STATUTORY AND GAAP ACCOUNTING AND REPORTING UPDATE

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and Matthew Walker

Statutory Accounting and Reporting Revisions

Adopted Revisions

Effective 2018

- Goodwill
  - SAPWG 2017-18, Goodwill
  - 2018-08BWG, Business Combinations and Goodwill (Note 3)
- Net Asset Value and Fair Value
  - SAPWG 2017-24, Use of Net Asset Value Instead of Fair Value
  - 2018-09BWG, Fair Value Measurements (Note 20)
- SCA Reporting
  - SAPWG 2018-09, SCA Loss Tracking
  - 2018-15BWG, Parent and SCA Entities (Note 10)
- Schedule F
  - 2016-35BWG, Schedule F
- Risk-Based Capital (RBC)
  - Catastrophe Risk Charge (2018-08-CR)
  - Basic Operational Risk Charge (2017-16-O)

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Statutory Accounting and Reporting Revisions

Adopted Revisions

Effective 2019

- Statement of Cash Flow
  - 2017-25BWG, Restricted Cash or Restricted Cash Equivalents

Statutory Accounting and Reporting Revisions

Pending/Exposed Revisions

- Accounting changes
  - SAPWG 2016-02, Leases
  - SAPWG 2017-28, Clarification on Risk Transfer
  - SAPWG 2017-32, Investment Classification Project
  - SAPWG 2018-19, Elimination of MFE Process
  - SAPWG 2018-20, Debt Forgiveness Between Related Parties
  - SAPWG 2018-21, SSAP No. 72 Distributions
  - SAPWG 2018-22, Participation Agreement in a Mortgage Loan
  - SAPWG 2018-23, Statutory Mergers
  - SAPWG 2018-26, SCA Loss Tracking – Accounting Guidance
  - SAPWG 2018-27, Tracking Investments in SSAP No. 48 Entities

Goodwill Limitation and Reporting

SSAP No. 68, Business Combinations and Goodwill

SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities

SAPWG 2017-18

- NAIC Staff noted substantial amounts of goodwill included in the claimed value of SCA entities.
- Reported amount of goodwill limited to 10% of adjusted capital and surplus.
- Concern is that goodwill is not available to pay policyholder claims.

Goodwill Limitation and Reporting

SAPWG 2017-18

- NAIC Staff proposed 6 options for consideration by the SAPWG:
  - 1. Further decrease the 10% limitation of admissible goodwill to 5%.
  - 2. Progressively applying the 10% limitation based on amount of goodwill.
  - 3. Cap the amount of goodwill at the asset or net asset value of the SCA entity (limiting goodwill to 50% of total reported/carried balance of investment in SCA entity).
  - 4. Eliminate the admission of goodwill altogether.
  - 5. Do not change the amount of goodwill admissible as an admitted asset.
  - **6. Capture more disclosures regarding goodwill, including detail of the goodwill in comparison to the SCA entity.**

SAPWG adopted option 6. on November 6, 2017, conference call.

Goodwill Limitation and Reporting

2018-08BWG

- Modifies the instructions and illustration for Note 3A to reflect disclosure changes adopted by the Statutory Accounting Principles Working Group (SAPWG 2017-18).

Goodwill Limitation and Reporting

2018-08BWG

3. Business Combinations and Goodwill

Instruction:

A. Statutory Purchase Method

For business combinations accounted for under the statutory purchase method, disclose the following for as long as unamortized goodwill is reported as a component of the investment:

- ~~(1)~~ The name and brief description of the acquired entity;
- ~~(2)~~ Method of accounting, that is, the statutory purchase method;
- ~~(3)~~ Acquisition date, ~~Cost~~ cost of the acquired entity and the original amount of admitted goodwill; and
- ~~(4)~~ The amount of amortization of goodwill recorded for the period; the admitted goodwill as of the reporting date, and admitted goodwill as a percentage of the SCA's book adjusted carrying value (gross of admitted goodwill).

Goodwill Limitation and Reporting

2018-08BWG

Illustration:

A. Statutory Purchase Method

~~(1)~~ The Company purchased 100% interest of XYZ Insurance Company on 6/30/__. XYZ Insurance Company is licensed in 49 states and sells workers' compensation products exclusively.

~~(2)~~ The transaction was accounted for as a statutory purchase, and reflects the following:~~.~~

1 Purchased entity	2 Acquisition date	3 Cost of acquired entity	4 Original amount of admitted goodwill	5 Admitted goodwill as of the reporting date	6 Amount of goodwill amortized during the reporting period	7 Admitted goodwill as a % of SCA BACV, gross of admitted goodwill
....	....	$	$	$	$	........%
....	....	$	$	$	$	........%
....	....	$	$	$	$	........%
....	....	$	$	$	$	........%
....	....	$	$	$	$	........%

Net Asset Value and Fair Value

SSAP No. 100R, Fair Value

SAPWG 2017-24

- Modifications to SSAP No. 100R, Fair Value intended to mirror the concepts of:
  - ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*
  - ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*
- Permits the use of NAV as a practical expedient when specifically named in a SSAP to measure fair value of an investment, with restrictions:
  - Investment does not have readily determinable fair value, and
  - Investment is in an investment company

Net Asset Value and Fair Value

2018-09BWG

- Modifies the instructions and illustration for Note 20 to reflect disclosure changes adopted by the Statutory Accounting Principles Working Group (SAPWG 2017-24) to SSAP No. 100R – Fair Value.

Net Asset Value and Fair Value

2018-09BWG

- Illustration for Note 20A(1):

(1) Fair Value Measurements at Reporting Date

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV) ~~Total~~	Total ~~Net Asset Value (NAV) Included in Level 2~~
a. Assets at fair value					
Perpetual Preferred stock					
Industrial and Misc	$ (a)	$	$	$	$
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	$	$	$	$	$
Total assets at fair value/NAV	$	$	$	$	$
b. Liabilities at fair value					
Derivative liabilities	$	$	$	$	$
....					
....					
Total liabilities at fair value	$	$	$	$	$

2018
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Net Asset Value and Fair Value

2018-09BWG

- Illustration for Note 20C:

C.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV) ~~Not Practicable (Carrying Value)~~	Not Practicable (Carrying Value)~~Net Asset Value (NAV) Included in Level 2~~
Bonds	$	$	$	$	$	$	$ ....
Common Stock	....	....	....	....	....	....	....
Perpetual Preferred Stock	....	....	....	....	....	....	....
Mortgage Loans	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

NOTE: Type of Financial Instrument Column shows examples of types of financial instruments that can be disclosed. ~~For 2017, those reporting entity's electing to early adopt the use of net asset value per share (NAV) instead of fair value for certain investments should report those investments in the Level 2 column and provide the NAV amount included in that column in the Net Asset Value (NAV) Column.~~

2018 Revision

SCA Reporting

SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities

SAPWG 2018-09

- Clarifies guidance for SCA losses that result in zero or negative equity in an SCA entity.
- Provides a method to track SCA losses.
- Requires additional disclosure to capture information on the tracking of a reporting entity's share of SCA losses.

SCA Reporting

SAPWG 2018-09

- Addition to paragraph 13e. of SSAP No. 97
  - A reporting entity whose share of losses in an SCA exceeds its investment in the SCA shall track its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.)
    - i. When the reporting entity has guaranteed obligations or committed further financial support to an SCA, in additional to the guarantee liability required under SSAP No. 5R, the book adjusted carrying value for the investment in the SCA shall reflect the reporting entity's negative equity value (reflecting the reporting entity's share of the SCA losses). (This would be reported as a contra-asset.)
    - ii. In situations when there are no guaranteed obligations or commitment for future financial support to the SCA, if the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

2018
Revision

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SCA Reporting

SAPWG 2018-09

- Addition to paragraph 34 of SSAP No. 97 (disclosure)
  - a. A reporting entity whose share of losses in an SCA exceeds its investment in the SCA shall track its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) This disclosure shall include the reporting entity's share of the SCA losses, as well as the overall investment in the SCA (including losses). The tracking shall begin in the year the SCA investment initially falls below zero and shall continue to be tracked as long as the SCA investment is in a deficit position. Tracking shall cease once the investment in an SCA has been in a surplus position for two consecutive annual reporting periods. Additionally, the reporting entity shall detail in a narrative disclosure whether losses in the SCA have impacted other investments as required by INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.

Note → Pending/exposed item SAPWG 2018-26 clarifies this item.

SCA Reporting

2018-15BWG

- Modifies the instructions and illustration for Note 10 to reflect additional disclosures adopted by the Statutory Accounting Principles Working Group (SAPWG 2018-09) in SSAP No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities.
- Addition to instructions for Note 10O:

O. SCA Loss Tracking

A reporting entity whose share of losses in an SCA exceeds its investment in the SCA shall track its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) The tracking shall begin in the year the SCA investment initially falls below zero and shall continue to be tracked as long as the SCA investment is in a deficit position. Tracking shall cease once the investment in an SCA has been in a surplus position for two consecutive annual reporting periods.

SCA Reporting

2018-15BWG

- Addition to instructions for Note 10O:

This disclosure shall include:

The name of the SCA entity

The reporting entity's current period share of SCA net income (loss)

The reporting entity's accumulated share of SCA net income (loss)

The reporting entity's total investment in the SCA (deficit)/surplus

Whether there is a guaranteed obligation/commitment for financial support

The carrying value (reported on column 9 of Schedule D-6-1) for the SCA

Additionally, the reporting entity shall detail in a narrative disclosure whether losses in the SCA have impacted other investments as required by INT 00-24: *EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee* and *EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.*

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SCA Reporting

2018-15BWG

- Illustration for Note 10O:

O. SCA Loss Tracking

1 SCA Entity	3 Current Period Share of SCA Net Income (Loss)	4 Accumulated Share of SCA Net Income (Losses)	5 Investment in SCA (Deficit) Surplus	6 Guaranteed Obligation / Commitment for Financial Support (Yes / No)	7 SCA Reported Value

NOTE: This disclosure is only required for SCAs in which the reporting entity's share of losses exceed the investment in an SCA, (the SCA investment is in a deficit position). Once required for this disclosure, the disclosure shall continue until the investment in an SCA has been in a surplus position for two consecutive annual reporting periods.

For Column 6, as detailed in SSAP No. 97, once the reporting entity's share of losses equals or exceeds the investment in the SCA, the SCA shall be reported at zero, with discontinuation of the equity method, unless there is a guaranteed obligation or a commitment for future financial support. If there is a guaranteed obligation or a commitment for future financial support, the guarantee requirement shall be recognized pursuant to SSAP No. 5R, and the reporting entity shall report the investment in the SCA reflecting their share of losses as a contra-asset. *(Disclosure of the guarantee or commitment would be captured in Note 14 and is not duplicated in this disclosure.)*

2018 Revision

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Schedule F

2016-35BWG

- Combines the current Schedule F, Parts 3, 4, 5, 6, 7, and 8 into a new Part 3 (Ceded Reinsurance) and Part 4 (Issuing or Confirming Banks for Letters of Credit).
- Purpose:
  - Eliminate duplication
  - Promote consistency of the reported ceded transactions
  - Provide for greater automation
  - Reduce filing errors
- Required beginning with the 2018 Annual Statement.

Risk-Based Capital (RBC) Catastrophe Risk Charge

- Catastrophe Risk (E) Subgroup item 2016-07-CR, which was adopted by the Capital Adequacy (E) Task Force, implemented (went live with) the catastrophe risk charge into the RBC calculation beginning with 2017 reporting.
- Catastrophe Risk (E) Subgroup item 2018-08-CR, which was adopted by the Capital Adequacy (E) Task Force, clarifies that the PR027 interrogatory must be completed by all filers claiming a catastrophe risk charge exemption on either earthquake or hurricane exposure, or both.
- RBC blank/forms and instructions were updated to reflect the clarification.

Risk-Based Capital (RBC)
Basic Operational Risk Charge

- Operational Risk (E) Subgroup item 2016-13-O, which was adopted by the Capital Adequacy (E) Task Force, implemented (went live with) the basic operational risk charge into the RBC calculation beginning with 2017 reporting.
- "Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories."

Risk-Based Capital (RBC)
Basic Operational Risk Charge

- RBC blank/forms and instructions were modified with an “add-on” structure using a percentage of total RBC after covariance.
- The factor/charge for 2017 RBC was set at 0%.
- Operational Risk (E) Subgroup item 2017-16-O, which was adopted by the Capital Adequacy (E) Task Force, changes the factor/charge to 3% beginning with 2018 RBC reporting.

Restricted Cash or Restricted Cash Equivalents

2017-25BWG

- Adds to instructions for the statement of cash flow to clarify that:
  - Restricted cash and equivalents shall be included in the beginning and ending balances.
  - Transfers between cash, cash equivalents, restricted cash, restricted cash equivalents, and restricted short-term investments are -not reported as cash flow activities in the statement of cash flows.
- Required beginning with 2019 reporting (Q1 2019).
- Early adoption is allowed.

Leases – SSAP No. 22

SAPWG 2016-02

- New Issue Paper and new SSAP No. 22R – Leases exposed in response to ASU 2016-02.
- Rejects guidance in ASU 2016-02 for operating leases that puts a right-to-use asset and a lease payment liability on the balance sheet.
- SSAP No. 22R retains the current statutory accounting treatment for leases by lessees (all leases are considered operating leases).
- SSAP No. 22R reorganizes and groups information more clearly.

Clarification on Risk Transfer

SAPWG 2017-28

- Regulators concerned about short-duration (mostly health) quota share reinsurance contracts with features that limit reinsurer risk.
- Concerns include:
  - Contracts reported as meeting the “risk transfer” requirements under STAT accounting, but not under GAAP
  - Larger benefit than appropriate due to risk limiting features

Pending/Exposed Revision

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Clarification on Risk Transfer

SAPWG 2017-28

- Proposed revisions to SSAP No. 62R, Property and Casualty Reinsurance:
  - Reinsurance accounting credit taken for contracts that meet risk transfer criteria only for the portion of risks actually transferred (existing disclosure required by paragraph 93)
    - Risk-limiting features – deductible, loss ratio corridor, loss cap, etc. – should reduce the amount of credit taken by the effects of these provisions
  - Historical experience and reasonable assumptions must be used in determining if the reinsurer may be reasonably expected to pay under the contract

Pending/Exposed Revision

Investment Classification Project

SAPWG 2017-32

- Revised Issue Paper and revised SSAP No. 30R, Unaffiliated Common Stock
  - Improvements to the definition of common stock
  - Includes closed-end funds and unit-investment trusts within scope
- Item directs referrals to the following groups to support incorporation of a column on Schedule D, Part 2, Section 2 for reporting NAIC designations:
  - Valuation of Securities (E) Task Force
  - Capital Adequacy (E) Task Force
  - Blanks (E) Working Group

Pending/Exposed Revision

Elimination of Modified Filing Exempt (MFE) Process

SAPWG 2018-19

- Eliminates the MFE process.
- Securities within the scope of SSAP No. 43R, Loan-Backed and Structured Securities, that are not financially modeled, but have a credit rating from a credit rating provider (CRP) follow the MFE process.
- The current MFE results in identical securities purchased at different price points (acquired in different lots) having differing final NAIC designations.

Pending/Exposed
Revision

Elimination of Modified Filing Exempt (MFE) Process

SAPWG 2018-19

- If the MFE process is eliminated, all SSAP No. 43 securities that are not financially modeled will be subject to the “other” process in SSAP No. 43R.
- Would eliminate the issue of weighted-average designations for identical securities.

Pending/Exposed Revision

Debt Forgiveness Between Related Parties

SAPWG 2018-20

- Resolves inconsistent guidance between:
  - SSAP No. 15, Debt and Holding Company Obligations
  - SSAP No. 25, Affiliates and Other Related Parties
  - SSAP No. 72, Surplus and Quasi-Reorganizations

  And

  - Accounting Principles Board (APB) Opinion No. 26, Early Extinguishment of Debt (adopted in paragraph 25 of SSAP No. 15).

Pending/Exposed Revision

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Debt Forgiveness Between Related Parties

SAPWG 2018-20

- Paragraph 25 of SSAP No. 15 adopting APB 26 with modification indicates that extinguishment of debt is reported as capital gains or losses, and charged to operations.
- Paragraph 7 of SSAP No. 72 indicates that transactions involving the forgiveness of any debt owed by a reporting entity to its parent shall be accounted for as contributed surplus.
- Paragraph 12i of SSAP No. 72 indicates that transactions involving the forgiveness of any debt, surplus note, or other obligation owed to the reporting entity from its parent, or other stockholder, shall be accounted for as a dividend.

Pending/Exposed Revision

Debt Forgiveness Between Related Parties

SAPWG 2018-20

- Proposed modification to paragraph 25 of SSAP No. 15:

25. This statement adopts *Accounting Principles Board Opinion No. 26, Early Extinguishment of Debt* with modification to require that gains and losses from extinguishment of debt be reported as capital gains or losses, and charged to operations unless the extinguishment reflects the forgiveness of a reporting entity's obligation to its parent or other stockholders. Forgiveness of a reporting entity's obligation to its parent or other stockholder shall be accounted for as contributed surplus under *SSAP No. 72—Surplus and Quasi-Reorganization*.

- Proposed modification to paragraph 8 of SSAP No. 25:

8. 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—Liabilities, Contingencies and Impairments of Assets* (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. Pursuant to SSAP No. 72, forgiveness by a reporting entity of any debt, surplus note or other obligation of its parent or other stockholder shall be accounted for as a dividend.

Pending/Exposed Revision

Debt Forgiveness Between Related Parties

SAPWG 2018-20

- Proposed new footnote in paragraph 18 (Transaction Involving Services) SSAP No. 25:

18. Transactions involving services provided between related parties shall be recorded at the amount charged[FN]. 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.

- New Footnote – The amount charged shall be reviewed when there are any modifications or waivers subsequent to the establishment of the contract terms. If waivers or modifications to amounts charged occur, the related party transaction shall be reassessed to determine whether the contract continues to reflect fair and reasonable standards. If the transaction was with a parent or other stockholder, and the charge for services has been fully waived, then the guidance in SSAP No. 72 for recognition as contributed capital (forgiveness of reporting entity obligation) or as a dividend (forgiveness of amount owed to the reporting entity) shall apply.

Pending/Exposed Revision

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Debt Forgiveness Between Related Parties

SAPWG 2018-20

- Additional clarification on intercompany service costs……

Exposure Question 2 – Should additional guidance for the recording of related party service transactions be captured? NAIC staff is aware of instances in which intercompany service costs have been forgiven and not recorded. Generally, the intercompany transaction (and service cost expense / payable) should be recognized at the onset of the contract. Then, if the amount owed is forgiven, the offset to the payable should be to contributed capital. However, if a company does not record the initial entry, then expense recognition is not shown in the F/S.

Initial Entry for service contract:

Debit - Service Expense / Credit - Payable

If the payable was forgiven, then the entry would be:

Debit – Payable / Credit - Contributed Capital

This would ensure both the expense entry and the impact to contributed capital were recognized.

Pending/Exposed Revision

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SSAP No. 72 Distributions

SAPWG 2018-21

- Current statutory accounting guidance does not address non-dividend capital distributions.
- Resolves unclear guidance on dividends/distributions when unassigned funds is negative.
- Different state/regulator responses on how these distributions should be reported:
  - Follow guidance in SSAP No. 72 with a charge to unassigned funds
  - Reduce gross paid in and contributed surplus (inconsistent with SSAP No. 72)

Pending/Exposed Revision

SSAP No. 72 Distributions

SAPWG 2018-21

- Proposed new paragraph to SSAP No. 72:

11. Reporting entities shall receive domiciliary state approval before providing a return of capital to a parent or other stockholder. Distributions that reflect a return of capital shall be charged directly to the gross paid in and contributed surplus. (A return of capital will reduce the adjusted cost basis of the parent/stockholder in the reporting entity.)

- Proposed new footnote to Dividends paragraph in SSAP No. 72:

New Footnote: As a dividend represents the distribution of earnings, in any event in which unassigned funds is negative, or goes below zero as a result of a distribution to a parent or stockholder, the distribution (or portion thereof that does not reflect undistributed accumulated earnings in unassigned funds) shall be considered a return of capital and captured in paragraph 11. Determining whether a distribution is a dividend or a return of capital does not impact consideration of whether the distribution is "extraordinary" as both dividends and other distributions (e.g., return of capital) are subject to that assessment. (Reporting entities with positive unassigned funds may choose to make return of capital distributions. Those distributions are also captured in paragraph 11.)

Pending/Exposed Revision

Participation Agreement in a Mortgage Loan

SAPWG 2018-22

- Guidance adopted recently was intended to permit ownership in a single mortgage loan agreement with a sole borrower when the insurer is not named on the original mortgage loan agreement.
- The insurer would acquire the mortgage loan through an assignment or participation agreement between the selling lender and any co-lenders.
- SSAP No. 37, Mortgage Loans, explicitly indicates that investments in mortgage loan funds are not considered mortgage loans.
- Recently adopted participation agreement language is being used as a reference to reflect/report investments in polls/funds of mortgages as SSAP No. 37 (Schedule B) mortgage loans.

Pending/Exposed
Revision

Participation Agreement in a Mortgage Loan

SAPWG 2018-22

- Item makes minimal revisions to the participation agreement language in SSAP No. 37 to expressly indicate that the participation agreement must pertain to a sole borrower in a single mortgage loan agreement.
- Investments in a pool of mortgages should be reported on Schedule BA (not Schedule B).

Pending/Exposed
Revision

Statutory Mergers

SAPWG 2018-23

- Item make minimal revisions to SSAP No. 68 to explicitly indicate that scenarios in which the ownership equity of an SCA is cancelled, with the parent reporting entity directly reporting the SCA assets and liabilities on its financial statements, shall be considered, and accounted for, as a statutory merger.

Pending/Exposed
Revision

SCA Loss Tracking – Accounting Guidance

SAPWG 2018-26

- This item (SAPWG 2018-26) intends to clarify any potential uncertainty in SAPWG 2018-09 for instances that require a negative SCA value and clarify the guidance in SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities.

Pending/Exposed
Revision

SCA Loss Tracking – Accounting Guidance

SAPWG 2018-26

Proposed Revisions:

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

    e. For entities subject to 8.b.i., 8.b.ii., 8.b.iii. and 8.b.iv. a reporting entity's share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an

Pending/Exposed Revision

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SCA Loss Tracking – Accounting Guidance

SAPWG 2018-26

equity method when the investment (including advances) is reduced to zero[3] and shall not provide for additional losses unless the situations in paragraph 13.e.i. or paragraph 13.e.ii. exist. ~~reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee (guaranteed obligations meeting the definition of liabilities in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R) shall be recorded as liabilities).~~ If the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that an equity method was suspended. ~~;~~ In situations in which negative equity is reported (paragraph 13.e.i. and paragraph 13.e.ii.), the book adjusted carrying value for the investment in the SCA shall reflect the reporting entity's negative equity value (reflecting the reporting entity's share of the SCA losses). (This would be reported as a contra-asset.)

i. In all instances in which the limited statutory adjustments required by paragraph 9 results in a negative equity valuation of the investment. (This would apply to 8.b.ii and 8.b.iv entities.)

ii. When the reporting entity has guaranteed obligations or committed further financial support to an SCA. Recognition of the negative equity in the SCA is in addition to the guarantee liability required under SSAP No. 5R. (This applies to all SCA entities.)

Pending/Exposed Revision

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Tracking Investments in SSAP No. 48 Entities

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

SAPWG 2018-27

- Clarifies guidance for losses that result in zero or negative equity for an investment in a SSAP No. 48 entity (joint venture, partnership, etc.)(companion item of SAPWG 2018-09).
- Provides a method to track SSAP No. 48 losses.
- Requires additional disclosure to capture information on the tracking of a reporting entity's share of SSAP No. 48 losses.

Pending/Exposed Revision

Tracking Investments in SSAP No. 48 Entities

SAPWG 2018-27

Proposed Revisions:

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies

6. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest, shall be reported using an equity method as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 97), paragraphs 8.b.i. through 8.b.iv. For entities subject to 8.b.i., 8.b.iii. and 8.b.iv. a reporting entity's share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by an equity method plus advances made by the investor. The reporting entity shall discontinue applying an equity method when the investment (including advances) is reduced to zero[3] and shall not provide for additional losses unless the reporting entity has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee (guaranteed obligations meeting the definition of liabilities in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* shall be recorded as liabilities). A reporting entity whose share of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall track its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SSAP No. 48 entity.)

a. When the reporting entity has guaranteed obligations or committed further financial support to a SSAP No. 48 entity, in addition to the guarantee liability required under SSAP No. 5R, the book adjusted carrying value for the investment in the SSAP No. 48 entity shall reflect the reporting entity's negative equity value (reflecting the reporting entity's share of the SSAP No. 48 entity's losses). (This would be reported as a contra-asset.)

b. In situations when there are no guaranteed obligations or commitment for future financial support to the SSAP No. 48 entity, if the investee subsequently reports net income, the reporting entity shall resume applying an equity method only after its share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

Pending/Exposed Revision

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Tracking Investments in SSAP No. 48 Entities

SAPWG 2018-27

- Addition to paragraph 20 of SSAP No. 48 (disclosure)

d. All SSAP No. 48 entities within the scope of this statement shall include disclosure of the SSAP No. 48 entity's balance sheet value (admitted and nonadmitted). This disclosure shall include an aggregate total of all SSAP No. 48 entities with detail of the aggregate gross value under this statement with the admitted and nonadmitted amounts reflected on the balance sheet.

e. For all periods presented, a reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SSAP No. 48 entity.) This disclosure shall include the following:

i. The reporting entity's accumulated share of the SCA losses not recognized during the period that the equity method was suspended;

ii. The reporting entity's share of the SCA's equity, including negative equity;

iii. Whether a guaranteed obligation or commitment for financial support exists; and

iv. The SSAP No. 48 entity's reported value.

f. This disclosure shall apply beginning in the period the SSAP No. 48 entity's equity initially falls below zero and shall continue to be disclosed as long as the SSAP No. 48 entity investment is in a deficit position. Additionally, the reporting entity shall detail in a narrative disclosure whether losses in the SSAP No. 48 entity have impacted other investments as required by INT 00-24: *EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee* and *EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.*

Pending/Exposed Revision

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GAAP Revisions

Effective 2019 (2018 for public business entities)

- ASU No. 2018-02, Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
- ASU No. 2017-01, Business Combinations (Topic 805)
- ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Effective 2020 (2019 for public business entities)

- ASU No. 2018-13, Fair Value Measurement (Topic 820)
- ASU No. 2016-02 and ASU No. 2018-11, Leases (Topic 842) Targeted Improvements

Effective 2021 (2020 for public business entities)

- ASU No. 2018-15,Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (Topic 350)

ASU No. 2018-02, Reporting on Comprehensive Income (Topic 220)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

- Reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from Tax Cuts and Jobs Act.

- Update eliminates the stranded tax effect resulting from the Tax Cuts and Jobs Act.

- Only relates to the Tax Cuts and Jobs Act.

Effective 2019

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ASU No. 2017-01, Business Combinations (Topic 805)

Clarifying the Definition of a Business

- Under GAAP, acquisitions are accounted for as either business acquisitions or asset acquisitions. Current GAAP does not fully define a “business”.

- Substantially all of the fair value of the assets acquired is a single or similar group of assets, if YES = ASSET ACQUISITION

- If NO to above, does the set include an input and a process that together contribute to the ability to create output, if YES = BUSINESS ACQUISITION.

- The ASU clarifies and narrows the definition of a business, the intent is to account for more acquisitions as asset acquisitions and less as business acquisitions.

Effective 2018/2019

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Background:

- Update resulted from differences between U.S. GAAP and IFRS.
- Current U.S. GAAP has broad revenue recognition concepts, but have many requirements for particular industries or transactions.
- Joint project between FASB and IASB to clarify principles for recognizing revenue and to develop a common revenue standard.
- Does not apply to premium revenue.

Core Principle:

An entity should recognize revenue to portray the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Effective 2018/2019

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

To achieve that core principle, an entity should apply the following steps:

Five step process:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract(s).
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Examples could include contracts consisting of the following:

1. Underwriting contract
2. Claims adjusting contract
3. Company management contract
4. Investment services contract
5. IT services contract

Example: TPA's Underwriting contract with an Insurance Company

- **Underwriting contract for 25% of direct written premium.**
- **Includes the following services:**
  - **Underwriting policies**
  - **Issuance and binding**
  - **Billing and collecting**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Step 1 → Identify the Contract(s) with a Customer.

Contracts must meet the following conditions:

1. Approval and commitment of the parties
2. Identification of the rights of the parties
3. Identification of the payment terms
4. Commercial substance

Example: Underwriting contract with TPA

- **Signed by each party**
- **Includes the scope of services that will be performed**
- **Includes payment terms and conditions**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Step 2 → Identify the Performance Obligations in the Contract(s).

Performance obligation – a promise to transfer a good or service to a customer. If there is a promise to deliver more than one good or service, each should be accounted for as a performance obligation if they can be separately identifiable.

Example: Underwriting contract with TPA

- **Underwriting policies (evaluating risks and pricing)**
- **Issuance and binding**
- **Billing and collecting (billed monthly, 1/12 each month)**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Step 3 → Determine the Transaction Price.

Should consider the effects of the following:

1. **Existence of significant financing**– may need to discount expected payment(s) if more than one year away.
2. **Noncash consideration** – should be measured at fair value.
3. **Consideration payable to the customer** – should reduce the transaction price.

Example: Underwriting contract with TPA

- Contract price: 25% of direct written premium
- Direct written = $12 million ($12M x 25% = $3M)
- **Transaction Price = $3 million.**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Step 4 → Allocate the Transaction Price to the Performance Obligations in the Contract.

- What is the stand-alone price at contract inception of the distinct goods or services underlying each performance obligation?

Example: Underwriting contract with TPA

- **Transaction Price = $3 million.**
- **Underwriting policies: $1 million**
- **Issuance and binding: $1 million**
- **Billing and collecting: $1 million**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Step 5 → Recognize Revenue as Performance Obligations are Satisfied.

- A performance obligation is satisfied when a good or service is transferred and the customer obtains control.

Example: Underwriting contract with TPA

- **Transaction Price = $3 million.**
- **Underwriting policies: $1 million, $1M recognized in first month**
- **Issuance and binding: $1 million, $1M recognized in first month**
- **Billing and collecting: $1 million, $83K recognized in first month, 1/12 each month**

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Required Disclosures

"An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about:

1. Contracts with customers – including revenue and impairments recognized, disaggregation of revenue, and information about contract balances and performance obligations (including the transaction price allocated to the remaining performance obligations)

2. Significant judgments and changes in judgments – determining the timing of satisfaction of performance obligations, and determining the transaction price and amounts allocated to performance obligations

Effective 2018/2019

ASU No. 2018-03, Fair Value Measurement (Topic 820)

Modifies the following disclosure requirements:

Removals:

- 1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
- 2. The policy for timing of transfers between levels
- 3. The valuation processes for Level 3 fair value measurements
- 4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

Effective 2019

ASU No. 2018-03, Fair Value Measurement (Topic 820)

Modifies the following disclosure requirements:

Modifications:

- 1. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.

- 2. Measurement uncertainty disclosure is information as of the reporting date.

In Addition:

- The amendments eliminate “at a minimum” from the phrase “an entity shall disclose at a minimum”, to clarify that materiality is an appropriate consideration.

ASU No. 2016-02, Leases (Topic 842)

Core Principal → The Update requires recognition by lessees of assets and liabilities arising from leases classified as operating leases under previous GAAP.

- Substantially similar to classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance.
- Critical distinction under previous GAAP was - is the lease a capital lease or an operating lease.
- After this Update, both leases

ASU No. 2016-02, Leases (Topic 842)

Practical Expedient Election

- This Update requires the separation of lease components from the nonlease components in a contract.
- Only the lease components must be accounted for in accordance with this Update. Consideration attributable to nonlease components is not a lease payment and, therefore, is not included in the measurement of lease assets or lease liabilities.
- Lessees may make an accounting policy election by class of underlying asset not to separate lease components from nonlease components and account for the nonlease components together with the related lease components as a single lease component.

ASU No. 2016-02, Leases (Topic 842)

Disclosures:

- A lessee shall disclose all of the following:
  - Information about leases that have not yet commenced but that create significant rights and obligations for the lessee, including the nature of any involvement with the construction or design of the underlying asset.
  - Information about the significant assumptions and judgments made in applying the requirements of Topic 842, which may include the following:
    - The determination of whether a contract contains a lease
    - The allocation of the consideration in a contract between lease and nonlease components
    - The determination of the discount rate for the lease.

ASU No. 2018-11, Leases (Topic 842) Targeted Improvements

Targeted Improvements:

- Additional (and optional) transition method to adopt the new leases standard. An entity can initially apply the new leases standard and recognizes a cumulative-effect adjustment to opening retained earnings in the period of adoption

- Allows Lessors to account for lease and nonlease components as a single component, if the nonlease components otherwise would be accounted for under the new revenue guidance and both of the following are met:
- 1. The timing and pattern of transfer are the same.
- 2. The lease component, if accounted for separately, would be classified as an operating lease.

Effective 2019/2020

ASU No. 2018-15, Goodwill and Other Internal-Use Software (Topic 350-40)

Background:

- Current GAAP does not specifically address the accounting for implementation costs of a hosting arrangement that is a service contract.

Main Provisions:

- Require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset and which costs to expense.

ASU No. 2018-15, Goodwill and Other Internal-Use Software (Topic 350-40)

Subtopic 350-40:

- Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed.

Project stages:

- Preliminary stage – Evaluating concepts and planning = EXPENSE
- Development stage – Developing software and interest = CAPITALIZE
- Postimplementation stage – Training and maintenance = EXPENSE

Questions?

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