liabilities. Mr. Garn asked if the matter was deferred and the confidential issue resolved, would that address all the issues or are there others to discuss. Mr. Livesay stated that the actuarial opinion supplement could include this information as a confidential document. He stated that interested parties would like to work with regulators to evaluate the disclosure and suggest a suitable reporting location and to discuss the intended use of the information. He stated that some of this information is already available in other parts of the filing or in analysis. Mr. Livesay suggested that the issue reside with the Blanks Working Group until interested parties and regulators could discuss and evaluate an alternative route or the need to refer to another group such as the Life Health Actuarial Task Force or the Casualty Actuarial Task Force.

Mr. Peltonen stated that he would agree with deferring this proposal for further discussion to evaluate the confidentiality issues and whether any referrals are needed. Upon a motion by Mr. Hudson, seconded by Mr. Johnson, the Working Group voted unanimously to defer the proposal for further discussion.

c. Modify the Definition of "All Other Governments" in the Investment General Instructions to Include Bonds Issued by Corporate Entities that are Fully Guaranteed by Non-U.S. Governments (2010-17BWG) Effective12/31/2011.

Mr. Peltonen stated that this proposal is a clarification indicating that bonds fully guaranteed by non-U.S. governments should be recorded in the "All Other Governments" category. He stated that most companies currently report this way however there are a few that may not be reporting correctly. He stated that this should not require any systems changes. Mr. Livesay stated that interested parties would prefer a first quarter 2012 effective date but indicated agreement with the clarification and the annual effective date.

Upon a motion by Ms. Glover, seconded by Mr. Hudson, the Working Group voted unanimously to adopt the proposal (Attachment Two-B).

d. Add Instructions from the Property Schedule P, Parts 2, 3 and 4 Instructions for "Prior" Line to the Schedule P, Parts 2, 3 and 4 Instructions of the Workers' Compensation Carve-Out Supplement (2010-18BWG) Effective 12/31/2011.

Mr. Johnson stated that this proposal provides instruction for the Workers' Compensation Carve-Out Supplement for life filers. This instruction clarifies the reporting for the prior year line. Upon a motion by Mr. Johnson, seconded by Mr. Moser, the Working Group voted unanimously to adopt the proposal (Attachment Two-C).

e. Add New Code "B" to the Foreign Code Matrix in the Investment General Instructions (2010-19BWG) Effective 12/31/2011.

Mr. Peltonen stated that this proposal adds a new code to the code matrix for the Schedule D and Schedule DA reporting to capture one additional scenario of Canadian securities issued in a foreign country but denominated in U.S. dollars. Upon a motion by Mr. Johnson, seconded by Mr. Willis, the Working Group voted unanimously to adopt the proposal (Attachment Two-D).

3. New Items

a. Modify the Instruction and Illustration for Note 32, A Through E, to Disclose the General Account and Separate Account Amounts as Well as the Total (2010-15BWG).

Mr. Garn stated that this proposal was deferred during the 2010 Summer National Meeting pending adoption of the amended disclosure by the Statutory Accounting (E) Working Group. Mr. Garn stated that this proposal modifies the illustration and instruction for the general and separate accounts with and without guarantees for the Note 32 – Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics. This issue was adopted by the Statutory Accounting Working Group during the 2010 Fall National Meeting. This proposal is being re-submitted as a new item to the Blanks Working Group. Upon a motion by Mr. Knight, seconded by Mr. Johnson, the Working Group voted unanimously to expose the proposal for comment.

b. Modify the Instruction and Matrix for the NAIC Designation Column for Bonds for Three New Suffixes (AM, FM and SM) (2010-20BWG).

Mr. Peltonen stated that this proposal adds instruction and additional codes to the NAIC designation columns in Schedule D, Part 1, 2, and 3. The codes include AM for ARO rated, modified designation securities where the second lowest rating equivalent NAIC designation is modified by the insurer's carrying value; FM for financial modeling where the NAIC designation is based on financial modeling, incorporating the insurer's carrying value for the security; SM where the SVO assigned modified designation and the NAIC designation assigned by the SVO is modified by the insurer's carrying value. Upon a motion by Mr. Johnson, seconded by Mr. Knight, the Working Group voted unanimously to expose the proposal for comment.

4. Review Editorial Listing

Upon a motion by Mr. Hudson, seconded by Mr. Johnson, the Working Group voted unanimously to adopt the editorial changes (Attachment Two-E).

5. Other Matters

Mr. Garn stated that the comment deadline for the Spring 2011 National Meeting is Feb. 24, 2011. Having no further business, the Blanks (E) Working Group adjourned.

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 04/27/2010	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2010-14BWG MOD
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Steve Johnson	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Deputy Insurance Commissioner	No Impact [X]
AFFILIATION: Pennsylvania Insurance Department	Modifies Required Disclosure [ ]
ADDRESS: 1345 Strawberry Sq.	**DISPOSITION**
Harrisburg, PA 17120	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment [X] Adopted Date 10/18/2010 [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT** [ ] **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: Annual 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a new question to the General Interrogatories Part 1 regarding letters of credit unrelated to reinsurance, with a NAIC rating of 3 or below, capturing the American Bankers Association (ABA) routing number, issuing or confirming bank's name and the circumstances where the letter of credit might be triggered, aggregated by bank.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to provide a way for regulators to identify reporting entities who are the beneficiary of a letter of credit from a bank or banks whose rating is below investment grade and provide information as to the circumstances that may trigger the letter of credit.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL STATEMENT BLANK – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

Detail Eliminated To Conserve Space

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [ ] No [ ]

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c. Compliance with applicable governmental laws, rules and regulations;

d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e. Accountability for adherence to the code.

14.11 If the response to 14.1 is no, please explain: ....

14.2 Has the code of ethics for senior managers been amended? Yes [ ] No [ ]

14.21 If the response to 14.2 is yes, provide information related to amendment(s). ....

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [ ]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s). ....

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance, with a NAIC rating of 3 or below? Yes [ ] No [ ]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount

GENERAL INTERROGATORIES

BOARD OF DIRECTORS

~~15~~16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [ ] No [ ]

~~16~~17. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [ ] No [ ]

~~17~~18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [ ] No [ ]

FINANCIAL

~~18~~19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [ ]

~~19~~20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

~~19~~20.11 To directors or other officers $ ____________

~~19~~20.12 To stockholders not officers $ ____________

~~19~~20.13 Trustees, supreme or grand (Fraternal only) $ ____________

~~19~~20. 2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

~~19~~20.21 To directors or other officers $ ____________

~~19~~20.22 To stockholders not officers $ ____________
~~19~~20.23 Trustees, supreme or grand (Fraternal only) $ ____________

~~20~~21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [ ]

~~20~~21.2 If yes, state the amount thereof at December 31 of the current year:

~~20~~21.21 Rented from others $ ____________
~~20~~21.22 Borrowed from others $ ____________
~~20~~21.23 Leased from others $ ____________
~~20~~21.24 Other $ ____________

~~21~~22.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [ ] No [ ]

~~21~~22.2 If answer is yes:

~~21~~22.21 Amount paid as losses or risk adjustment $ ____________
~~21~~22.22 Amount paid as expenses $ ____________
~~21~~22.23 Other amounts paid $ ____________

~~22~~23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ ] No [ ]

~~22~~23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ ____________

INVESTMENT

~~23~~24.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in ~~23~~24.3) Yes [ ] No [ ]

~~23~~24.2 If no, give full and complete information, relating thereto..

~~23~~24.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided) ....

....

~~23~~24.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] N/A [ ]

~~23.~~245 If answer to ~~23~~24.4 is yes, report amount of collateral for conforming programs. $ ____________

~~23~~24.6 If answer to ~~23~~24.4 is no, report amount of collateral for other programs. $ ____________

GENERAL INTERROGATORIES

~~24~~25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory ~~20~~21.1 and ~~23~~24.3). Yes [ ] No [ ]

~~24~~25.2 If yes, state the amount thereof at December 31 of the current year:

~~24~~25.21 Subject to repurchase agreements $ ____________
~~24~~25.22 Subject to reverse repurchase agreements $ ____________
~~24~~25.23 Subject to dollar repurchase agreements $ ____________
~~24~~25.24 Subject to reverse dollar repurchase agreements $ ____________
~~24~~25.25 Pledged as collateral $ ____________
~~24~~25.26 Placed under option agreements $ ____________
~~24~~25.27 Letter stock or securities restricted as to sale $ ____________
~~24~~25.28 On deposit with state or other regulatory body $ ____________
~~24~~25.29 Other $ ____________

~~24~~25.3 For category (~~24~~25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

~~25~~26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [ ]

~~25~~26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [ ]
If no, attach a description with this statement.

~~26~~27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the
issuer, convertible into equity? Yes [ ] No [ ]

~~26~~27.2 If yes, state the amount thereof at December 31 of the current year. $ ____________

~~27~~28. Excluding items in Schedule E– Part 3 – Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [ ] No [ ]

~~27~~28.01 For agreements that comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, complete the following:

1 Name of Custodian(s)	2 Custodian's Address

~~27~~28.02 For all agreements that do not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

~~27~~28.03 Have there been any changes, including name changes, in the custodian(s) identified in ~~27~~28.01 during the current year? Yes [ ] No [ ]

~~27~~28.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

~~27~~28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

GENERAL INTERROGATORIES

~~28~~29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D – Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [ ] No [ ]

~~28~~29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
~~28~~29.2999 TOTAL		

~~28~~29.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

~~29~~30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (–), or Fair Value over Statement (+)
~~29~~30.1 Bonds			
~~29~~30.2 Preferred Stocks			
~~29~~30.3 Totals			

~~29~~30.4 Describe the sources or methods utilized in determining the fair values: ....
....
....
....

~~30~~31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [ ] No [ ]
~~30~~31.2 If the answer to ~~30~~31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ ] No [ ]
~~30~~31.3 If the answer to ~~30~~31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:
....
....

~~31~~32.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? Yes [ ] No [ ]
~~31~~32.2 If no, list exceptions: ....
....

GENERAL INTERROGATORIES

OTHER

~~32~~33.1 Amount of payments to Trade associations, service organizations and statistical or Rating Bureaus, if any? $ ________________
~~32~~33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
	$
	$
	$
	$

~~33~~34.1 Amount of payments for legal expenses, if any? $ ________________
~~33~~34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
	$
	$
	$
	$

~~34~~35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ ________________
~~34~~35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
	$
	$
	$
	$

ANNUAL STATEMENT BLANK – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

Detail Eliminated To Conserve Space

14. The response to this interrogatory applies to the reporting entity's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

14.31 Include the nature of any waiver, including any implicit waiver, from a provision of the code of ethics granted by the reporting entity, an affiliate that provides management services to the entity, or the entity's ultimate parent to one of these specified officers, the name of the person to whom the waiver was granted and the date of the waiver.

15.2 Provide the American Bankers Association (ABA) routing number and the name of the issuing or confirming bank for all letters of credit where the reporting entity is the beneficiary unrelated to reinsurance, with a NAIC rating of 3 or below. Amounts reported may be aggregated by bank.

For Fronted Letters of Credit where a single bank issues a letter of credit as the fronting bank and sells to other banks undivided interests in its obligations under the credit, list the fronting bank but not the other banks participating.

For Syndicated Letters of Credit where one bank acts as agent for a group of banks issuing the letter of credit but each participating bank is severally, not jointly, liable, list each bank separately and not just the agent bank.

The American Bankers Association (ABA) routing number can be found on the following Web address:

http://abanumberlookup.com/#search

The name of the issuing or confirming bank should be as shown as found on the Web address above.

FINANCIAL

~~18~~19. For purposes of this interrogatory, statutory accounting principles are considered those prescribed or permitted by the reporting entity's domiciliary state, but also includes those principles as outlined in the *Accounting Practices & Procedures Manual*. If the majority of the accounting principles used are inconsistent with the NAIC's statement of statutory accounting principles, the reporting entity should respond "YES." The reporting entity should also respond "YES" if the majority of the accounting principles used to prepare the financial statement are those required or allowed under Generally Accepted Accounting Principles. Majority used in this instruction is meant to include either the number of principles or the magnitude of the principles (materiality).

~~21~~22. Risk Description – The assessments used in this calculation are those assessments required to be paid by the reporting entity relative to health insurance only. Examples of the types of assessments to be reported: high risk pools, demographic pools, assessments for losses in other markets, risk adjustment, or assessments from health purchasing pools or alliances such as administrative expenses, risk adjustment, and losses other than assessments paid to medical providers. These arrangements can be state run or not. Assessments used in this calculation include reimbursements that the reporting entity is obligated to pay in order to maintain membership in the arrangement, or to continue to insure applicants through a pool or other arrangement. This calculation includes amounts as a negative assessment received by the reporting entity from such arrangements. Exclude assessments for Guaranty Funds or Guaranty Associations.

~~22~~23.1 Answer "YES" if there is an amount reported on the admitted assets column for Line 22 of the Assets page.

~~22~~23.2 Report that portion of the amount of admitted assets reported on Line 22 of the Assets page that is due from parent.

INVESTMENT

~~23~~24. For the purposes of this interrogatory, "exclusive control" means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution therefore. For purposes of this interrogatory, securities in transit and awaiting collection, held by a custodian pursuant to a custody arrangement or securities issued subject to a book entry system are considered to be in actual possession of the company.

If bonds, stocks and other securities owned December 31 of the current year, over which the company has exclusive control are: (1) securities purchased for delayed settlement, or (2) loaned to others, the company should respond "NO" to ~~23~~24.1 and "YES" to ~~24~~25.1.

~~23~~24.3 Describe the company's security lending program, including value for collateral and amount of loaned securities, and whether the collateral is held on or off-balance sheet. Note 17 of Notes to Financial Statement provides a full description of the program.

~~23~~24.4 A company with a conforming security lending program as defined in the Risk-Based Capital instructions should respond "YES."

~~23~~24.5 Report amount of collateral for conforming programs (~~23~~24.4 answer is "YES").

~~23~~24.6 Report amount of collateral for other programs (~~23~~24.4 answer is "NO").

~~24~~25. Disclose the statement value of investments that are not under the exclusive control of the reporting entity within the categories listed in ~~24~~25.2.

~~26~~27. The purpose for this General Interrogatory is to capture the statement value for securities reported in Schedule D, Part 1, Bonds or Schedule D, Part 2, Section 1, Preferred Stock, that are mandatorily convertible into equity, or at the option of the issuer, are convertible into equity. This disclosure will facilitate the application of the equity factors to the statement value of such securities for purposes of RBC.

~~27~~28. The question, regarding whether items are held in accordance with the *Financial Condition Examiners Handbook*, must be answered.

~~27~~28.01 If the answer to ~~27~~ 28 is "YES," then list all of the agreements in ~~27~~28.01. If the answer was "NO" but one or more of the agreements do comply with the *Financial Condition Examiners Handbook*, then list the agreements that do comply in ~~27~~28.01.

~~27~~28.02 If the answer to ~~27~~ 28 is "NO" please list all agreements that do not comply with the *Financial Condition Examiners Handbook*. Provide a complete explanation of why each custodial agreement does not include the characteristics outlined in the *Financial Condition Examiners Handbook* (Section 1, III Conducting Examinations, F Custodial or Safekeeping Agreements), available at the NAIC Web site:

www.naic.org/documents/committees_e_examover_fehtg_Custodial_or_Safekeeping_Agreements.doc

~~27~~28.03 This question, regarding changes in custodian, must be answered.

~~27~~28.04 If the answer to ~~27~~28.03. is "YES," list the change(s).

~~27~~28.05 The Central Registration Depository (CRD) number is a number issued by FINRA to brokers, dealers or individuals when licensed, and can be verified against their database **www.finra.org**. These brokers, dealers or individuals would be those contracted to manage some of the reporting entity's investments or funds and invest them for the reporting entity. The brokers, dealers or individuals can be affiliated or unaffiliated with the reporting entity. The reporting entity must list all brokers, dealers or individuals who have the authority to make investments on behalf of the reporting entity.

~~28~~29. This interrogatory is applicable to Property/Casualty and Health entities only.

~~28~~29.2 The diversified mutual funds (diversified according to the Securities and Exchange Commissions (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)]) that are excluded from the Asset Concentration Factor section of the Risk-Based capital filing are to be disclosed in this interrogatory.

~~28~~29.3 "Significant Holding" means the top 5 largest holdings of the mutual fund. For each diversified mutual fund disclosed in Interrogatory ~~28~~29.2, the top largest holdings of the mutual fund must be disclosed in this interrogatory.

The "Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding" should be based upon the fund's latest available valuation as of year-end (e.g., fiscal year-end or latest periodic valuation available prior to year-end).

The "Date of Valuation" should be the date of the valuation amount provided in the Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding column.

~~29~~30. Include bonds reported as cash equivalents in Schedule E, Part 2.

~~31~~32. This interrogatory applies to any investment required to be filed with the SVO (or that would have been required if not exempted in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*), whether in the general account or separate accounts.

The existence of Z securities does not mean that a reporting entity is not complying with the procedures. As long as the entity has filed its Z securities with the SVO within 120 days of purchase, compliance with the procedures has been met. If an entity wishes to provide the counts of Z securities, include those counts in the explanation lines. An explanation is only expected if the answer to the compliance question is NO.

OTHER

~~32~~33. The purpose of this General Interrogatory is to capture information about payments to any trade association, service organization, and statistical or rating bureau. A service organization is defined as every person, partnership, association or corporation that formulates rules, establishes standards, or assists in the making of rates or standards for the information or benefit of insurers or rating organizations.

~~33~~34. The purpose of this General Interrogatory is to capture information about legal expenses paid during the year. These expenses include all fees or retainers for legal services or expenses including those in connection with matters before administrative or legislative bodies. It excludes salaries and expenses of company personnel, legal expenses in connection with investigation, litigation and settlement of policy claims, and legal fees associated with real estate transactions including mortgage loans on real estate. Do not include amounts reported in General Interrogatories Number ~~32~~ 33 and Number ~~34~~35.

~~34~~35. The purpose of this General Interrogatory is to capture information about expenditures in connection with matters before legislative bodies, officers or departments of government paid during the year. These expenses are related to general legislative lobbying and direct lobbying of pending and proposed statutes or regulations before legislative bodies and/or officers or departments of government. Do not include amounts reported in General Interrogatories Number ~~32~~ 33 and Number ~~33~~34.

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: **07/14/2010**	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2010-17BWG
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: **Matti Peltonen**	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: **Bureau Chief**	No Impact [ ]
AFFILIATION: **New York State Insurance Department**	Modifies Required Disclosure [ ]
ADDRESS: **25 Beaver Street, New York, NY 10004**	**DISPOSITION**
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 10/18/2010
	[ ] 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: Annual 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the definition of "All Other Governments" in the Investment General Instructions to include bonds issued by corporate entities that are fully guaranteed by non-U.S. governments.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to clarify that bonds issued by corporate entities but fully guaranteed by non-U.S. governments are to be reported in the "All Other Governments" category.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL AND QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

All Other Governments:

This includes bond investments issued by non-U.S. governments, including bonds of political subdivisions and special revenue. This includes bonds issued by utilities owned by non-U.S. governments and bonds fully guaranteed by non-U.S. governments.

Detail Eliminated To Conserve Space

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 07/14/2010	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2010-18BWG
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Steve Johnson	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Deputy Insurance Commissioner	No Impact [X]
AFFILIATION: Pennsylvania Insurance Department	Modifies Required Disclosure [ ]
ADDRESS: 1345 Strawberry Sq.	**DISPOSITION**
Harrisburg, PA 17120	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 10/18/2010
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[ ] **QUARTERLY STATEMENT**	
[ ] **INSTRUCTIONS**	[ ] **CROSSCHECKS**	[ ] **BLANK**
[X] Life and Accident & Health	[ ] Property/Casualty	[ ] Health
[ ] Separate Accounts	[ ] Fraternal	[ ] Title
[ ] Other Specify		

Anticipated Effective Date: Annual 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add instructions from the Property Schedule P, Parts 2, 3 and 4 instructions for “Prior” line to the Schedule P, Parts 2, 3 and 4 instructions of the Workers’ Compensation Carve-Out Supplement.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add instructions from Property Schedule P, Parts 2, 3 and 4 instructions for “Prior” line to the Schedule P, Parts 2, 3 and 4 instructions of the Workers’ Compensation Carve-Out Supplement for clarity on reporting of the “Prior” line and consistency with the Property statement.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2011 should not be a problem

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

WORKERS' COMPENSATION CARVE-OUT SUPPLEMENT

Detail Eliminated To Conserve Space

SCHEDULE P – PARTS 2, 3 AND 4

Detail Eliminated To Conserve Space

Loss Adjustment Expenses:

The triangles include only the "Defense & Cost Containment" loss adjustment expenses. The old Schedule P, Parts 2, 3 and 4 contained only the previously termed "allocated" loss adjustment expenses. Now the term "Defense & Cost Containment" is used. As before, the reason for this is that "Defense & Cost Containment" adjustment expenses correlate with loss amounts, but the "Adjusting & Other" adjusting expenses do not.

Bulk and IBNR Reserves:

The Bulk and IBNR reserves for losses and expenses are intended to include reserves for incurred but not reported claims, for reopened claims, for development on case reserves of reported claims, and for aggregate reserves on newly reported claims without specific case reserves. The Bulk and IBNR reserves are the actuarially determined reserves and are included in the losses unpaid and loss expenses unpaid reported in Schedule P, Parts 1 and 2.

These reserves include provision for "defense and cost containment" expenses, unlike the reserves reported in the Underwriting and Investment Exhibit, Part 3.

The Prior line:

In Part 2, Line 1, Column 1, include the loss and expense reserves (case + bulk + IBNR) previously reported at year-end of the last year for all accident years prior to the last year. The subsequent development each year across Line 1 will relate to these reserves and will show the subsequent payments and outstanding reserves.

In Part 3, Line 1, Column 1, the amount entered should always be "zero." In Line 1, Column 2, the amount should be the loss and expense payments made in that year on the reserves reported in Part 2, Line 1, Column 1. (These payments should also have been included in Part 2, Line 1, Column 2.) In Line 1, Column 3, the amount should be the loss and expense payments made in that year and the preceding year on the reserves reported in Part 2, Line 1, Column 2. (These payments should also have been included in Part 2, Line 1, Column 3.) Columns 4 through 10 should continue to cumulate the payments in the same way and tie into the Part 2 "prior" line.

In Part 4, Line 1, Column 1, the amount entered should be the bulk and IBNR that was included in Part 2, Line 1, Column 1, (which should equal the case reserves plus the bulk and IBNR). In fact, the entire Line 1 should be the bulk and IBNR included in Part 2, Line 1.

The "prior" line can be reconciled with the immediately preceding year's Annual Statement by breaking down the accident years in the preceding Annual Statement and properly summing the parts.

Detail Eliminated To Conserve Space

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 07/15/2010	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2010-19BWG
TELEPHONE:	Year 2011
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Matti Peltonen	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Bureau Chief	No Impact [X]
AFFILIATION: New York State Insurance Department	Modifies Required Disclosure [ ]
ADDRESS: 25 Beaver Street, New York, NY 10004	**DISPOSITION**
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 10/18/2010
	[ ] 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: Annual 2011

IDENTIFICATION OF ITEM(S) TO CHANGE

Add new code “B” to the Foreign Code matrix in the Investment General Instructions.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to add a new code “B” to the Foreign Code matrix in the Investment General Instructions to cover Canadian securities issued in a foreign country but denominated in U.S. dollars.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: Annual 2011 should not be a problem

Other Comments:

** **This section must be completed on all forms.** **Revised 6/13/2009**

ANNUAL AND QUARTERLY INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

For the Foreign Code columns in Schedules D and DA, the following codes should be used:

Code	Nationality of Issuer			Country Issued In			Currency of Security		
	US	Canada	Foreign	US	Canada	Foreign	US	Canada	Foreign
	Y	N	N	Y	N	N	Y	N	N
A	N	Y	N	N	Y	N	Y	N	N
B	N	Y	N	N	N	Y	Y	N	N
C	Y	Y	Y	N	Y	Y	N	Y	N
D	N	N	Y	N	N	Y	N	N	Y
F	N	N	Y	N	N	Y	Y	N	N
I	N	Y	N	Y	N	N	Y	N	N
R	N	N	Y	Y	N	N	Y	N	N
T	N	Y	N	Y	Y	Y	N	N	Y
U	N	Y	N	Y	N	N	N	Y	N
O	Y	N	N	Y	N	N	N	N	Y

"A" is for Canadian securities issued in Canada and denominated in U.S. dollars.

"B" is for Canadian securities issued in a foreign country but denominated in U.S. dollars.

"C" is for securities denominated in Canadian currency.

"D" is for foreign securities that are denominated in a foreign currency (excluding Canadian currency).

"F" is for securities issued in a foreign country that are denominated in U.S. dollars.

"I" is for Canadian securities issued in U.S. and denominated in U.S. dollars.

"R" is for foreign securities issued in the U.S. and denominated in U.S. dollars.

"T" is for Canadian securities denominated in any other foreign currency.

"U" is for Canadian securities issued in U.S. but denominated in Canadian currency.

"O" is for U.S. securities issued in U.S. but denominated in any foreign currency other than Canadian.

Detail Eliminated To Conserve Space

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Blanks Working Group
Editorial Revisions to be presented at October 2010 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
U&I Exhibit – Analysis of Claims Unpaid-Prior Year	2011	Blank	Add crosscheck to Line 13 of quarterly to match annual. “13. Totals (Lines 9-10+11+12)”	X		H
Liabilities, Surplus and Other Funds	2011	Blank	Add crosscheck to Line 39 of quarterly to match annual. “39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3)”	X		L
Liabilities, Surplus and Other Funds	2011	Blank	Add crosscheck to Line 31 of quarterly to match annual. “31. Totals (Lines 25 + 30) (Page 2, Line 28, Col. 3)”	X		F
Liabilities, Surplus and Other Funds	2011	Blank	Add crosscheck to Line 38 of quarterly to match annual. “38. Totals of (Page 2, Line 28, Col. 3)”	X		P
Liabilities, Surplus and Other Funds	2011	Blank	Add crosscheck to Line 33 of quarterly to match annual. “33. Totals of (Page 2, Line 28, Col. 3)”	X		T
Schedule P (all “D” Parts)	2011	Blank	For clarification adding to all Parts of Schedule P Part D the wording “EXCLUDING EXCESS WORKERS’ COMPENSATION) as this is included in Line 17. Example: SCHEDULE P – PART 1D – WORKERS’ COMPENSATION (EXCLUDING EXCESS WORKERS’ COMPENSATION)		X	P, H
Schedule DB - Verification	2011	Blank	Change page layout from landscape to portrait.	X	X	All
Assets & Exhibit of Nonadmitted Assets	2011	Blank	Line 7 Derivatives ---add reference (Schedule DB). Line 10 Securities lending reinvested collateral assets--- add reference (Schedule DL)		X	All
Supplemental Health Care Exhibit – Part 1	2010	Blank	Remove “xxx” from Lines 13 and 15, Column 7. Revision pages posted to http://www.naic.org/committees_e_app_blanks.htm		X	L, H, P, F
Analysis of Increase in Annuity Reserves During the Year	2010	Blank	Line 3, Columns 4 and 5 should be 'xxx'.		X	L, H, F
Investment General Instructions	2010	Instructions	Modify definition of U.S. Governments to reflect changes to the Purposes and Procedures Manual by the SVO. See attached for changes to be incorporated in the 2010 annual instructions.		X	L, H, P, F, T
Investment General Instructions	2011	Instructions	Modify definition of U.S. Governments to reflect changes to the Purposes and Procedures Manual by the SVO. See attached for changes to be incorporated in the 2011 quarterly instructions.	X		L, H, P, F, T

Blanks Working Group
Editorial Revisions to be presented at October 2010 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
Schedule S, Part 1, Section 2	2010	Instructions	For Column 6 – Type of Reinsurance Assumed, add additional code (LTC for Long Term Care) to the list of Reinsurance Types		X	L, H, F
Schedule S, Part 3, Section 2	2010	Instructions	For Column 6 – Type, add additional code (LTC for Long Term Care) to the list of Reinsurance Types		X	L, H, F
Schedule S	2011	Instructions	For Column 6 – Type of Reinsurance Ceded, add additional code (LTC for Long Term Care) to the list of Reinsurance Types	X		L, H, F
Supplemental Health Care Exhibit	2010	Instructions	Add the following instruction to Part 3A. Lines 1.11, 2.11, & 3.11 - Total Fraud and Abuse Detection/Recovery Expenses Included in Column 7 (Informational Only) Include: Fraud and abuse detection and recovery expenses as well as prevention expenses.		X	L, H, P, F
Supplemental Health Care Exhibit	2010	Instructions	Modify the following instruction to Part 1 and 2 column definitions. Column 4 – Government Business (Excluded by Statute) Include government programs that are excluded by statute such as Medicare Title XVIII (including Medicare Advantage), Medicaid Title XIX, Insurance Program (SCHIP), Medicaid Program Title XXI risk contracts, and other Federal, or State government sponsored coverage.		X	L, H, P, F
Supplemental Health Care Exhibit	2010	Blank	For Part 1, Line 12 Income from fees of uninsured plans, Columns 1 through 7 should show "XXX"		X	L, H, P, F

TABLE NAME	EFFECTIVE	CHANGE TO BLANKS OR INSTRUCTIONS	DESCRIPTION	QT	ANN	INS. TYPE
Supplemental Health Care Exhibit	2010	Instructions	Modify the following instruction to Part 1, 2 and 3 general instructions. A schedule must be prepared and submitted for each jurisdiction in which the company has written direct comprehensive major medical health business, or has direct amounts paid, incurred or unpaid for provisions of health care services. In addition, a schedule must be prepared and submitted that contains the grand total (GT) for the company. However, insurers that have no business that would be included in Columns 1 through 3 of Part 1 are not required to complete this supplement. Similarly, insurers in run off (major medical claims incurred with zero major medical premiums) or that only have assumed and no direct written major medical business are not required to complete this supplement. However, 100% assumption reinsurance is treated as direct business for purposes of this supplement. The reinsurance data required in this supplement is only for use if an insurer writes direct major medical business and also assumes and/or cedes such insurance. Additionally, if the insurer's business reported in Columns 1, 2 and 3 of Part 1 is less than 2% of its total accident and health business, only Columns 1, 2, 3, 8 (Uninsured) and 9 (Total) of Part 1 and Columns 1, 2, 3 and 7 of Part 2 need to be completed. The allocation of premium and claims between jurisdictions should be based upon situs of the contract. For purpose of this exhibit, situs of the contract is defined as "the jurisdiction in which the contract is issued or delivered as stated in the contract." For individual business sold through an association, the allocation shall be based on the issue state of the certificate of coverage. For employer business issued through a group trust, the allocation shall be based on the location of the employer.		X	L, H, P, F

TABLE NAME	EFFECTIVE	CHANGE TO BLANKS OR INSTRUCTIONS	DESCRIPTION	QT	ANN	INS. TYPE
Supplemental Health Care Exhibit	2010	Instructions	For Part 1, Line 1.1, modify the instruction as follows: Line 1.1 – Health Premiums Earned (From Part 2, Line 1.8) Include: Direct written premium plus the change in unearned premium reserves~~ and the change in reserve for rate credits~~. Premiums earned on novated policies and on 100% assumption reinsurance where policyholders have consented (via opt in or failure to opt out) to the replacement of the original policy issuer (including cases where full servicing of premiums and claims have been transferred) by the assuming reinsurer.		X	L, H, P, F
Supplemental Health Care Exhibit	2010	Instructions	For Part 1, Line 2.1modify the instruction as follows: Line 2.1 – Incurred Claims Excluding Prescription Drugs Include: Direct Paid Claims during the Year Report payments before ceded reinsurance, but net of risk share amount collected. Change in Unpaid Claims Report the change between prior year and current year unpaid claims reserves, including claims reported in the process of adjustment, percentage withholds from payments made to contracted providers, recoverable for anticipated coordination of benefits (COB) and subrogation. Change in Incurred but not Reported Report the change in claims incurred but not reported from prior year to current		X	L, H, P, F

TABLE NAME	EFFECTIVE	CHANGE TO BLANKS OR INSTRUCTIONS	DESCRIPTION	QT	ANN	INS. TYPE
			year. Except where inapplicable, the reserve included in these lines should be based on past experience, modified to reflect current conditions, such as changes in exposure, claim frequency or severity. Change in Contract & Other Claims Related Reserves (including the Change in Reserve for Rate Credits) Exclude: MLR rebates paid during the year. Prescription drugs reported in line 2.2. Pharmaceutical rebates received during the year, reported in line 2.3. Medical incentive pools and bonuses.			
Supplemental Health Care Exhibit	2010	Instructions	For Part 2, Line 1.8, modify the instruction as follows: Line 1.8 – Total Direct Health Premiums Earned (Lines 1.1 + 1.4 + 1.7 less $___________ write offs) Include: Direct written premium plus the change in unearned premium reserves ~~and reserve for rate credits~~. For MLR purposes, Health Premiums Earned are reduced by actual write offs, not reserves for bad debt or statutory nonadmitted amounts.		X	L, H, P, F
Supplemental Health Care Exhibit	2010	Instructions	For Part 2, Line 2.4, modify the instruction as follows: Line 2.4 – Direct Claim Reserves Current Year Report reserves related to healthcare services for present value of amounts not yet due on claims and the claims related portion for reserve for future contingent benefits. Include: Change in Reserve for Rate Credits.		X	L, H, P, F

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National Association of Insurance Commissioners

To: Blanks Working Group
From: Statutory Accounting Principles Working Group
Date: August 31, 2010
Re: New Disclosures for Fair Value Measurement

During the Summer 2010 National Meeting, the Statutory Accounting Principles Working Group (SAPWG) adopted modified and additional disclosures in *SSAP No. 100—Fair Value Measurement.* The disclosure requirements as adopted by the SAPWG in agenda item 2010-05 have been adopted as a non-substantive change and are effective for year-end 2010. 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 20 – Fair Value Measurement Subsequent. Changes included in SAPWG agenda item 2010-05 are attached and will be shown as revisions to the annual statement instructions for incorporation by companies for use in the 2010 filing.

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 20 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 blanks proposal is pending for future anticipated electronic data capture element illustrations and instructional changes. Once the fair value measurement disclosure has been finalized by SAPWG, a blanks proposal will be prepared for the 2011 annual statement instructions.

Continued assessment of GAAP revisions to fair value guidance, as well as clarification revisions may result in modifications to the disclosure requirements before year-end 2010, and thus impact the example illustrations provided in this memo. All users shall refer to the SAP Updates, as provided on the Statutory Accounting Principles Working Group's website, to obtain the final disclosure requirements for year-end 2010.

cc: Mary Caswell; Robin Marcotte; John Tittle

20. Fair Value Measurements

Instruction:

A. For assets and liabilities that are measured at fair value on a recurring basis[1] 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 valuation techniques and 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~~ these objectives, the reporting entity shall disclose the ~~following~~ information in paragraphs (1) through (4) below for each interim and annual period separately for each major ~~category~~ class of assets and liabilities. ~~(for equity and debt securities, major category shall be defined as major security type):~~ The reporting entity shall determine appropriate classes of assets and liabilities in accordance with the annual statement instructions.

(1) The level within the fair value hierarchy in which the fair value measurements in ~~their~~ its entirety falls, segregating the 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).

(2) The amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. Significant transfers into each level shall be disclosed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus, income and total assets or total liabilities. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into the levels as that for transfers out of the levels. Examples of policies for when to recognize the transfers are as follows:

a. The actual date of the event or change in circumstances that caused the transfer
b. The beginning of the reporting period
c. The end of the reporting period.

For assets and liabilities measured at fair value on a recurring basis during the period, quantitative disclosure is required about the fair value measurements separately for each class of assets and liabilities. [This requirement is met by completing the chart in Illustration A(1).]

(~~2~~3) 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:

a. Total gains or losses for the period (realized and unrealized), separately presenting realized~~segregating those~~ gains or losses included in ~~earnings~~ income (or changes in net assets), and a description of where those gains or losses included in income and unrealized gains and losses included in surplus.~~earnings (or changes in net assets) are reported in the statement of income (or activities).~~

b. Purchases, sales, issuances, and settlements (each type disclosed separately)~~(net)~~.

c. Transfers in and/or out of Level 3 and the reasons for those transfers. Significant transfers into Level 3 shall be disclosed separately from significant transfers out of Level 3. For this purpose, significance shall be judged with respect to surplus, income and total assets or total liabilities. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out

[1] For purposes of statutory accounting, investments that are consistently measured at fair value shall be disclosed as securities "measured at fair value on a recurring basis". The term "consistently measured at fair value" includes, but is not limited to, securities reported at the lower of cost or fair value based on NAIC designation regardless if the security was reported in the previous period at amortized cost.

of Level 3. Examples of policies for when to recognize the transfers are as follows:~~(for example, transfers due to changes in the observability of significant inputs).~~

1. The actual date of the event or change in circumstances that caused the transfer

2. The beginning of the reporting period

3. The end of the reporting period.

~~The amount of the total gains or losses for the period in subparagraph (2)(a) 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).~~

(~~3~~4) For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), a description of the valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach, and the inputs used in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique(s) (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason for making it.~~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.~~

Examples of disclosures that the reporting entity may present to comply with the input disclosure requirement include the following:

a. Quantitative information about the input, for example, for certain debt securities or derivatives, information such as, but not limited to, prepayment rates, rates of estimated credit losses, interest rates (for example LIBOR swap rate) or discount rates and volatilities.

b. The nature of the item being measured at fair value, including the characteristics of the item being measured that are considered in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity may conclude that meeting the objective of this disclosure requirement requires disclosure of items such as the following:

1. The types of underlying loans (for example, subprime or home equity lines of credit)
2. Collateral
3. Guarantees or other credit enhancements
4. Seniority level of the tranches of securities
5. The year of issuance
6. The weighted-average coupon rate of the underlying loans and the securities
7. The weighted-average maturity of the underlying loans and the securities
9. The geographical concentration of the underlying loans
10. Information about the credit ratings of the securities

c. How third-party information such as broker quotes, pricing services, net asset values and relevant market data was considered in measuring fair value.

(5) For derivative assets and liabilities, the reporting entity shall present both of the following:

a. The fair value disclosures required by paragraphs (1) and (2) above on a gross basis.

b. The reconciliation disclosures required by paragraphs (3) and (4) on either a gross or net basis.

B. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods ~~subsequent to~~after initial recognition ~~(for example, impaired assets)~~, the reporting entity shall disclose information that enables users of its financial statements to assess the valuation techniques and 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~~ class of assets and liabilities. The reporting entity shall determine classes of assets and liabilities in accordance with the annual statement instructions.~~(for equity and debt securities major category shall be defined as major security type):~~

(1) The fair value measurements recorded during the period and the reasons for the measurements.

The level within the fair value hierarchy in which the fair value measurements in ~~their~~ its entirety fall, segregating the 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).

(2) For fair value measurements using significant unobservable inputs (Level ~~3~~2) and significant unobservable inputs (level 3), the disclosure required by paragraph A(4) above.~~, a description of the inputs and the information used to develop the inputs.~~

~~(3) 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.~~

The quantitative disclosures required by A and B above shall be presented using a tabular format. (See Illustrations.)

C. 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.

D. 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:

(1) 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

(2) The reasons why it is not practicable to estimate fair value.

Illustration:

A.

(1) Assets Measured at Fair Value on a Recurring Basis

(1) Description	(2) (Level 1)	(3) (Level 2)	(4) (Level 3)	(5) Total
a. Assets at fair value				
Perpetual Preferred stock	~~$~~	~~$~~	~~$~~	~~$~~
Industrial and Misc	$	$	$	$
Parent, Subsidiaries and Affiliates				
Total Perpetual Preferred Stocks	$	$	$	$
Bonds				

U.S. Governments	$	$	$	$
Industrial and Misc				
Hybrid Securities				
Parent, Subsidiaries and Affiliates				
Total Bonds	$	$	$	$
Common Stock				
Industrial and Misc	$	$	$	$
Parent, Subsidiaries and Affiliates				
Total Common Stocks	$	$	$	$
Derivative assets				
Interest rate contracts	$	$	$	$
Foreign exchange contracts				
Credit contracts				
Commodity futures contracts				
Commodity forward contracts				
Total Derivatives	$	$	$	$
~~Separate account assets~~				
....				
....				
Separate account assets	$	$	$	$
Total assets at fair value	$	$	$	$
b. Liabilities at fair value				
Derivative liabilities	$	$	$	$
....				
....				
Total liabilities at fair value	$	$	$	$

NOTE: Description column shows examples of assets and liabilities that can be disclosed. The subtotals shown in the illustration are for PDF/print reporting only. When completing the electronic notes only the detail by class will be reported.

A(2) also requires that the reporting entity to also disclose any significant transfers to or from Levels 1 and 2 and the reasons for those transfers. This disclosure requirement is not satisfied by the illustration above and shall be reflected separately within the notes to financial statements.

(2) Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	~~(1)~~	~~Total gains or losses (realized/unrealized)~~			~~(5)~~	~~(6)~~	~~(7)~~
	(1) Balance at 01/01/20XX	(2) Transfers in Level 3~~Realized gains or (losses)~~	(3) Transfers out of Level 3~~Unrealized gains or (losses)~~	(4) Total gains and (losses) included in Net Income ~~Purchases, issuances and settlements~~	(5) Total gains and (losses) included in Surplus ~~Transfers in (out) of Level 3~~	(6) Purchases, issuances, sales and settlements~~Balance at 12/31/20XX~~	(7) Balance at 12/31/20XX~~Total gains and (losses) included in income attributable to instruments held at the reporting date~~
~~Equity Securities~~RMBS							
~~Separate Account Assets~~CMBS							
Derivative Assets							
Derivatives Liabilities							
....							
....							
....							
Total							

Example Footnotes:

(a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity for these securities

(b) The reporting entity's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.

NOTE: Description column shows examples of assets and liabilities that can be disclosed.

Revisions adopted to SSAP No. 100 required separate identification of the purchases, issuances, sales and settlements. The 2011 Blank will be revised to accommodate this requirement.

(4)

As of December 31, 20X1, the reported fair value of the entity's investments in Level 3, NAIC rated 6, residential mortgage-backed securities was $XXXX. These securities are senior tranches in a securitization trust and have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. The underlying loans for these securities are residential subprime mortgages that originated in California in 2006. The underlying loans have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. These securities are currently rated below investment grade. To estimate their fair value, the entity used an industry standard valuation model, which is based on an income approach. The standard inputs for the valuation model include the following weighted averages:

Yield: XX Percent

Probability of default: XX percent constant default rate

Loss severity: XX percent

Prepayment: XX percent constant prepayment rate

B.

(1) Assets Measured at Fair Value on a Nonrecurring Basis

(1) Description	(2) Total 12/31/20XX	(3) Quoted Prices in Active Markets for Identical Assets (Level 1)	(4) Significant Other Observable Inputs (Level 2)	(5) Significant Unobservable Inputs (Level 3)	(6) Total Gains (Losses)
~~Bonds~~	$	$	$	$	$
~~Preferred Stock~~					
	$	$	$	$	$

~~NOTE: Description column shows examples of assets and liabilities that can be disclosed.~~

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To: Blanks Working Group
From: Statutory Accounting Principles Working Group
Date: September 28, 2010
Re: Additional Disclosures on Deferred Tax Assets

In August 2010, the Statutory Accounting Principles Working Group (SAPWG) adopted additional disclosures in *SSAP No. 10R—Income Taxes – Revised, A Temporary Replacement of SSAP No. 10.* The disclosure requirements as adopted by the SAPWG in agenda item 2010-09 regarding the impact of tax-planning strategies on the determination of adjusted gross DTAs and the determination of net admitted DTAs, by percentage and by tax character. This disclosure is effective for year-end 2010. 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 2010 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 2011 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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NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

To: Jake Garn, Chair of Blanks, Working Group

From: Commissioner Al Gross, Chair of Financial Condition (E) Committee

Date: October 15, 2010

Re: Retained Assets Disclosures for 2010

As you may be aware, the Financial Condition (E) Committee has exposed a proposed disclosure related to retained assets accounts for life insurers (agenda item 2010-16). These disclosures are slated for discussion and likely adoption by the Committee at the Fall National Meeting.

If this disclosure is adopted, it should be reported in the "Other Note" for 2010, and it may be retained for 2011 depending upon circumstances. The Committee will consider a possible a long-term disclosure for these retained asset accounts based upon a suggestion from the ACLI. Consequently you should be aware that the Committee may direct the Blanks Working Group to develop a modification to certain existing annual statement exhibits for 2011 and beyond.

As the outcome of deliberations will occur after Blanks Working Group meets, the information related to any adopted 2010 disclosures will be forwarded to the Blanks Working Group for posting on the website and later inclusion in the 2010 updates to the life annual statement instructions.

Cc: Mary Caswell; Dan Daveline

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Draft 2011 Charges of the AP&P TF

1. Accounting Practices and Procedures Task Force

The Emerging Accounting Issues Working Group will:

- Provide authoritative guidance on current statutory accounting issues, generally relating to application, interpretation and clarification of existing statutory accounting principles, by conducting meetings at NAIC national meeting sites and other meetings and conference calls when necessary.—*Essential*

- Evaluate individual statutory accounting issues based on its established two-meeting timeline and report its findings to the Accounting Practices and Procedures Task Force.—*Essential*

The Statutory Accounting Principles Working Group will:

- Maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new GAAP pronouncements as they develop.—*Essential*

- At the discretion of the chair, comment on exposed GAAP pronouncements affecting financial accounting and reporting.—*Essential*

- Report its findings relative to these developing issues to the Accounting Practices and Procedures Task Force.—*Essential*

- Upon notice that a class of securities ~~security~~ has been placed under regulatory review, the chair of Statutory Accounting Principles Working Group, or his or her representative, will be deemed a member of the Invested Asset (E) Working Group of the Valuation of Securities (E) Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review.—*Essential*

- Provide comments on issues related to evaluating and or implementing to International Financial Reporting Standards (IFRS) for possible U.S. statutory accounting use and provide input on the solvency modernization project as it relates to accounting and reporting issues. —*Important*

- ~~Accumulate and summarize information from regulators, the industry, auditors and others, on implementation issues related to transitioning to International Financial Reporting Standards (IFRS) for statutory reporting, as well as some of the more significant issues that would need to be considered in implementing such a change. —*Important*~~

The Blanks Working Group will:

- Consider improvements and revisions to the various annual/quarterly statement blanks and to conform these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers; to develop reporting formats for other entities subject to the jurisdiction of state insurance departments; to conform the various NAIC blanks and instructions to adopted NAIC policy; and to oversee the development of additional reporting formats within the existing annual statements as needs are identified.—*Essential*

- Continue to monitor state filing checklists to maintain current filing requirements.—*Essential*

- Continue to monitor the quality of financial data filed by insurance companies and recommend improved or additional language~~s~~ for the *Annual Statement Instructions* to improve the quality of these filings.—*Essential*

- Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Accounting Practices and Procedures Task Force affecting annual statements and/or instructions.—*Essential*

- Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces.—*Essential*

Draft 2011 Charges of the AP&P TF

- Upon notice that a class of securities ~~security~~ has been placed under regulatory review, the chair of Blanks Working Group, or his or her representative, will be deemed a member of the Invested Asset (E) Working Group of the Valuation of Securities (E) Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review.—*Essential*

The Property and Casualty Reinsurance Study Group will:

- Evaluate, on an ongoing basis, all issues and questions related to the accounting for or annual statement reporting of reinsurance transactions that might affect SSAP No. 62, SSAP No. 75 or other portions of the *Accounting Practices and Procedures Manual,* and make appropriate recommendations to the Accounting Practices and Procedures Task Force.—*Essential*

- Monitor, on an ongoing basis, the development of "alternative risk transfer mechanisms" and consider whether broader annual statement disclosure might be appropriate.—*Essential*

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